Adjusting to the 1996 Farm Bill:

Virginia Tech's Role

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INTRODUCTION

The discussions presented today at this conference have focused on how markets are likely to change as a result of federal program changes, and how farmers and agribusiness leaders will need to adjust to remain competitive. My task is to summarize the main thrusts of these challenges and to outline the role the university will play in meeting those challenges.

Recently the Colleges of Agriculture and Life Sciences, Forestry and Wildlife Science Resources, Veterinary Medicine, and Human Resources and Education completed an ambitious plan entitled "A Plan to Serve Virginia Agriculture, Human, and Natural Resources" (Plan to Serve Virginia). The goal of this plan is to provide a blueprint that guides the College's teaching, research, and extension programs in ways that respond quickly and appropriately to changes in governmental policies, agricultural and agribusiness industry structure, rural community needs, and the dynamic needs of employers of our graduates. Thus, while the Plan to Serve Virginia was in response to a broad set of dynamic changes occurring in higher education and in the agricultural sector, it also specifically provides the framework for how the university defines its role in helping farmers and rural communities adjust to dramatic changes in federal agricultural policy.

The Federal Agricultural Improvement and Reform Act of 1996 (FAIR Act) contains nine titles. Four of the nine most directly impact the topics of discussion at this conference or the role that Virginia Tech plays in helping farmers and the rural communities of Virginia or both. These four titles are: Title I: Agricultural Market Transition Act; Title III: Conservation; Title VII: Rural Development; and Title VIII: Research, Extension, and Education (Slide 1). The remainder of my comments will be organized into four sections according to the topics addressed in these four titles. For each title I will summarize what, I believe, have been identified as the critical issues that will require university involvement and present some ideas regarding how we will respond to these needs.

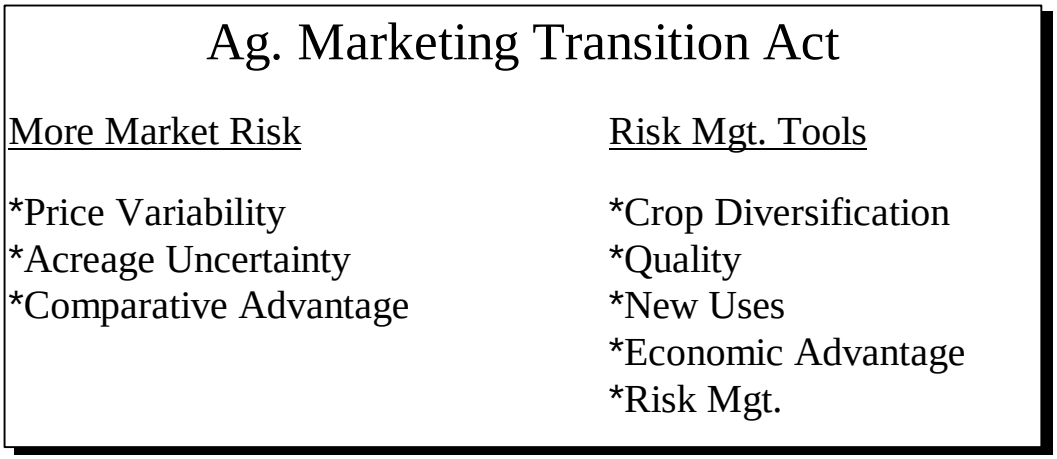
Slide 1.

TITLE I: AGRICULTURAL MARKET TRANSITION ACT

Much of what has been discussed today relates to the agricultural marketing and management challenges resulting from legislation embedded in this Title (Slide 2). The Agricultural Market Transition Act, also called the "Freedom to Farm Act" ends many years of deficiency payments tied to restrictive production controls and increases the flexibility of farmers to quickly adjust crop production to changing market conditions. The major anticipated effect is to introduce more market risk as a result of:

- Increased price variability,
- More variability, and less predictability, in year to year plantings of specific crops, and
- Geographic redistribution of production as natural factors determining comparative advantage are less influenced by offsetting government subsidies and payments.

Slide 2.



University Response

The speakers today identified a variety of risk management tools that farmers and agribusiness leaders will need to employ to remain competitive. The research and education programs at Virginia Tech will contribute significantly to the development and implementation of these tools. Specifically, the College of Agriculture and Life Sciences programs in the following areas are designed to help producers reduce risks associated with production, price, and income variability:

- *Crop diversification* research and extension programs address the technical and economic feasibility of multiple cropping systems and the introduction of new crops that are non-traditional to the region. The economic feasibility component includes the research and technical assistance needed to assure adequate and competitive markets.

- *Product quality* research focuses on the technology needed to produce consumer driven quality characteristics that can be delivered in a consistent and cost efficient manner. Through close coordination of market research and the development of production, processing, and marketing technology, Virginia Tech can help the industry produce unique products that are less sensitive to the supply/demand uncertainties typical in generic commodity markets.

- *New uses* research for existing crops can help expand demand for existing crops. Demand expansion through new uses provides alternative market outlets for the base commodity and can help mitigate the price uncertainties associated with any single market outlet.

- *Comparative advantage* research studies can identify critical factors affecting geographic and economic comparative advantage for alternative enterprises. Extension programs tied to

this research can help producers decide which potential enterprise mixes have the best chance of succeeding over the long run in Virginia.

- *Market price risk management* educational programs at Virginia Tech, designed to develop the management expertise needed to effectively use private market mechanisms, can assist farmers in managing price risk. These include developing skills in the use of forward pricing and marketing contracts, the use of futures and options markets, negotiation of sound production contracts, and the use of other private risk management mechanisms.

TITLE III: CONSERVATION

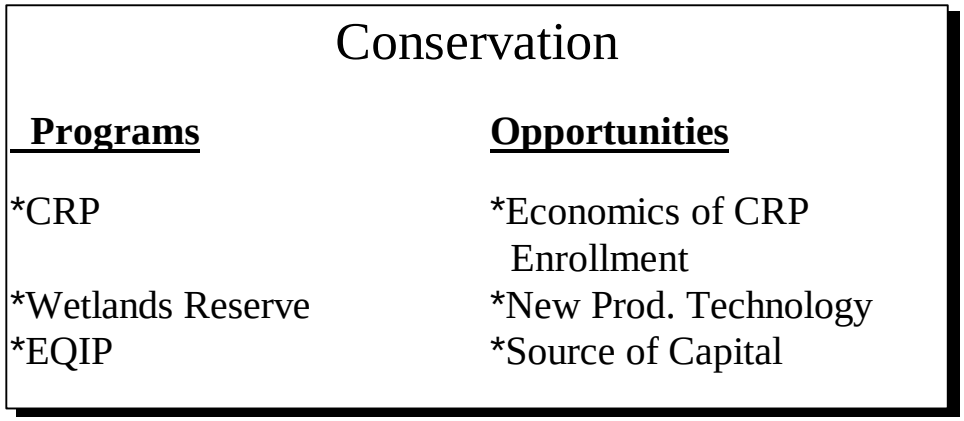
Title III of the FAIR Act (Slide 3) extends and alters existing conservation programs, creates several new initiatives, and broadens the conservation agenda. It includes $2.2 billion additional funding for conservation related programs. Producers will have the flexibility to terminate CRP contracts early, to enroll land in the CRP, to participate in the Wetlands Reserve program, and to partner with the federal government in cost sharing projects related to environmental protection and enhancement. A new program, the Environmental Quality Incentives Program (EQIP), provides technical assistance and cost-sharing incentives to qualifying livestock producers to assist them in meeting environmental regulations and best management practices.

University Response

Virginia Tech is well positioned to help producers take full advantage of the provisions in this title. The decisions producers must make regarding removing land from the CRP, leaving land in the CRP, or enrolling new land in the CRP involve skilled assessments of likely economic returns associated with actively farming land versus receiving annual government payments. The Extension Service, primarily through the Farm Management Agents, provides educational programs, crop budgets, and commodity outlook information needed to evaluate these decisions.

A significant amount of agriculturally related research at Virginia Tech is focused on developing the technology to engage in production practices that both protect the environment and allow for competitive costs of production. Studies related to alternative nutrient management practices and animal waste management systems are especially relevant. The new EQIP program can now provide some of the investment capital producers need to implement the technology developed in our research programs. Cooperative efforts among Virginia Tech researchers, extension agents, and producers in developing sound and successful proposals for EQIP funds are essential to assuring that Virginia's livestock producers remain competitive while adopting management practices that protect and enhance Virginia’s land and water resources.

Slide 3.



TITLE VII: RURAL DEVELOPMENT

A major theme of the FAIR Act is enhanced support for, and financing of, rural development initiatives (Slide 4). The Act provides $100 million annually for telemedicine and distance learning services, in which medical expertise and teaching are provided through new information systems to rural areas. The revitalized Alternative Agricultural Research and Commercialization Corporation continues to make grants and loans directed toward non-traditional non-food, farm, and forest products, and toward expanding the industrial uses of agricultural commodities. Rural Business Opportunity grants are authorized up to $1,500,000 to establish centers to provide technical assistance to rural businesses. The Act creates the $300 million Fund for Rural America, 1/3 of which is designated for research, 1/3 for rural development programs, and 1/3 for research or rural development at the discretion of the Secretary of Agriculture.

University Response

Virginia Tech, with leadership focused in the REAP program, is very much involved in research and extension programs devoted to rural development issues in Virginia. We have identified three priority areas for Virginia in focusing our research and extension programs: (a) decisions affecting land use, (b) provision of public services, and (c) development assistance and planning. Central to the success of our program in this area is the need and plan to work closely with state and local governments as the state moves forward in shaping a rural development policy, as mandated by the last legislature.

Virginia Tech, in cooperation with other universities and organizations, is leading a major effort to develop a strategy for economic transition in communities now heavily engaged in tobacco production. This program is comprehensive and involves an evaluation of economically feasible agricultural enterprises, educational retraining needs, provision of credit, and economic development programs for provisions for off-farm employment.

We believe that our programs in research and extension can be of tremendous assistance to communities and groups who want to fully capitalize on the opportunities embedded in the rural development title of the FAIR Act.

Slide 4.

Rural Development

Funding Support	Research/Education
*Information Systems	*Land Use Decisions
*New Uses/Products	*Public Services
*Business Opportunity Grants	*Development Assistance & Planning
*Fund for Rural America	*Rural Development Policy

TITLE VIII: RESEARCH, EXTENSION, AND EDUCATION

This title restates the major goals of federal support for agricultural research, extension, and education (Slide 5). They are to: (1) enhance competitiveness; (2) increase long term productivity; (3) develop new uses for existing crops and new crops; (4) promote economic opportunity; (5) improve risk management; (6) protect the environment; (7) support higher education; and (8) maintain an adequate, nutritious, and safe food supply. It also authorizes funding, at 1995 levels, for experiment station research, extension, and education through 1997. Funding for 1998 through 2002 is generally authorized but how the funds are allocated depends on the results of mandated studies on the effectiveness of formula funding versus other mechanisms including competitive grants.

Slide 5

Research, Extension, & Education—Goals

* Enhance Competitiveness
* Increase Long-Term Productivity
* Develop New Uses & New Crops
* Promote Economic Opportunity
* Improve Risk Management
* Protect the Environment
* Support Higher Education
* Adequate, Safe, & Nutritious Food

University Response

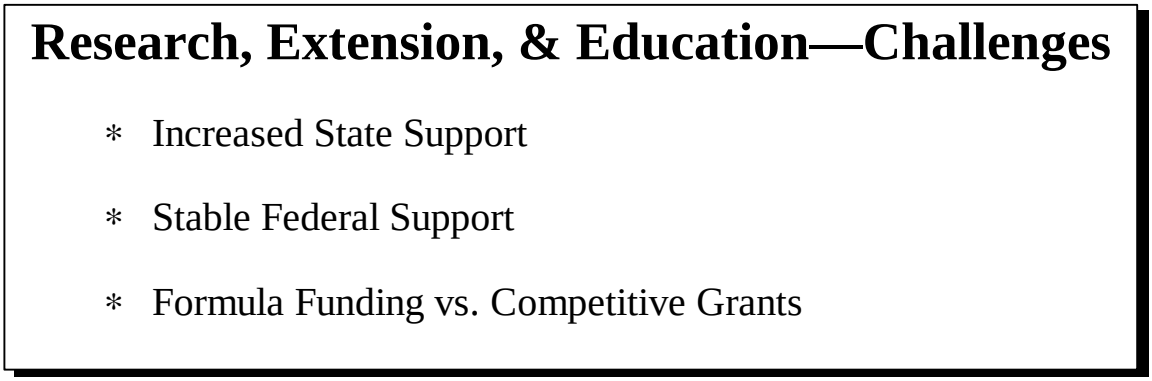
The research, extension, and teaching goals (Slide 6) embedded in Virginia Tech's Plan to Serve Virginia are entirely consistent with the broad goals set out in this title. The ability of Virginia Tech to fully deliver on these goals is, however, highly dependent on two factors:

1. achieving a goal of somewhat expanded state funding over the next three biennium budgets, and
2. the continuation of long-term funding commitments from federal sources.

The federal formula funding guidelines now in place for funding research and extension contribute about 20 percent of Virginia Tech's total program costs. A reduction in the federal component would hamper our ability to fully implement the Plan to Serve Virginia and our ability to respond to critical issues resulting from major policy changes. If some system of competitive grants is substituted for the formula funding, Virginia Tech has the capability to effectively compete for funds. There are two unresolved issues with the competitive system:

- Grants are usually for a two to three year period and are not well suited to funding faculty and staff salaries and benefits.
- It is not certain how national panels charged with awarding grants for research and extension proposals will view priority issues of a state or regional nature versus more pervasive national issues.

Slide 6.



SUMMARY

The new directions of national farm policy toward more free market solutions and toward support of rural development present many opportunities and challenges for Virginia's agricultural and rural communities (Slide 7). We believe that Virginia Tech is well positioned to provide the technology, education, and technical assistance needed to give our producers an edge in competing in the new environment. I will close with two quotes from our Dean, Andy Swiger:

> Agricultural development is not limited to rural areas as production, processing, and distribution of food and fiber products . . . . are located in both urban and rural areas

of the state. Our Plan to Serve Virginia Agriculture, Human, and Natural Resources will provide the research and education to fuel this powerful growth industry.

The modern theme for rural communities will be holistic, involving people, their well-being, hopes, and desires; economic development; infrastructure such as schools, financial institutions; and utilities as well as land use policies and environmental protection. I believe we in Virginia are leaders in this approach.

Thank you for coming. We hope that this has been a productive time for you.

Slide 7.

Summary

Virginia Tech is Committed to:

Agricultural and Business Development, a Comprehensive Approach to Rural Development.