

BACKGROUND

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Giving Away the Farm: The 2002 Farm Bill

by Anuradha Mittal,
Co-Director, Food First

USDA photo by Scott Bauer



After about 14 months of hearings, conferences, and deliberations, President Bush signed the Farm Security and Rural Investment Act of 2002 on May 13. The \$248.6 billion bill increases taxpayer spending on agriculture by more than 80 percent over the 1996 farm bill, the Freedom to Farm Act, which made a tentative attempt to wean farmers from the system of price supports and commodity payments, as the U.S. was bound to do under its World Trade Organization (WTO) obligations. While the theme six years ago was freedom, the new farm bill will force American taxpayers to cough up at least \$190 billion over the next 10 years, about \$83 billion more than under current programs. The bill proposes a complex program. And the bill focuses mainly on eight “program” crops (cotton, wheat, corn, soybeans, rice, barley, oats, and sorghum), and thus will largely benefit bread-basket states—which also happen to be swing states in the midterm elections. Representative Larry Combest, the House Agriculture Committee Chairman, hailed American farmers as the bill’s winners.

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The ABCs of Farm Bill Payments

Three types of government payments will be available to farmers producing crops covered by the legislation: direct fixed payments, countercyclical payments, and marketing loans.

Countercyclical payments, intended to eliminate the need for emergency farm legislation, are a form of retroactive subsidies that will kick in when market prices reach certain levels. Direct and countercyclical payments are not tied to production and will be made even if a producer chooses to idle his or her land for the entire season. The payments will be based instead on a mathematical formula involving acres and historical yields on each farm.

**Transnational Corporations:
The Only Real Winners**

Since the 1970s, the U.S. agricultural system has been designed to give American grain-trading giants like Archer Daniels Midland (ADM) and Cargill the edge in capturing the domestic markets of other countries. These companies penetrate Third World markets with a one-two punch. First, the companies work closely with U.S. government representatives and negotiators at institutions like the WTO, World Bank, and IMF to force Third World countries to open their markets to American agricultural exports. Once their markets have been forced open, these companies must still be able to out-compete local farmers. To do that, they need an abundant, low-cost supply of commodities, and indeed, they are able to get grain so cheaply that nobody else has any chance at all of being able to compete, because the second punch is delivered like clockwork every six years by a new farm bill designed to depress U.S. farm prices to, and in many cases below, the cost of production.

—Peter Rosset,
Co-Director, Food First

The new farm bill does have some potentially good provisions, including the Farmers' Market Nutrition Program, help for beginning farmers and ranchers, mandatory country-of-origin labeling for all meats and produce, the creation of an Under-Secretary for Civil Rights at the USDA, and a doubling of the annual funding for the Community Food Projects (from \$2.5 million to \$5 million). The bill covers food stamps, and it reinstates some benefits for adult legal immigrants who have lived in the U.S. for at least five years, with no residency requirement for their children and the disabled. It also increases farm conservation spending, which pays farmers to keep their land out of development, to reduce runoff that pollutes drinking water supplies, and to preserve wetlands and wildlife habitats. However, more than 50 percent (\$9 billion of the \$17.1 billion) of the conservation funds are for the Environmental Quality Incentive Program (EQIP), which, to the chagrin of grassroots farm organizations, allows individual operators, including the nation's corporate factory farms, to receive \$450,000 over six years.

But the bill's potential for good pales in comparison to the damage it will do. Overall, the new bill fails the nation's family farmers, consumers, taxpayers, and environment. It robs the poor to pay the rich. It further destabilizes family farmers and rural communities around the world. And it fails to strengthen food security. This background paper explores these faults.

Welfare for Corporate Agribusiness

President Bush asserted on signing the bill that "It will promote farmer independence, and preserve the farm way of life for generations. It helps America's farmers, and therefore, it helps Americans." However, a comparison between the 1930s and today hardly supports President Bush's words.¹ Then, 25 percent of the population lived on the nation's 6 million farms; today, our 2 million farms are home to 2 percent of the population. Small family farms have been overwhelmingly replaced by large commercial farms, with 8 percent of farms accounting for 72 percent of sales, thanks in large part to policies similar to those being deepened with this latest farm bill.²

The 2002 farm bill can be best described as agribusiness welfare. The federal crop subsidies will go not to farmers who resemble John Steinbeck's Joad family, but to rich recipients, such as fourteen members of the Congress that crafted the law; wealthy American corporations like Westvaco (a paper products conglomerate), Chevron, and the John Hancock Insurance Company; and top Time-Warner entertainment executive Ted Turner, ABC correspondent San Donaldson, and billionaire David Rockefeller of Chase Manhattan Bank.³ Most family farms will get nothing but a tax bill. The farm bill only further tilts the playing field against them.⁴

Down on the Farm

While the farm bill is a big bonanza for large producers of favored crops such as corn, soybeans, and cotton, small family farms are shortchanged. It is no exaggeration to say the new farm bill gives away the farm.

The bill ignores issues lobbied for by family farmers and grassroots farm organizations, such as a ban on meatpacker ownership of livestock, a family farmer-focused EQIP, and increases in farm income through higher loan rates or support prices. Instead of a commonsense annual cap on payments, it allows a ridiculously large cap: only farmers with adjusted gross incomes of \$2.5 million or more cannot receive subsidy payments.⁵ Also, under a compromise agreement the Senate made with the House, top payments are set at \$360,000 instead of \$250,000. The problem with this cap is that it is easily circumvented: rich, corporate farmers simply use generic commodity certificates that permit unlimited price-support payments.

The new bill only compounds the existing inequities. The top 10 percent of farm-subsidy recipients collect two-thirds of the money, and the bottom 80 percent get just one-sixth.⁶ Forty-seven percent of commodity payments will go to large farms with average household incomes of \$135,000. Moreover, most crops are not eligible for subsidy payments. For example, in California, only 9 percent of California's 74,000 farms actually received subsidy payments since 1996; \$1.8 billion have gone to fewer than 3,500 farms.

Most of the specialty crops that fuel the state's \$29 billion farm machine—such as grapes, peaches, plums, nectarines, strawberries, almonds, walnuts, and vegetables—don't get a penny of aid. The bulk of the money goes to support cotton, rice, wheat, and barley. Of the top 20 recipients in California, 7 are big cotton growers and 11 are big rice growers who take in an average of \$596,000 in crop subsidies a year.⁷ It costs \$700 to \$800 to produce an acre of California rice that fetches just \$650 in the world market!

Iowa, home of Senate Agriculture Committee Chairman Tom Harkin, wins the biggest chunk of subsidy money, \$1.7 billion. And Texas, home of the House Committee's ranking Republican, Larry Combest, who wrote the farm bill, and Democrat Charles Stenholm, who also sits on the House Agriculture Committee, would receive the largest increase, an additional \$582 million a year, double the amount in the 1996 law. Over the past five years in Texas, 36,200 farms got \$6.6 billion in subsidies while the remaining \$1.1 billion was divided among 181,000 small farmers.⁸

The current level of subsidies has already led to overproduction, which lowers prices. Today more than 40 percent of net farm income comes from the federal government, inviting those aiming for the largest possible federal payments to plant the highest-yielding crops, fence post to fence post, with as much fertilizer as the ground will hold. Shoveling on higher subsidies will only worsen matters.

Further subsidizing well-heeled agribusiness interests will also ensure the continued exodus of independent family farmers from the land. Taxpayer money will bankroll the nation's largest farmers, helping them buy up struggling neighboring family farms and creating a "plantation effect" that turns independent farmers into sharecroppers. According to Bill Christison, President of the National Family Farm Coalition and the Missouri Rural Crisis Center, losers in the new farm bill are the nation's independent family farmers who are struggling to stay on their farms and the taxpayers who will be footing the bill for record high payment levels.⁹

New World Markets for American Corporations

Americans cannot eat all that America's farmers and ranchers produce. And therefore, it makes sense to sell more food abroad. Today, 25 percent of U.S. farm income is generated by exports, which means that access to foreign markets is crucial to the livelihood of our farmers and ranchers. Let me put it as plainly as I can: we want to be selling our beef and our corn and our beans to people around the world who need to eat.

—President Bush¹⁰

With American markets already saturated, the U.S. is aggressively pushing to open up foreign markets—with great success. Already, one out of three acres planted in the United States produces food or fiber destined for export, and one quarter of American farm sales are now exports.¹¹ Under the 2002 Farm Bill Market Access Program, a total of \$100 million has already been distributed to 67 U.S. trade groups for the purpose of promoting U.S. agricultural products in overseas markets. An additional \$1.34 million in federal funds from the Quality Samples Program has been allocated to 17 trade groups to increase export sales by expanding into new agricultural markets.¹² The entire farm bill is based on the myth that trade will save the American farmer. Yet evidence from the last two decades shows that exports have not delivered on that promise.¹³ Low farm commodity prices have only increased the profits of processors, exporters, and seed and chemical companies while destroying the livelihoods of family farmers.

Robin Hood in Reverse

Not only does the 2002 farm bill act as a welfare program for agribusiness, with U.S. taxpayers footing the bill, it also robs the world's poor. Wielding the World Bank, the International Monetary Fund (IMF), and international trade agreements, the U.S. is opening up foreign markets for exports by forcing poor countries to remove subsidies and lower tariffs. However, the U.S. shields itself from foreign competition by increasing its subsidies and maintaining tariffs. These measures

have allowed the U.S. to dump its farm surplus on world markets. For example, the U.S. exports corn at prices 20 percent below the cost of production, and wheat at 46 percent below cost.¹⁴ This has resulted in Mexican corn farmers being put out of business. More than 80 percent of Mexico's extreme poor live in rural areas, and more than 2 million are corn farmers. There is no way they can compete with subsidized American agribusiness.

A dramatic increase in U.S. agricultural subsidies will further jeopardize the livelihoods of Third World farmers. The new bill will stimulate an even greater domestic farm surplus, which the U.S. will then dump at prices even farther below the cost on world markets, depressing the global commodity prices of crops that developing countries count on while wiping out even more poor farmers. The result is a reverse Robin Hood effect—robbing the world's poor to enrich American agribusiness.

An example of this effect is trade in cotton, a principle commodity crop. New subsidies mean that many U.S. cotton growers—whose average net worth is \$800,000—will receive half of their income from the government this year, though only a relatively small share of the farm population, just 25,000 of America's 2 million farmers, actually raise cotton.¹⁵

While subsidies will protect cotton growers in America from falling world prices, they will further depress prices by encouraging continued production, and thus cripple growers in Third World countries with no subsidies. U.S. farmers last year harvested a record crop of 9.74 billion pounds of cotton, aggravating a U.S. glut and pushing prices far below the break-even price of most growers around the world. This costs African countries \$250 million each year, according to a World Bank study published last February. The report estimates that the removal of U.S. subsidies would produce a drop in U.S. production that would lead to a short-term rise in the world price of cotton and in turn would increase revenue to west and central African countries by about \$250 million.¹⁶

These skewed economics are evident in the gap between cotton growers in the



Many American cotton growers will get half their income from the government this year.

U.S.'s Mississippi Delta and in Africa's Niger Delta. America is the world's largest exporter of cotton—even though it is an inefficient and high-cost producer—and West Africa is the third largest, with both subject to market forces that have slashed prices by 66 percent since 1995, to 35 to 40 cents a pound. Armed with roughly \$3.4 billion in subsidy checks that make up for any shortfall in the market, U.S. farmers reap about 70 to 75 cents a pound for cotton. The new farm bill will increase the amount of money a U.S. cotton farmer can count on making this year by at least 16 percent. At the same time, in Mali, where cotton makes up nearly half the nation's export revenue, the government is telling cotton farmers they will be getting about 10 percent less this year.

Even the World Bank President, James Wolfensohn, acknowledges that “these subsidies are crippling Africa's chance to export its way out of poverty.”¹⁷ Mark Malloch Brown, the head of the United Nations Development Program, estimates that U.S. farm subsidies cost poor countries about \$50 billion a year in lost agricultural exports. By coincidence, that's about the same as the total of rich countries' aid to poor countries.

Free Trade Takes a Pounding

For decades, the United States has been the champion of free trade, pushing others to open their markets for manufactured goods and to stop subsidizing their farmers. Back in the 1990s, the U.S. pushed hard for reduced agricultural sub-

sidies in the Uruguay Round of the World Trade Agreement. In September 2001, the U.S. backed a call issued by the Cairns Group, comprising 18 agricultural countries, for reform of the international trade system and elimination of all forms of trade-distorting subsidies. At the WTO ministerial in the Qatari capital of Doha in November 2001, the U.S. renewed its antisubsidy commitment. Only six months later, the U.S. has lavished an 80 percent aid increase on its own farm sector, making even the Europeans blush.

President Bush and Secretary of Agriculture Ann Veneman claim that the new bill does not violate U.S. commitments under the WTO. The new farm bill tries to make it appear that the boost to farm support is technically within the limits set by the WTO Agreement on Agriculture (AOA) by asking the USDA to keep the subsidies within the limit of \$19.1 billion set in the AOA for the U.S. schedule of payments. The bill also increases by 80 percent support to farmers via so-called soil conservation programs that will benefit livestock and fruit and vegetable farms, which fall under the “green box” type of nonactionable subsidies in the AOA. But the U.S. Nobel Prize winner in Economics, Joseph Stiglitz, describes the new bill as “the perfect illustration of the Bush administration's hypocrisy on trade liberalization.”¹⁸

The “peace clause” of the AOA (Article 13) provides that during the implementation period of the AOA, which lasts until the end of 2003, support and subsidies that don't conform to the provisions of

the AOA may be challenged for violations of the WTO Agreement on Subsidies and Countervailing Measures. Theoretically, this provision could be used by other countries in raising a dispute against the United States at the WTO. In such a dispute process, the complainant would have to establish the case that U.S. spending has exceeded the 1992 level. However, WTO members were never required to report the levels of support they provided in 1992, and industrialized countries like the E.U. and the U.S. have not provided these figures. So the provision whereby other countries could pursue a WTO dispute with the U.S. is potentially toothless.

These double standards in the administration that professes allegiance to market economics and fiscal probity have unleashed a wave of indignation among countries whose development prospects largely depend on farm exports. These countries are appealing to the WTO for sanctions, threatening retaliation, and charging the U.S. with hypocrisy in taking a protectionist turn even as it urges other nations to open up further. The U.S. Trade Representative, Robert Zoellick, has acknowledged that “we deserve the criticism we have received.”¹⁹

With the passage of the U.S. bill, the European Union, which spends more of its budget on its farm programs than on any other single program, is no longer the stand-out sinner. The Japanese, too, have reason to feel relieved. (Forty percent of European farm income comes from subsidies, as does 63 percent of Japanese farm income.)²⁰ However, the bill has infuriated America's trading partners. Canada is concentrating on fighting the U.S. farm bill at the WTO and through the North American Free Trade Agreement (NAFTA). Saskatchewan Premier Lorne Calvert has warned that if the Canadian federal government doesn't take serious action on the U.S. bill now, Canada's farm economy will deteriorate to the point where the country may no longer be able to feed itself.²¹ Franz Fischler, the European Union's Commissioner for Agriculture, Rural Development, and Fisheries has said, “this legislation marks a blow for the credibility of U.S. policy in the WTO where the U.S. has presented a trade-oriented agenda wholly inconsistent with

the new bill. We cannot negotiate on the basis of 'do as I say, not as I do.'"²²

The Europeans are not alone in their criticism. Developing countries are up in arms as well. President Museveni of Uganda, speaking at the U.S. Chamber of Commerce in Washington, charged that government subsidies of farmers in rich countries contradict the Bush administration's own policy of "trade, not aid" by shutting out the products of poorer nations. South Africa, which has routinely obeyed the liberalizing edicts of the World Bank and the IMF and has removed state support for agriculture, is likely to join the European Union and other countries in objecting to the U.S. action.

The Brazilian Foreign Minister Celso Lafer has threatened that Brazil will not hesitate to use all possible options of commercial defense to nullify the harmful effects of subsidized products and that it will file a complaint against the farm bill in the WTO, due to the harm the bill will inflict on Brazil's exports, especially soybeans. Brazil estimates it will lose \$9.6 billion over the next four years as the new law drastically boosts U.S. exports, leading to the loss of market share for Brazil while driving down commodity prices. Argentina has joined forces with Brazil to seek the creation by the WTO Dispute Settlement Body of a panel to determine the legality of the bill under the rules of the multilateral trade system.²³ Chinese officials too have threatened retaliation.

The Cairns Group has declared that the bill is damaging to the international economy. Uruguay is analyzing the effects of the bill on its farm exports, while Caribbean governments are also examining the bill's effect on regional economies, especially its impact on Caribbean rice and sugar exports. In short, the bill throws a monkey wrench into the U.S. trade works and has instead started trade wars.

But Free Trade Is Not the Answer

One of the great myths perpetuated by the U.S. and E.U. governments for the past few decades is that free trade helps farmers and the poor. It does not! Attempts to leave farmers at the mercy of the free market only hasten their demise.

The focus on export crops for trade has meant increasing yields, with farmers pouring on pesticides, herbicides, and fertilizers. Many have stopped rotating their crops, instead devoting every acre to corn, wheat, or some other commodity crop and creating vast monocultures that require still more chemicals to be sustained. This has destroyed our biodiversity. Vast industrial farms require costly equipment for planting and harvesting, increasing the capital intensity of agriculture. As costs rise, prices fall in markets flush with surplus. As prices fall, farmers need subsidies, which are available to big growers and agribusiness only. Land values and cash rents increase. This encourages heavy borrowing. Rich landowners get richer and young farmers cannot afford to get started. An agricultural bubble economy is created. Inevitably it crashes as subsidies fail to keep pace with falling crop prices. Farms go bankrupt. Free trade in agriculture starves our farmers.

Who will pay the farm bill when it comes due? American taxpayers have some surprises coming. But the ultimate cost of the bill will be the tragic demise of small family farms around the world.

An Opportunity for Change

The 2002 bill provides international civil society with a new opportunity to demolish the hypocritical "development agenda" myth of free trade. The bill should galvanize civil society to take up the call of Via Campesina, an international farmers movement that has denounced the liberalization of farm products promoted by the WTO as well as the dumping policies of the large export countries on Third World countries. Instead of trade, the small farmers movement prioritizes healthy, good quality, and culturally appropriate subsistence production for the domestic market and for the subregional or regional markets. These farmers' priority is to produce for their families and communities, then to seek access to the domestic market before seeking to export.²⁴



Photo: Seth Rick

The WTO's rules on trade in agriculture don't help small and family farmers in any country.

Agriculture and food are fundamental to the well-being of all people, both in terms of access to safe and nutritious food and as foundations of healthy communities, cultures, and environment. All of these have been undermined by dependence on the vagaries of the free market promoted by the World Bank, the IMF, and the WTO. Instead of ensuring the right to food for all, these institutions have created a system that prioritizes export-oriented production and has increased global hunger and poverty while alienating millions from productive assets and resources such as land, water, and seeds. The "world market" of agricultural products simply does not exist. What exists is an international trade of surpluses of grain, cereals, and meat dumped primarily by the E.U., the U.S., and other members of the Cairns Group. Behind the faces of trade negotiators are powerful transnational corporations such as Cargill and Monsanto, which are the real beneficiaries of domestic subsidies and international trade agreements. Fundamental change to this repressive trade regime is essential.

The farm bill may be a done deal, but we should use it to challenge the free trade regime and to renew our call for the WTO to get out of agriculture. Governments have to uphold the rights of all people to food sovereignty. It is time that we insist on trade policies out of Washington based on sound policy and reason, rather than on the supposed necessity of maintaining political and market dominance.

Negotiations on agriculture are happening now for the next WTO Ministerial, in September 2003. Contact Food First to join us in the struggle to keep agriculture out of the harmful trade regime.

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