

Supplemental Justification Statement for the 2008 ARMS III Commodity Cost of Production Versions

AGRICULTURAL RESOURCE MANAGEMENT, CHEMICAL USE, AND POST-HARVEST CHEMICAL USE SURVEYS

OMB No. 0535-0218

The commodity cost of production versions of the ARMS Phase III questionnaires consist of the questions on the Core (shorter mailed version) plus extended details specific to the targeted commodity.

2008 ARMS Tobacco Version:

Dramatic change in U.S. tobacco policy has created an “experiment” from which the effects of policy change can be evaluated. The 2008 ARMS Phase III Tobacco version is intended to take advantage of this opportunity by measuring the results of this experiment in order to better understand how agricultural sectors respond to dramatic policy change. Questions in the 2008 ARMS Tobacco version will identify the effects of tobacco program changes by focusing on aspects of farm structure, production, and marketing that are most affected. This is seen as a rare opportunity to observe how an agricultural sector adjusts to policy change and should provide insight that would inform the policy process.

The questionnaire is still being developed and will be submitted to OMB by October 1, 2008 for January 2009 data collection.

Goals of 2008 ARMS Tobacco Version:

The goal of the tobacco survey is to develop an information base from which the impacts of policy change on the tobacco industry can be examined. The Fair and Equitable Tobacco Reform Act of 2004 changed tobacco policy in the U.S. from a system of quotas and price supports to a free market system. The mechanism by which this change occurred was a buyout of quota from former quota owners and renters. This survey will gather data to measure how tobacco farms changed in response to this policy adjustment. To measure this change, information about the tobacco enterprise is requested for 2000 (prior to the buyout), 2004 (time of the buyout), and 2008 (after the buyout). Specific issues of emphasis regarding the 2008 survey are:

- **Farm structural change:** Historically, tobacco production occurred on many farms operating small plots limited in size by the amount of quota controlled by each farm. The elimination of the quota system has reduced the number of tobacco farms and allowed the remaining farms to expand tobacco production.
- **Labor usage:** Tobacco production on small plots is labor intensive. Expanding tobacco production per farm requires additional labor or the mechanization of operations.
- **Production systems and technology use:** Technical change may be occurring in response to the policy change because of incentives to seek more cost efficient production levels.
- **Marketing systems:** The procurement of tobacco from producers has changed from auction markets to direct contracts with cigarette companies. Contract terms are changing the methods used to prepare the tobacco for market.

2008 ARMS Bio-fuels Version:

The set of 2008 ARMS Phase III bio-fuels version questions will be used to identify the effect of the bio-fuels expansion on farm-level decisions. The questionnaire is still being developed and will be submitted to OMB by October 1, 2008 for January 2009 data collection.

Goals of 2008 ARMS Bio-fuels Version:

The data derived from a bio-fuels version would be used to identify the effects of the bio-fuels expansion on the following farm-level decisions:

- land acquisition and use, including commodity mix;
- input acquisition and use, including expenses, quantities, and varieties of seeds, fuels, and fertilizers; and
- marketing channels.

In turn, the bio-fuels version will help us to track the changes in crop mix (including shifts between uncultivated and cultivated land uses) that farmers are making in response to the expanded demand for bio-fuels, as well as changes in how they are acquiring land. It will provide data to help us understand whether farmers who are producing for ethanol are making different decisions for seed, fuel, and fertilizer use than farmers who are not producing for ethanol, and will thereby provide better information for assessing the impact of expansion on aggregate energy use and production, and environmental quality. Information on the marketing channels used for bio-fuel production will help us better understand the returns to different participants in the bio-fuels supply chain.

2008 ARMS Cow-calf Version:

Goals of 2008 ARMS phase 3 Cow-calf Version:

Data are to be collected concerning farm acreage, production, income, expenses, assets, debt, and operator and household characteristics as in all other versions of phase 3. The 2008 Cow-calf version combines and modifies questions from the 2005 dairy version, the 1996 cow-calf version (phase 2), and the 2006 core version in order to tailor questions to cow-calf operations.

Areas of Emphasis

Cow-calf enterprise data are needed to provide a basis for reporting economic indicators of cattle production and for responding to issues regarding economic, structural, animal health, and environmental aspects of the industry. Specific issues of emphasis regarding the 2008 survey are:

1-Cost of production estimates: Data are needed to provide a basis for estimating the costs of production for cow-calf enterprises in major production regions. Current data supporting the annual cost of production series are from 1996 and are outdated and need to be replaced.

Cost of production estimates: It is important to exclude feedlot cattle from the estimated expenses. We are seeking the costs associated only with the beef cow-calf enterprise.

2-Production systems and technology use: Data are needed to contrast various types of operations in terms of the production systems and types of technologies used.

Information about the technologies and practices used in the beef cow-calf enterprise are important for understanding differences among farms and how these differences affect the production costs and profitability of cow-calf operations.

The National Animal Identification System (NAIS) is a voluntary state-federal-industry partnership to standardize premises location capabilities and animal identification for livestock, poultry and horses. The long-term goal of the NAIS is to provide animal health officials and producers with the capability to identify all livestock and premises that have had direct contact with a disease of concern within 48 hours of discovery. The foundation of the system is a national premises registration database to record the contact information and physical addresses of producers. Premises registration is free to producers and requires only basic contact information.

3-Structural characteristics: Data are needed to provide a basis for reporting on the structure of cow-calf production in 2008 and describing the change in structure that has occurred since the last survey in 1996.

4-Grassland conservation management: Data are needed to provide a basis for describing interrelations between cow-calf operations and the environment, including practices used on public and private lands.

Federal conservation programs are increasing in size and scope. Conservation program contracts always include constraints on land use and/or production practices. Growth in working land conservation programs (EQIP, CSP) has been particularly rapid.

Although EQIP payments are not always acreage-based, the acreage question will help identify the number of acres benefiting from installation of structural practices, e.g., terraces or waste handling facilities. Moreover, because EQIP is a multi-year program and payments are not made until conservation work is complete, current-year payments do not provide insight on the overall value of the contract to the producer. We propose to extend this line of questioning to all conservation programs because they almost always require a multi-year commitment involving direct constraints on land use and/or production practices.

Grazing land easement/contract programs have also grown rapidly, and in certain parts of the country the acres enrolled in these programs constitute a significant portion of grazing land. Easement programs restrict land use conversion from existing agricultural uses while promoting adoption of conserving practices. The Grassland Reserve Program is a particularly important program for cow-calf producers relying on grazing and forage production. State and non-governmental entities are also important sources of easement payments for agricultural lands, including grazing-based livestock systems. In cases where the operator is also the owner of the preserved parcel, the influx of capital from the sale of the easement has major implications for the financial status of the operation and intergenerational transfer of land ownership. Asking these questions will allow us to examine whether the operating and financial characteristics of easement program participants differs substantially from non-participants, and analyze the implications for the design of grazing land easement programs. To date, there are no other comparable data that allow us to analyze grazing land program participation decisions.

The combination of acreage and payment data would provide a better sense of the extent to which individual producers participate in these programs. With existing questions (2006 Core/CRR) it is impossible to identify EQIP participants who do not receive payments in the current year. This is also true for easement programs like WRP and GRP. While less true for CSP, CRP, and CREP the total contract amounts will provide additional insight on the effect of these programs in farm management and farm income. The addition of the proposed questions would significantly enhance ERS' ability to describe conservation program participants (e.g., demographic and farm characteristics) and their level participation in both research and staff analysis.

We proposed grazing-related conservation practice questions because this is the only way to obtain information on conservation practices that may be affecting the management of grazing land that is central to cow-calf operations. As there is no Phase II survey to provide detailed conservation practice data for cow-calf enterprises, additional practice-related questions are proposed here. The questions address resource management planning and conservation practice adoption on grazing lands.