



Are Cost-Increasing Production Practices in Agriculture's Future?

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Success in the business of producing agricultural commodities goes to those with the lowest production costs and highest volume, both of which are best achieved through specialization. The payoffs from getting big and specialized are not unique to farming. Frederick Taylor's principles of scientific management in the early twentieth century accompanied vast changes in the way that goods were manufactured. Henry Ford's new assembly plants dramatically increased labor productivity by having each worker become adept at a single task. The payoff from increased specialization and control over the work environment allowed both corporate profits and worker pay to increase while simultaneously dropping the price of manufactured goods enough so that most working families could buy them.

Increased specialization and control in farming (particularly in the livestock sector) has come to be characterized by opponents as factory farming. This characterization has stuck because, at least for livestock production, it is an apt description. Animals are considered protein-producing machines. The objective of the farm is to make these machines run as homogeneously and as smoothly as possible, and to fit as many of the machines onto one site as possible so that the returns to management are maximized.

The resulting productivity increases in agriculture have been spectacular. In 1950, broilers were processed at 128 days weighing 3.75 pounds. It took about 16 pounds of

feed to grow a bird to market weight. In 1994, broilers were still processed at 3.75 pounds, but it took only 6.3 pounds of feed per bird. For hogs, the last 20 years have seen feed efficiencies drop from 5.5 to less than 3 pounds of feed per hog.

WHO BENEFITS FROM LOWER COSTS?

The ultimate beneficiaries of this inexorable drive for efficiency are consumers through lower food costs. Most of us know that U.S. consumers spend a lower proportion of their income on food—10.7 percent in 1997—than do consumers in any other country (German consumers spent around 19 percent while Mexican consumers spent 28 percent). Some attribute this low percentage to U.S. agricultural policies that help keep food prices down by expanding supplies. But the primary reason why this percentage keeps dropping (it was 13.9 percent in 1970) is a combination of continued growth in agricultural productivity along with increased disposable income. Growth in productivity is more important than agricultural policy in helping to keep prices down, and growth in incomes means that consumers can afford improvements in food consumption while spending a greater proportion of their income on other items, such as housing and automobiles.

Economists characterize the demand for food as being "income inelastic." This simply means that when consumers obtain, say, a 10 percent increase in income, they will



increase their food purchases by less than 10 percent. Furthermore, the composition of food expenditures will change. A greater proportion of food expenditures will occur away from home, in restaurants. A greater proportion will be spent on higher-quality (more expensive) food, and a greater proportion will be spent on processed products that reduce the amount of food preparation time.

These realities of food consumption combined with growth in agricultural productivity, which holds down prices received by farmers, is the primary reason why farmers' share of food expenditures continues to drop. But these realities could also hold the key to reversing the never-ending race to adopt low-cost, high-volume business methods.

AN ALTERNATE PATH?

When we think of a food connoisseur, we usually picture a wealthy person with enough time and



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IN THIS ISSUE

Are Cost-Increasing Production Practices in Agriculture's Future? 1

A New Brand of Agriculture? Farmer-Owned Brands Reward Innovation 4

Iowa's Agricultural Situation 6

Meet the Staff:
Jackie Garreau 9

Disaster Assistance:
How Best to Pay When Nature Has Her Way 10

Recent CARD Publications 12

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money and enough of an inclination to invest in knowledge about quality food (and wine). These folks can typically rattle off the differences in goat cheeses made in different valleys of the Pyrenees. They can comment on the attributes of arugula grown in California and France. They know the nuances of single malt scotches, and can have an erudite discussion of the finer points of French versus Australian red wines.

And food connoisseurs are likely to hold a firm belief that there is a fundamental trade-off between food quality and cost. They know that in order to obtain high-quality meat, vegetables, bread, cheese, and beverages, they will have to spend more money.

Most of U.S. agriculture is not in the business of relating to gourmet diners. Rather, U.S. agriculture is geared toward providing products of uniform quality at the lowest cost and the highest volume. That is, what food connoisseurs demand simply cannot be obtained from today's mainstream agriculture.

High-quality food typically requires more labor to produce (Parmigiano-Reggiano is made using methods that are seven centuries old) and more care to process. In other words, high-cost production methods are used to create the kinds of foods that are sought by our typical food connoisseur.

What does this have to do with life as we know it in rural America? As a nation, we have experienced significant income growth over the last 20 years. This income growth has allowed us to spend less on food and more on luxury items, such as cars, houses, vacations, and clothes. Such items are income elastic, in that a 10 percent increase in income will lead to a greater than 10 percent increase in purchases. Other consumer items that are income elastic are luxury food items, such as those purchased by food connoisseurs.

If income growth over the next 15 years continues as it has over the past 15 years, then we should see the market for upscale food items grow rapidly. Who will supply these food items? Many of the items will be supplied by producers who reject the low-cost, high-volume business model that leads to success in a commodity business in favor of a higher-cost, consumer-oriented business model that emphasizes product quality and diversity.

Of course, U.S. consumers may opt to purchase imported products to fill this demand. If U.S. agriculture cannot or chooses not to produce the types of high-quality products demanded by upscale consumers, then the next 15 years could see a surge in the demand for imported food.

TRANSLATION OF DEMAND INTO RETURN ON INVESTMENT

Already we are seeing individual producers and groups of producers using their higher costs to meet growing consumer demands. Vermont Cheddar Cheese producers have successfully moved upscale by emphasizing the unique flavor of their product and its regional nature. Pasture-raised hogs in Iowa are being sold to Niman Ranch for processing into upscale cuts for West Coast restaurants. But a large problem for most of U.S. agriculture is that the current commodity marketing system is not capable of compensating producers who increase the quality of their product, so there is no incentive for them to adopt costly quality-increasing production methods.

There are two ways around this problem. If every producer adopts quality-increasing practices, then consumers will be presented with a new product of uniformly higher quality. This method works best for products that are produced in a small geographic area where organization and monitoring costs are low. Alternatively, a separate marketing channel can be developed to allow source-identified products for those

consumers who are willing to pay more for quality. Examples of both are occurring now.

GOVERNMENT MANDATE

One method for getting all producers to adopt higher-cost production systems is to simply outlaw low-cost production methods in the name of meeting consumer demand. This is what the European Union has done in trying to phase out cages for laying hens. Current E.U. law requires that all caged laying hens have at least 111 square inches of space after the year 2012. This contrasts with current U.S. practices that give each hen 53 square inches. As a result, the European Union will have happier chickens, higher egg prices, and, for those consumers who support animal welfare, a product that meets consumer demands.

Many U.S. groups advocate a complete ban of organophosphate and carbamate insecticides in U.S. crop production. If passed, this regulation can be viewed as a government regulation in response to consumer demand. For certain crops, the resulting higher costs will result in higher prices for farmers.

Of course, one downside of using government regulation to achieve higher prices is that import competition will increase if foreign producers are not subject to the cost-increasing regulation.

CORPORATE MANDATE

In response to growing demand for increased animal welfare standards (and political pressure by such groups as People for the Ethical Treatment of Animals), U.S. fast food restaurants have adopted animal welfare guidelines that will increase costs. Their huge size (McDonald's is the number one purchaser of beef and potatoes and the number two purchaser of poultry products in America) gives fast food corporations enormous leverage over their suppliers. For ex-

ample, McDonald's now mandates that producers who supply eggs to them must increase the amount of cage space allocated to each hen to 72 square inches. If only a portion of producers decide to adopt these standards, then McDonald's will be purchasing eggs from a group of dedicated suppliers rather than on the open market.

NICHE MARKET DEVELOPMENT

Development of a product with a trait sought after by high-end consumers is perhaps the most direct route to realizing increased returns. But getting the product to the customer through existing retail outlets in sufficient quantities is often a daunting task. MBA Poultry of Tecumseh, Nebraska, cools its freshly harvested birds in cold air instead of dunking them in a stream of chilled water. The cost of air chilling is greater but with this innovation, the meat does not absorb water and there is less spread of salmonella. After some marketing and production missteps, which included promising more product than could be delivered, MBA Poultry is now selling product in 1,400 midwestern stores.

PRODUCER MARKETING ORDERS

A federal marketing order allows producers to coordinate their decisions to enhance the returns from growing and selling some agricultural products. Marketing orders are often used to guarantee minimum quality standards, which can serve two purposes. The ostensible purpose is to increase quality to increase consumer acceptance and demand. An indirect effect of this control in quality is a control of quantity that can result in increased price.

For example, domestic and export demands for California pistachios would grow if all California producers and processors were to adopt procedures that limit the growth of aflatoxin. One way to force producers to adopt such practices is

That is, once we can afford all the food we could possibly want to eat, we will then begin demanding more high-end food that often can only be produced using costly production practices.

to develop a marketing order for pistachios that would empower an administrative committee to enforce uniform quality standards for pistachios. A hearing to establish such a marketing order for pistachios was held in July of 2002. Adoption of the marketing order and safer production and handling practices would increase costs somewhat, but advocates of the marketing order argue that the resulting price increase would more than offset any increase in cost.

WHAT IS "EFFICIENT" AGRICULTURE ?

The never-ending quest for low cost and efficiency has guided the structure of U.S. agriculture for the last one hundred years. But as incomes continue to rise, the definition of what constitutes an efficient production method may change to reflect increased willingness to pay for product quality. That is, once we can afford all the food we could possibly want to eat, we will then begin demanding more high-end food that often can only be produced using costly production practices. Once this occurs, agriculture must develop new market channels and market regulations to give producers who invest in product quality a chance to obtain a return on their investment. Only if these new markets are developed can there be a fundamental change for a significant portion of U.S. agriculture. ♦

A New Brand of Agriculture? Farmer-Owned Brands Reward Innovation

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Commodity agriculture as currently practiced in the U.S. Midwest is an extremely efficient way of organizing production and distribution. It allows for inexpensive production and bulk transfer of huge quantities of meat and grain and has resulted in enormous cost savings to U.S. and international consumers. This system has evolved in accordance with market forces, and we expect that these same forces will allow the current system to survive for decades.

There are aspects of the system, however, that are not desirable. For example, the commingling that occurs to take advantage of bulk handling means that signals cannot be sent from consumers to producers. Consumers might desire food products that are different from the commodity standard and they might be willing to pay a premium, but the farmer does not get this signal.

In addition, competitive pressures mean farm operations must grow larger to reduce costs. As farms have grown larger, governments throughout the world have attempted to slow the process in order to ease the transition for those who are forced out of farming and to prop up rural communities. These government “protections” distort markets and can lead to international tensions, as each country defends its own interventions.

Farm groups have attempted to address these issues by working together to build value-added processing facilities such as ethanol plants and to create niche products to satisfy the desire of some con-

sumers for variety. However, whenever these efforts are successful, they are quickly imitated, and profit margins get smaller and smaller.

A third possible solution has recently begun to emerge that meets consumers’ desire for variety and quality and allows farmers to retain profit margins for long periods. This solution would allow some smaller operations to remain in business. The solution does require cooperation between producers and government, but it also relies upon market forces. In essence, the solution is to allow farmers to own their own brands and to control production of branded quantities, much as already occurs in other sectors of the economy. The phrase used in the European Union to describe this concept usually refers to either a “guarantee of origin” or a “guarantee of production process.” (In the United States, the description will include a reference to a federal marketing order.) Neither of these phrases really captures the essence of the concept. Instead, we refer to this solution as a “farmer-owned brand.”

THE ECONOMICS OF FARMER-OWNED BRANDS

Some consumers are willing to pay premium prices for differentiated products, and these premiums can occasionally result in niche markets such as those that exist for organic products and local farmers markets. These consumers are essential for a successful farmer-owned brand. But producers in traditional niche markets do not attempt to control supply (that is, prevent imitation); therefore, profits for producers of organic and local products will follow the pattern described for commodity products. To be successful, branding also requires producer



control over the quantity supplied, and this is the key difference between farmer-owned brands and organic products or farmers markets.

In order to assert supply control without violating price-fixing rules, farmer-owned brands must be based on some fixed attribute. For example, a particular brand might specify that the product can only come from a select area and justify this restriction based on the specific attributes of the region. Another legal way to control supply would be to limit membership in the producer group to a relatively small number of high-quality producers (or to severely restrict admission into the group). A third way would be to impose strict (for example, environmentally friendly) production and/or quality standards, possibly allowing for some flexibility over time to accommodate changes in market circumstances. A fourth way is to require the farmer-owned product to use some ingredient or process for which the producer group can control access, either through intellectual property rights or through trade secrets.

In all cases, a successful product will become a temptation for imitators from outside the original

group and will generate attempts by members of the group to expand their individual output. If these pressures result in an expansion of supply, the brand will fail. The most obvious way to restrict this type of supply expansion is to use regulations to protect the property rights of those who own the brand. These regulations might be the same as those used to protect branded products in other sectors, with the crucial exception that they must also have the power to restrict additional production from within the group—an issue that is not faced by corporate brand owners. With this ability to restrict production comes freedom from the boom-bust price cycles associated with commodity markets.

Farmer owners will capture the benefit associated with product improvements; consequently, they can be expected to pay close attention to quality. Notice how the incentive structure for a farmer-owned brand would differ from that in a commodity system. Farmer owners would value the brand name and would therefore want to maintain high quality standards throughout the association. Further, farmers would be rewarded for innovation both in production and in marketing.

THE SITUATION IN EUROPE

The problems associated with agricultural commodities described earlier are in many ways of greater relevance in the European Union. Europeans tend to live closer to farm areas and they are therefore more concerned about rural vitality. Also, there is a long tradition of regional production methods, and the most successful of these are liable to be copied. Finally, E.U. agriculture is currently evolving from one based on price supports to one based on income support. This has put enormous cost pressure on farms, which, if left alone, would result in a rapid commodification of many food products.

All of the above has created a great amount of interest in the process of branding in the European

Union. Dozens of individual centers are currently working on the issue, and several hundred new brands are introduced each year. The emphasis on selling the brand concept to consumers and policymakers is key to finding ways around European price-fixing laws, and any positive impact on farm profitability is therefore viewed as a by-product of the more important goal of protecting the food

With this ability to restrict production comes freedom from the boom-bust price cycles associated with commodity markets.

supply. Nevertheless, the programs work and operate exactly as they might be expected to if they were set up to maximize farm profitability. Two of the more successful cases that we encountered on a recent study tour in Europe are Brunello di Montalcino and Parma Ham.

BRUNELLO DI MONTALCINO

Montalcino is a small, saucer-shaped valley in Tuscany that is said to be an ideal location for growing Sangiovese grapes (called “Brunello” in Montalcino). Producers in this area have formed an association that owns the brand called Brunello di Montalcino, and this association limits the quantity of grapes grown under this brand name. Individual vineyards have their own labels, but most of the marketing and promotion of the brand is done by the producer-owned association (about 60 percent of the association’s budget is spent on promotion). This makes a lot of economic sense, as some of the surviving vineyards harvest less than two acres. The association also suggests a minimum price for wine bearing the Brunello di Montalcino brand name. Individual vineyards are free to charge more than this suggested minimum, and virtually all of them do.

Importantly, the production area is set by the association and is rarely changed. The association also limits the yield of grapes and the yield of wine from grapes (to maximums of 3.2 tons per acre and 68 percent, respectively). Production of Brunello di Montalcino is further restricted by other means, such as prohibiting irrigation. The strict rules underlying this brand are enforced using support from federal and state authorities. Attempts to use this name outside of the European Union would be opposed by the European Union in international regulatory groups such as the World Trade Organization. Vineyards that are eligible to use the Brunello di Montalcino brand command large premiums.

PARMA HAM

A second successful E.U. example is “Prosciutto di Parma” or “Parma Ham,” a dry-cured ham produced in the Parma region of Italy. This brand is owned by a group of ham processors rather than by hog farmers. They maintain control over production using a regulation that specifies that all ham bearing this brand be cured in a very small area just south of the city of Parma. The argument used to justify this restriction is that this region has been used to dry-cure ham since at least the times of the Roman Empire, because its weather is ideally suited for that process. The wind blows into this region from nearby mountains and these climatic conditions are said to give hams a unique flavor. This is the rationale for requiring that processing facilities have windows facing the mountains to allow this “special” air through the units. Interestingly, however, with modern climate control these windows are seldom (if ever) used.

Another requirement of the “Prosciutto di Parma” brand is that the ham be produced from a pig raised in certain regions in the north of Italy. Further, only traditional Italian breeds such as Italian

continued on page 8

Iowa's Agricultural Situation

Corn, Soybean Prices and Yields Up Slightly; Hog Inventory Edges Downward

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IOWA CORN

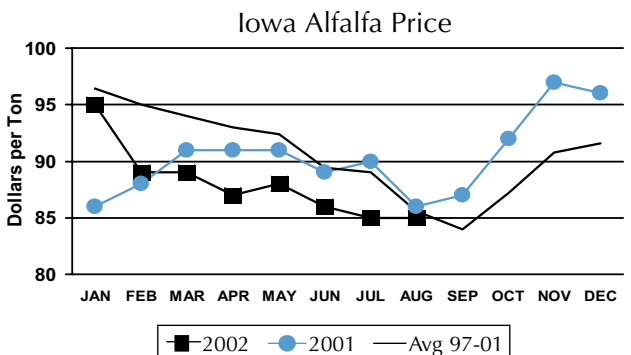
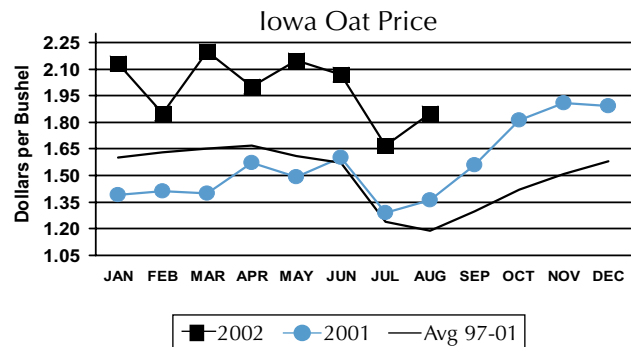
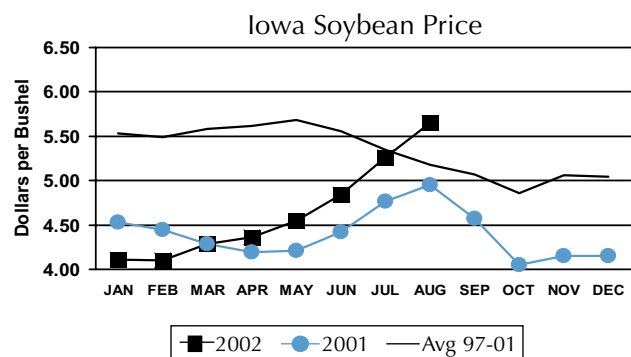
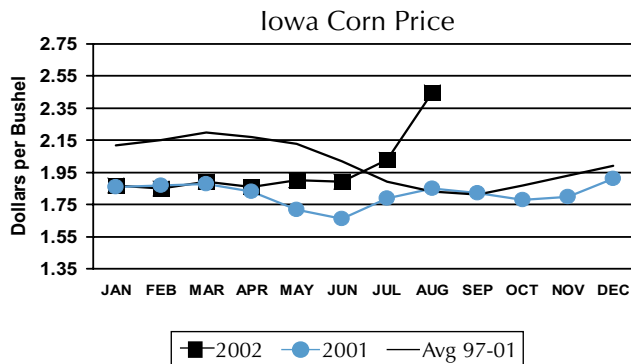
The U.S. Department of Agriculture (USDA) October 21 *Iowa Crops and Weather* report estimated harvest to be 41 percent complete, compared to 59 percent normally harvested by this time. Dry weather in mid-October allowed quicker harvesting. The early October ratings confirm that Iowa crops are in good shape, with 70 percent rated good to excellent and only 10 percent rated poor to very poor. As of October 1, Iowa's corn crop was forecast to yield a record 159 bushels per acre. The projected yield is 13 bushels above last year's level and 15 bushels above the five-year average. Production is forecast at 1.89 billion bushels for the state, up 14 percent from last year's total. As of mid-September, the price of corn in Iowa averaged \$2.48 per bushel, up \$0.63 from the price a year ago.

U.S. CORN

Nationwide, the USDA October 11 *Crop Production* report raised the corn production forecast to 8.97 billion bushels, which is 6 percent below last year's production. Based on October 1 conditions, yields are expected to average 127.2 bushels per acre, down 11 bushels from last year's level. The forecasted yield and production are the lowest in seven years. Wet weather in spring that delayed planting in the eastern Corn Belt, as well as persistent hot, dry weather that stunted growth and limited yield potential, has led to yields below 2001 levels in many areas of the country. The harvested corn area is projected at 70.5 million acres, up 3 percent from 2001 area. According to the USDA September *Grain Stocks* report, the total old-crop corn stock was recorded at 1.60 billion bushels, down 16 percent from last year's total. The ratio of off-farm to on-farm storage was 1.7 compared to 1.53 last year. The summer-time corn usage of 2.00 billion bushels fell short of the 2.02 billion bushels consumed last summer. USDA estimates the worldwide feed grain production at 300 million bushels less than last year's production, which is favorable for U.S. export demand. Projected corn prices for the 2002-03 marketing year are \$2.35-\$2.75/bu.

IOWA SOYBEANS

The soybean harvest, slowed by damp weather in the beginning, was in full swing by mid-October, bringing the statewide completion rate to 88 percent, just 2 percent below normal. Statewide, the soybean crop condition remained steady at 66 percent good to excellent, which is better than conditions a year ago. The October yield forecast of 46 bushels per acre is up 2 bushels from the 2001 level and slightly above the five-year average. The state soybean production is projected at 489.9 million bushels, up 2 percent from last year's crop. Iowa farmers were getting \$5.42



continued on page 9

Iowa Cash Receipts Jan. – June

	2002	2001	2000
(Million Dollars)			
Crops	1,853	2,086	2,256
Livestock	2,565	2,892	2,947
Total	4,414	4,978	5,203

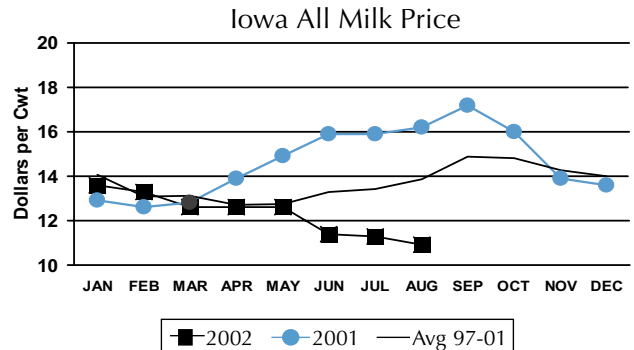
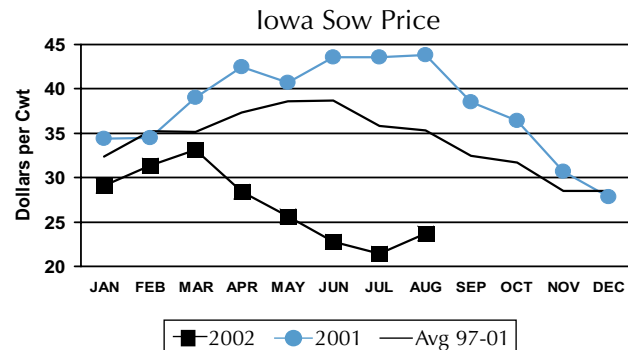
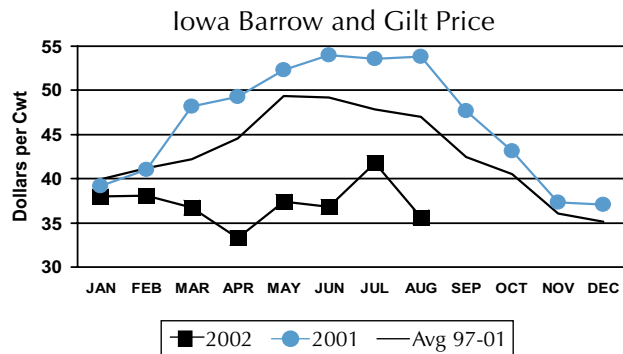
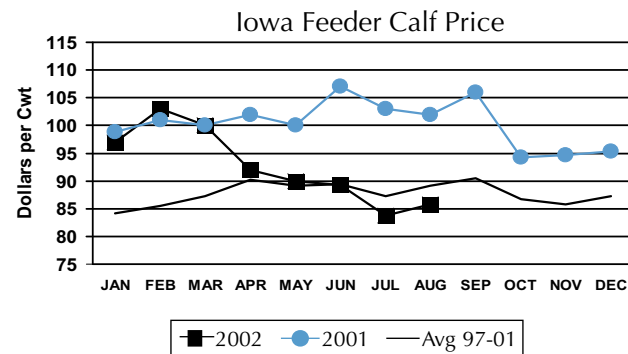
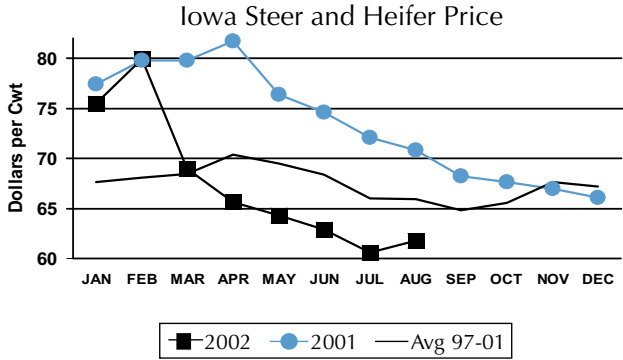
World Stocks-to-Use Ratios

	Crop Year		
	2002/03 (Sept. Projection)	2001/02 (Estimate)	2000/01 (Actual)
(Percent)			
Corn	14.46	20.24	24.86
Soybeans	13.35	16.65	17.90
Wheat	22.63	27.55	28.58

Average Farm Prices Received by Iowa Farmers

	August* 2002	July 2002	August 2001
(\$/Bushel)			
Corn	2.45	2.03	1.85
Soybeans	5.65	5.26	4.95
Oats	1.85	1.67	1.36
(\$/Ton)			
Alfalfa	85.00	85.00	86.00
All Hay	84.00	85.00	85.00
(\$/Cwt.)			
Steers & Heifers	61.80	60.60	70.80
Feeder Calves	85.80	83.70	102.00
Cows	37.90	35.50	44.90
Barrows & Gilts	35.60	41.80	53.80
Sows	23.70	21.40	43.80
Sheep	23.20	25.50	31.60
Lambs	79.40	81.10	58.50
(\$/Dozen)			
Eggs	0.34	0.27	0.27
(\$/Cwt.)			
All Milk	10.90	11.30	16.20

*Mid-month



A New Brand of Agriculture?
continued from page 5

Landrace or Italian Large White are allowed. This creates the possibility that some of the success of the program might be transferred to Italian hog producers. Figure 1 compares hog prices for several countries. Italian hog prices have averaged \$7.44 per hundred pounds higher than German hogs over this period. In this case, there is no evidence that Italian hog producers can profit from the existence of the “Prosciutto di Parma” brand because there is no restriction on the number of hogs that are grown in Italy. However, the higher prices observed in Italian hog production have probably allowed the Italian hog industry to survive in the absence of trade protections from less expensive E.U. producers in the Netherlands, Ireland, and Denmark.

The Brunello di Montalcino and Prosciutto di Parma brands are only a tiny fraction of those that have succeeded in the European Union.

AN EXAMPLE OF A SUCCESSFUL U.S. FARMER-OWNED BRAND

Farmer-owned brands are relatively rare in the United States. One successful brand involves Vidalia onions, a registered trademark of the Georgia Department of Agriculture. Vidalia onions are grown only by a group of authorized farmers in the region around Vidalia in the South of Georgia (see “Why Can’t Vidalia Onions Be Grown in Iowa? Developing A Branded Agricultural Product” by Roxanne Clemens, MATRIC Briefing Paper 02-MBP 3, available at www.matric.iastate.edu). The farmers use a trademark and a federal marketing order to restrict marketing and production of these particular sweet onions.

CAN THE MIDWEST JUMP ON THE BANDWAGON?

It seems highly unlikely that the Midwest will ever create a brand of extra virgin soybean oil given current consumer preferences and produc-

tion practices. But other products seem ideal for branding. For example, the Japanese beef consumer has discovered that beef originating from packing plants located along Interstate 80 has a better flavor than other U.S. beef. This is probably true because midwestern beef is typically produced from calves that are grain fed for as long as six months. Beef from other U.S. regions is typically older and less tender than the midwestern product and comes from calves fed for much shorter periods. As a result, Japanese consumers have now begun to request “I-80 beef,” a brand that does not yet exist. It should be possible for a group of cattle feeders to find a suitable location for the production of this type of beef and justify why beef from this location has some special characteristics. A key element in this brand would be that state and federal regulators would agree to step in to protect this brand from overproduction from within the group and from outside competition. This latter feature has not been evident in the attempts seen with this type of product to date.

In the same way, in each county, producers could probably describe a unique way to make ice cream, cheese, sausage, or ham, or unique

ways to feed and process pigs, cattle, chickens, or turkeys. These products are more likely to succeed if there is a genuine flavor difference such as might exist with range-fed poultry. Other possible brands might be based on production practices that use science to improve flavor and tenderness.

Whatever the innovation, the cases we’ve studied in Europe may be harbingers of a new strategy for American farmers to make the most of the unique characteristics of their products in the marketplace. ♦

Criteria for Successful Differentiation of an Agricultural Product

- Product must transmit price signals from consumers to producers.
- Product must achieve a scale of production sufficiently large to justify the costs of creating and maintaining the differentiated image among consumers.
- Imitation of the product must be prevented.
- Method of supply control must not violate laws against price fixing.

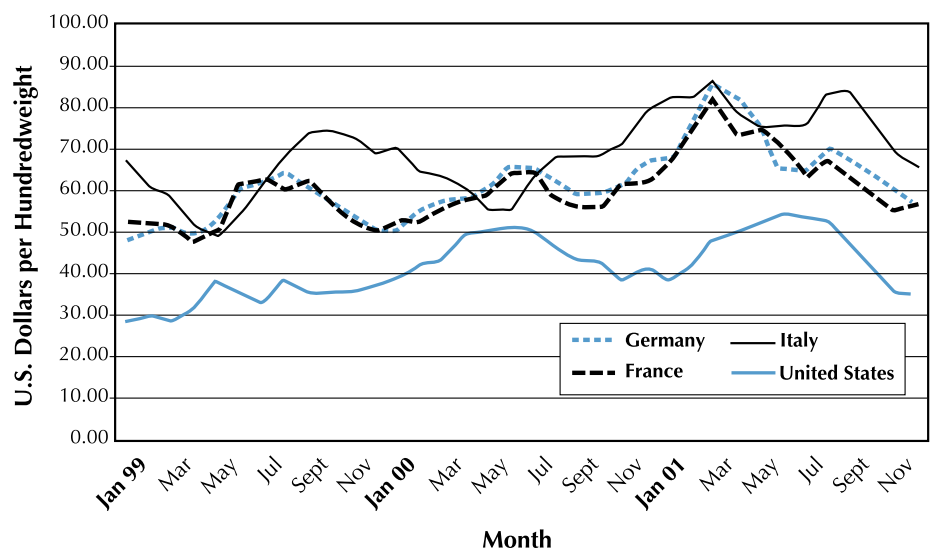


FIGURE 1. HOG PRICE COMPARISON, 1999-2001 (E.U. PRICES ARE DEADWEIGHT BASIS; U.S. PRICES ARE NATIONAL BASE FOR 51-52 PERCENT LEAN BARROWS AND GILTS)

Iowa's Agricultural Situation
continued from page 6

per bushel of soybeans in August-September, \$0.77 higher than the price last year.

U.S. SOYBEANS

The USDA October 11 *Crop Production* report forecasted soybean production at 2.65 billion bushels, 8 percent below the level in 2001. Based on October 1 conditions, yields are expected to average 37 bushels per acre, down 7 percent from last year's yields. If realized, this would be the lowest production since 1999. Expected harvested acreage is forecast at 71.8 million acres, 2 percent below that of last year. According to the September *Grain Stocks* report, the total old-crop soybean stock was recorded at 208 million bushels, down 16 percent from last year's stock. The ratio of off-farm to on-farm storage was 2.3 compared to 1.96 last year. On the demand side, the USDA October 11 *World Agricultural Supply and Demand Estimates* report puts U.S. soy-

bean exports at 850 million bushels, 20 percent less than exports a year ago. In spite of a large drop in U.S. soybean exports to the European Union and Korea, so far U.S. exports exceed last year's levels. Soybean shipments to China are expected to remain strong until the end of the year, when pending genetically modified organism (GMO) labeling regulations by the Chinese government may go into effect. Summer consumption of soybeans totaled 477 million bushels, up 4 percent from that of a year ago.

IOWA HOGS AND PIGS

After August's one-third cut in hog prices, the USDA September 27 *Hogs and Pigs* report brought a bit of good news for pork producers, indicating smaller supplies in the coming months. The report estimated the inventory of hogs on U.S. farms at 60.2 million hogs and the inventory of market hogs at 54.2 million; both numbers are 1 percent above last year's levels. There were 6.05 million breeding hogs, 2 percent fewer than last year. The initial mar-

ket reaction was positive, as these inventories were below trade expectations. Even though the reduction in the breeding herd points to the beginning of a liquidation phase, a reduction in hog slaughter is expected in the spring quarter of 2003. In September, Iowa farms had 15.4 million hogs and pigs. This is 2 percent higher than levels a year ago, but nearly 1 percent lower than the June 1 inventory. The Iowa June-August pig crop this year was counted at 3.65 million head, on a par with last year. A total of 420,000 sows farrowed, with an average litter size of 8.7 pigs per litter. As of September 1, Iowa producers planned to farrow 440,000 head of sows and gilts in the September-November quarter, down 2 percent from last year's number. The estimated farrowing intentions for the December-February 2003 period of 440,000 head of sows are 5 percent above the number of sows farrowed during the same period in 2001. Analysts expect that pork producers will continue to market hogs at a loss for most of the coming winter and spring. Break-even prices for producers are projected to appear by summer of 2003. ♦

Meet the Staff: Jackie Garreau

The friendly voice that has greeted callers and visitors to CARD for the past five years belongs to Jackie Garreau. Jackie is the CARD receptionist and secretary for Assistant Director Keith Heffernan and for Professors GianCarlo Moschini and David Hennessy.

Jackie worked at Guthrie County Hospital in her hometown of Guthrie Center, Iowa, for twelve years as a medical transcriptionist, medical records coder, chart reviewer, and records clerk before she and her husband, Leo, moved to Ames in the spring of 1997. Jackie joined CARD in August of that year.

Besides her other secretarial and administrative support duties, Jackie is in charge of communicating employee news through CARD's two bi-weekly e-mail posts: *InsideCARD* and *CARDEvents*. She also handles the paperwork for personnel matters—with

its wide variety and complexity of forms and checklists—and makes sure that every detail is attended to. She can often be seen making a dash to the dean's office in Curtiss Hall to get a signature or push a form through to make a deadline.

Serving at the front line for contacts seeking information or trying to make a connection to the faculty and staff at CARD is one thing Jackie says she appreciates about her role within the organization. "I enjoy handling calls, and getting to meet people from various organizations and other countries," she says.

Jackie can be found helping wherever there is a need. She often works at CARD-sponsored conferences such as the Ag Forum, assisting with registration. She also regularly helps staff with their travel plans, creates mailing lists for publicizing special events, inputs data about CARD publications



Jackie Garreau

for an online database, and helps with the hosting duties when CARD receives special guests.

At home, Jackie looks forward to time spent with her husband of 29 years, her two daughters and sons-in-law, and her two grandsons. "I enjoy being with my grandsons and family, and, occasionally, traveling." A third grandson was welcomed to the family October 8. Jackie also likes to sew and shop in her spare time. ♦

Disaster Assistance: How Best to Pay When Nature Has Her Way

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Over the past several months, Congress, the administration, and various farm groups have debated the type and size of an agricultural disaster assistance package. Drought has affected a large part of the country and could continue to do so in future months (see Map 1). The Senate attached an agricultural disaster assistance package to the Department of the Interior's appropriation bill. The House has not moved forward on any disaster package. The administration has stated that any disaster assistance must be paid for by budget offsets (that is, other programs must give up funding to pay for the disaster assistance package). The debate on a package for the current drought has centered on two questions: who will receive assistance, and how will it be paid for?

The administration and the House leadership have focused on budget offsets to pay for any disaster package. Many critics of agricultural disaster funding have pointed to the recent passage of the U.S. Food Security and Rural Investment Act, stating that any funding for agricultural disaster assistance should come from the \$70.5 billion appropriated for the new farm legislation. The Senate has followed the form of previous disaster packages by declaring these outlays emergency spending. This allows Congress to avoid budget offsets; it can simply increase the federal budget to account for the additional spending. In previous agricultural disasters, the federal government has provided various forms of assistance, from direct payments to feed assistance. Since 1988, there have been over fifteen emergency disaster aid packages, and these programs have provided over \$20 billion in agricultural support. The Senate package would provide over \$5 billion (\$3.8 billion for crops and \$1.2 billion for livestock) in support to producers who suffered production losses for the 2001 and 2002 marketing years. The administration has already provided some assistance to livestock producers through the Livestock Compensation Program. This program will provide up to \$752 million in direct payments to livestock producers that maintain their livestock in counties that have been declared disaster areas. Additional support has been given in feed assistance, emergency loans, conservation payments, and the authorization to allow emergency haying and grazing on Conservation Reserve Program land.

On the crop side, the administration is taking a "wait and see" approach. Many of the crops affected by the drought could have been covered by the federal crop insurance program. Nationwide, roughly 80 percent of the production of eligible crops is covered by some form of crop insurance. Recent changes in the crop insurance program have made it more popular with producers, and they are purchasing higher levels of coverage. The administration and House leadership are waiting to see how the crop insurance program performs during this disaster before proceeding with a disaster assistance package for crops.

The administration's concentration on livestock stems from a couple of factors. Federally subsidized insurance is not available to most live-

stock producers. Map 2 shows pasture conditions across the country. In three states (California, Colorado, and Nebraska), over 80 percent of the pasture is considered to be in poor or very poor condition. These three states account for roughly 15 percent of cattle in the United States. Eleven states have poor to very poor pasture conditions on over 60 to 80 percent of

TABLE 1. JULY 1 ALL CATTLE AND CALVES INVENTORY

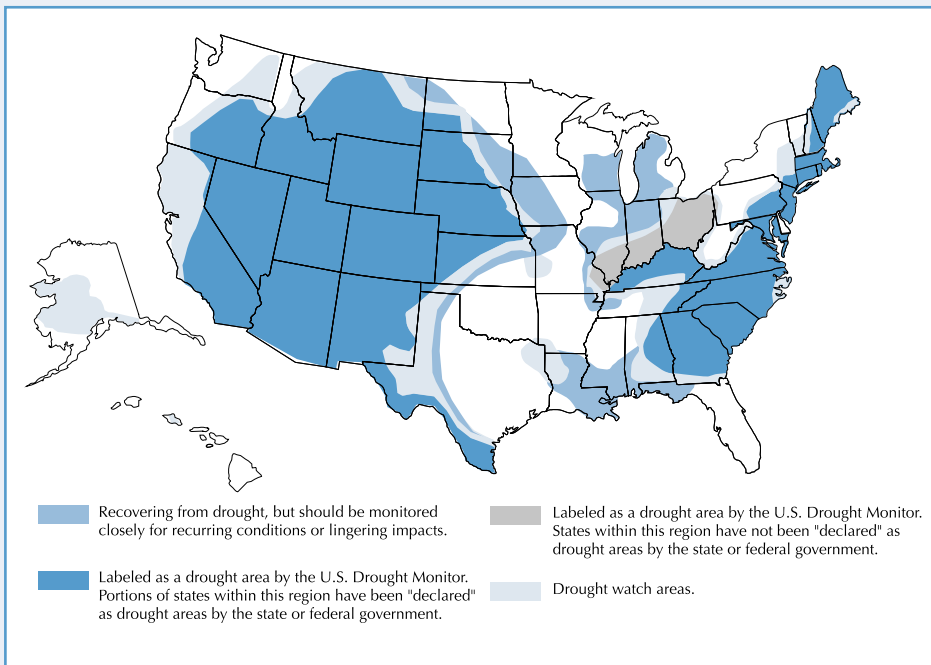
	2001 (million head)	2002 (million head)	2002 as % of 2001
California	5.20	5.20	100
Colorado	3.30	3.10	94
Kansas	6.90	6.55	95
Nebraska	7.25	7.05	97
South Dakota	5.10	5.00	98
United States	105.80	105.20	99

Source: From "Cattle," 7/19/2002, USDA-NASS.

their available pasture. Table 1 highlights cattle production in several of the drought-affected states. The last column of Table 1 shows the relative size of the herds between 2001 and 2002. Most of these states have seen overall cattle numbers shrink. Part of this cattle liquidation has been brought about because of limited feed availability resulting from the current drought.

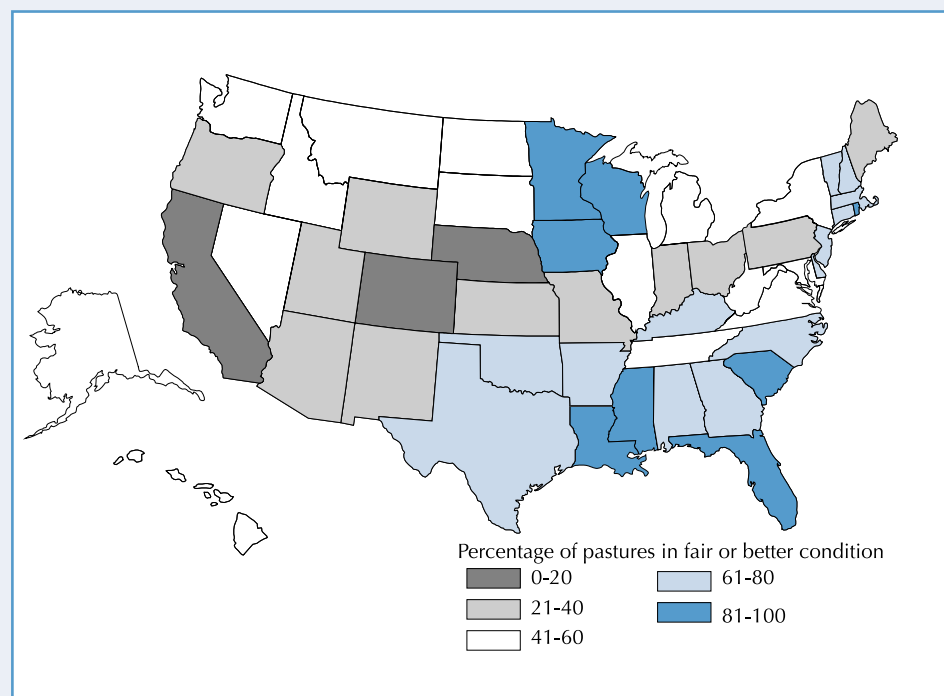
If disaster aid is once again extended to crop farmers who are eligible for crop insurance, the reasons for the existence of a crop insurance program are certainly called into question. After all, the federal government already underwrites the companies who sell crop insurance. Why not simply do away with crop insurance, pass annual disaster declarations, and save significant administrative costs? Alternatively, Congress could pass a farm bill that makes countercyclical payments with respect to crop yields in a county or crop reporting district. These payments would have lower administrative costs than crop insurance and would be significantly less prone to political meddling than are annual declarations. Giving farmers both disaster payments and crop insurance indemnities would seem to be difficult to justify in terms of either cost or equity to U.S. taxpayers. ♦

MAP 1. DROUGHT INDICATOR



Source: National Drought Mitigation Center, <http://www.drought.unl.edu/risk/us/usimpacts.htm>.

MAP 2. PASTURE CONDITIONS



Source: From "Crop Progress," 9/30/2002, USDA-NASS.

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