

Subject: 2. DWR'S CALIFORNIA WATER NEWS: SUPPLY - 4/28/04

Date: Wednesday, April 28, 2004 9:52 AM

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Category: Water

TRANSFERS

Subsidy Ruling Shakes State Cotton Farmers

Los Angeles Times - 4/28/04

By Jerry Hirsch and Debora Vrana, staff writers

Third-generation cotton grower Bill Crivelli has long relied on subsidy payments from the federal government as a "safety net" to help his 1,100-acre farm near Merced, Calif., stay afloat.

Now, after a World Trade Organization ruling challenging the U.S. support program, he is being forced to think about the unthinkable: a world without subsidies.

Farming cotton without a hand from Uncle Sam "would be tough," said Crivelli, 48, who is hoping to pass on his farm to his son Chad. "I want to leave something for him," he said, "and for the future."

As Crivelli sees it, there would be only two ways to survive if subsidies were cut off. He might convert his acreage to crops that don't receive government support but could still be profitable, or he could sell off some of his land for urban development.

Both moves would accelerate trends already underway in California, potentially helping to change the face of the state's \$31-billion agriculture industry and the landscape of the Central Valley.

Meanwhile, the WTO decision could accelerate other changes. Among them: a shift to so-called green subsidies that reward farmers for restoring their cropland to native habitat, and a shunting of water (no longer needed for agriculture) from Central California to big cities such as Los Angeles.

"If farming cotton or rice or corn without a subsidy is not economical," farmers will be forced to "look to other answers," said Holly King, an almond grower and agricultural expert for the Great Valley Center, a Modesto-based nonprofit group that is helping shape policy for the region.

In Monday's interim ruling, the WTO favored Brazil in a complaint that the U.S. cotton subsidy program violates global trading rules by distorting world prices and blocking developing nations' goods from reaching market. It was the first case by the WTO to examine the effect of export subsidies on agricultural products. The U.S. last year

gave producers of rice, wheat, cotton and other commodities more than \$19 billion in aid.

On Tuesday, the White House vowed to appeal the WTO's decision and said it considered the subsidies to be "fully consistent" with international trading rules. Farmers applauded the Bush administration's stance.

"These subsidies only make U.S. prices compatible and put us on a level playing field with the rest of the world," said Jarral Neeper, spokesman for Bakersfield-based Calcot, a grower-owned cooperative, which represents 1,400 cotton farmers in the Central Valley and Arizona.

Still, the notion that subsidies could be sharply reduced caused concern Tuesday in the Farm Belt.

"California farmers are watching this — and they should be," said Daniel Sumner, an agricultural economics professor at UC Davis, who served as a consultant for Brazil in its case.

Were the WTO ruling to withstand Washington's appeal, California cotton growers could be hit hard. They harvested \$623 million of the crop in 2002 — and then received an additional \$239 million in federal subsidies, according to the latest analysis available from the Environmental Working Group, a research organization.

Without subsidies, "there would be a heck of a lot less cotton farmed," said Earl Williams, chief executive of the California Cotton Ginners and Growers Assn. in Fresno.

In turn, Williams said, small cotton communities such as Corcoran, Calif., and Alpaugh, Calif., could be walloped. Just three counties — Fresno (37%), Kings (20%) and Kern (18%) — account for three-fourths of the state's cotton production. In all, Williams noted, the cotton industry provides 20,000 jobs on farms, in gins and at warehouses, oil mills and textile plants.

But the impact wouldn't stop there. As farmers turned away from cotton and switched to different crops, those areas could face production gluts and see prices fall.

In fact, California's farm economy is often plagued by big swings in pricing that occur with relatively small increases in supply. Witness the three-year grape glut that sent the state's wine industry into a tailspin from which it is just beginning to recover.

"Something that is profitable tomorrow won't be for long if everybody does it," explained Don Villarejo, an agricultural business consultant in Davis, Calif.

Even before the WTO decision, many California farmers were already converting their fields from subsidized row crops to higher-value produce. The number of cotton acres in the state has dropped, falling 22% to 870,000 from 1992 to 2001, according to the California Department of Food and Agriculture. During that same period, wine grape acreage grew 60% to 480,000 acres. Land devoted to almond orchards soared 31% to 525,000 acres.

Smaller, higher-priced crops such as cherries, spinach and nectarines also showed big gains.

"All over California the trend has been to higher-value fruits, nuts and vegetables — anything other than farm program crops," Villarejo said. The reason: Even with government props, it's tough to turn a profit in many of these markets, especially for smaller operators.

Indeed, WTO ruling or not, many believe the future is daunting. "It's just so difficult," Crivelli said. "I see my neighbors falling away one at a time."#