

## COVID SUPPLEMENTAL FUNDING REQUEST

### U.S. DEPARTMENT OF AGRICULTURE

#### INCREASE RELIABILITY OF FOOD ACCESS STABILIZE FOOD SUPPLY CHAIN AND RURAL ECONOMY

**Purpose: To establish and fund Food and Agriculture Emergency Block Grants to States.**

This would provide states immediate, flexible funding to respond to urgent and emerging issues in the agriculture economy and food supply chain

**Topline:** COVID responses have caused cascading impacts across the food system and agriculture economy. We are in a crucial moment where we have limited but valuable time to act in order to avert the worst shocks to the food system and the rural economy.

**What's at stake:** The impact of these shocks could range from very challenging to catastrophic. While action at the farm level will be crucial, we need to stabilize the agriculture economy to minimize the loss of billions of dollars of economic activity. Farmers have talked about the trade wars and MFP payments saying they want “markets not bailouts.” We face that situation domestically now, as agricultural prices plummet and lead to abrupt farm and processor decisions to cull herds and idle plants. Losses on that scale would rapidly shrink the economic production of agriculture and the rural economy, even further than the trade wars have.

The fastest, most efficient way to address these emerging threats is to expand the capacity of states to work in partnership with industry to respond to regional and sector-specific issues. Direct assistance to farmers will have a much more valuable impact if we succeed in averting the most severe economy-scale losses through coordinated, targeted, action and intervention.

**Senator Tammy Baldwin**

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#### QUESTIONS AND ANSWERS

**Would funding come out of the CCC?**

We have drafted this to come out of the Treasury, not CCC. We are not addressing the broader CCC discussion here.

**How would funds flow from USDA to States?**

This is drafted to direct the Secretary (via AMS) to direct funds to the Governors based on specifications laid out in the text that would make sure each state gets funding, but at least 25% of the funding would provide additional resources to states that have a lot of ag/food processing, designed to focus funds on:

- **States with a lot of farms (indicating a larger impact of assistance on rural communities because of more substantial rural populations)** -- We're defining that by number of farms producing in the 2010 crop year because it is a number that reflects the makeup of rural communities prior to the consolidation of the last decade. Later we propose

a narrow allowance for payments to family-scale farms that meet criteria that provide social benefits from conservation and facilitate farmland transition plans. This is intended to address a major looming impact of COVID: without intervention, it is likely that we will see extensive liquidation of small farms in the next few months, which will very likely be followed by rapid consolidation at a dramatic scale.

- **States with a lot of processing plants (indicating smaller businesses and smaller plants that are more distributed—and therefore resilient to operational threats like COVID—and regions with less consolidation of ag businesses)** – We’re defining that by number of plant licenses. In a state like Wisconsin, that would be a lot of dairy processors, slaughter houses, auction barns, renderers, etc—the whole livestock and food processing supply chain.

These small and independent businesses are fighting for their lives right now, and they are the ones least able to coordinate a response to COVID because of fewer HR and management resources, less access to financial tools to stay afloat, and little assistance from their buyers—unlike the large packing plants and processors, whose customers are the biggest national retailers. The largest retailers have invested heavily in the processing end of their supply chains and will utilize their substantial corporate flexibilities to ensure those plants keep running. The little guy does not have that luxury—these block grants can provide resources to help these small and medium sized businesses survive.

### **How will states use the funds?**

Essentially they will have substantial flexibility to use funds to triage the many issues facing the essential businesses and workers who keep the food supply chain running. These issues are evolving rapidly and are specific to each state, region, and sometimes commodity. An infusion of funds to states—similar to the block grants of COVID health response funding we just provided to states—will help address the confusion and uncertainty in our food supply chain, which needs to get addressed as soon as possible so we get ahead of plants shutting from workers who test positive for COVID.

States will have flexibility within clear structure on how funds are used. There will be two categories of funds:

1. **Funding for people to create and deploy responses**  
50% for Capacity Funding for States and Cooperative Extension for COVID response and related economic, social, and health impacts defined in the Allowable Uses section
2. **Funding to address costs associated with COVID responses (with sideboards)**  
50% for Flexible Block Grant Funding related to COVID response and related economic, social, and health impacts defined in the Allowable Uses section

AND funds may only be used for three specific purposes (these are defined further in the summary and bill)

### **Both ways states get money must be used to address:**

1. Food security – Retail food availability, food supply chain stability, and preserving food safety

2. Health and COVID response needs that are related to the stability of the food system and rural economies
3. Need to stabilize farms and agriculture economy from the dramatic market swings and impacts that will result from COVID

### **Is it cash payments to producers?**

No. It is possible that some of the activities in category 3 (stabilize farms) could send funds directly to farmers, but they would have to be targeted according to the criteria laid out under that category. The two most likely uses of cash allocation to farmers would be to:

1. **Pay for conservation** – Assist with costs of economic diversification, resiliency, ecosystem services, and watershed restoration
2. **Give farmers retirement security so they don't feel forced to liquidate their life savings in order to get the highest price selling the farm to the big agribusiness next door** – Provide retirement security options for farmers who commit to helping a new operator transition onto their farm

AND those are each **limited to focus on small family farms**, in order to support the transition of small family farms to new farmers who will likely use them for a similar scale of agriculture, defined in by the type of farm they apply to:

“specifically for farms where the primary labor is provided by:

- the farm owner,
- renter, or
- [a new farmer who will farm at the same scale] an individual who is working to transition into the role as:
  - o primary laborer
  - o manager and owner of the farm, such as through an apprenticeship, and the farmland ownership transition is economically feasible for a beginning farmer.”

### **What supply chain disruptions are there now, with examples:**

Store shelves are stocked but COVID stockpiling and COVID-related economic shocks have caused supply and demand to be out of sync. Without intervention, these shocks are sending extreme signals—ie. Farmers are considering liquidating their dairy herds because they are worried they won't have a home for their milk in the coming weeks, which is causing livestock auctions and packing plants to press their states on carcass disposal plans if so many animals are brought to slaughter that the plants cannot keep up capacity and would instead need to dispose of the animals. This leads to a discussion of the deficit in rendering plants, tied to low market value for products from the rendering process. This causes stakeholders to ask their state about waiving regulations to find landfills that will take animal carcasses.

This is a major spiral, and the impact and pace of these challenges are another curve we can bend. The sooner resources are out and people are able to find solutions to localized concerns, the better the chance we have of preventing the worst economic losses. Absent COVID, we would not be talking about landfilling perfectly fine cattle carcasses, or sending those animals to slaughter at this time. We need to give states and industry stakeholders tools to manage out of this crisis point, so

that we won't be wasting the supply of cattle that would otherwise have been sent to slaughter to fill grocery stores in several months. Addressing these issues now will enable us to reduce the impacts on consumers—such as shortages of certain foods—as the impacts of COVID cascade.

Food processors and farmers are worried about disruptions to their operations that could destabilize the food supply chain

We're still doing well in having a steady, ready supply of food to replenish grocery store shelves even as consumers stockpile. Grocers are reporting purchases at 3-4x the normal rate—which makes sense as purchases of prepared meals has temporarily plummeted.

What supply chain are we talking about: This proposal focuses on potential disruptions and destabilization of the **supply chain that supplies consumers food** (farmer to hauler to processor to hauler to distributor to hauler to consumers at retailers, restaurants, and food distribution sites), rather than other related supply chains like a grain supply chain (inputs of seed, fertilizer, etc to the farmer to the hauler to the grain elevator to the hauler to the bulk storage facility to the hauler to the processing plant). However they can overlap.

Current situation

Agriculture, food supply chain, distributor, and retail chains are facing a range of urgent and emerging vulnerabilities. Impacts are already beginning to hit, and will be cascading. States are best equipped to identify and address these issues through their existing relationships and in ways that respond to the sequence of disruptions that materialize. Each state has a different configuration of agricultural production, processing, and supply chain entities (hauling, rendering, etc). These will be stressed regionally and within states based on timing of social isolation mandates, growing season timing, and other actions such as border crossing limitations imposed by states and other countries.

Examples of supply chain questions that State Departments of Ag are being asked to respond to:

- **Farmer to processor issues:** What happens if a dairy processing plant has to shut down for an extended period of time and cannot receive product? Industry will try to reroute that milk. But if a large portion of processing capacity is offline because of closures, or lack of workforce to replace sick employees, then dairy farmers may have to dump milk (raising questions about EPA/State Department of Natural Resources water quality permits for land applying, etc). These are all questions that need to be worked through with in-state agriculture leaders, supply chain members, and in the context of state regulations. They need to be addressed prior to a disruption, so that emergency plans are in place, as the decision window for the farmer and processor will likely be less than 24 hours.

Potential state responses: stand up a process for rerouting milk, cover additional hauling costs of rerouted milk, bring on staff capacity (through State Department of Ag, University Extension, etc) to provide technical assistance and triage incoming questions to ensure plants get information they need to act on within narrow decision-making time frames (ie, a worker tests positive; do you close the plant that day and begin a 24 hour cleaning process? If so, what should you do to address the infection status of other workers? What do you tell your dairy farmers who ship milk to the plant each day?).

- **Managing swings in supply and consumer demand:** Livestock sales entities and retailers are facing substantially different issues right now, reflecting abrupt shifts in demand and farmer/rancher responses to market signals. For instance, the retail end of the supply chain is forecasting animal protein shortages within weeks, which they predict could be further

exacerbated by plants being offline due to workforce issues. At the same time, livestock sales and processing entities are forecasting a cull rate beyond their capacity to deal with because farmers may respond to falling prices by shipping cattle and hogs to slaughter. Haulers and renderers are also unable to meet this demand.

Potential state responses: States are fielding emerging information on changing conditions and working with industry to address issues as they emerge. This will take substantial time and resources that many departments are unable to meet in general, and at a time when they are also facing workforce reductions because of social isolation protocols. Assistance could be used to help stand up remote working capacity and to conduct outreach by phone and electronically. States could consider ways to incentivize producers to slow down their cull rate so that distorted market panic signals don't drive a rapid restructuring of agriculture sectors and result in many farms closing. These are strategies that need to be worked out with industry experts, producers, ag economists, etc. Block grants will provide the resources to rapidly scale up these efforts and to pivot to emerging needs as the crisis continues.