

# CRS Report for Congress

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## The 2002 Farm Law at a Glance

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### Summary

On May 13, 2002, President Bush signed the Farm Security and Rural Investment Act (FSRIA) of 2002 into law (P.L. 107-171). FSRIA is the latest in a long line of omnibus, multi-year farm bills. It is intended to guide, for the next 6 years through 2007, the operation of commodity price and income support, conservation, agricultural trade and foreign food aid, domestic nutrition (primarily food stamps), farm credit, rural development, agricultural research and extension, and several other farm and rural-related policies and programs. The 2002 law is the successor to the last omnibus measure, the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127). This report, to be updated if events warrant, provides selected highlights.<sup>1</sup>

### Commodity Programs (Title I)

**Wheat, Feed Grains, Cotton, Rice, Oilseeds.** *Fixed, decoupled payments* again are available to eligible producers for wheat, corn, barley, grain sorghum, oats, upland cotton, and rice – and newly available for soybeans, and other oilseeds. New *counter-cyclical deficiency payments* will make up the difference between a crop's average market price plus the fixed decoupled payment, and its "target price," which is pegged to each unit (e.g., bushel, pound) produced. Both payments are based on 85% of past production history. *Marketing assistance loans and loan deficiency payments (LDPs)* continue, generally at higher rates than before. Beginning in 2003, *annual payment limits* are \$40,000 for fixed payments; plus \$65,000 for counter-cyclical payments; plus \$75,000 for marketing loan gains (gains from USDA-issued commodity certificates are not counted). "Three-entity" and spousal rules are retained, effectively doubling these caps. (Other caps may apply to separate programs described below.)

**Peanuts.** The program is revamped to operate like that for grains and cotton. Poundage quotas are ended; quota holder compensation is set at \$220/ton/year for 5 years. New direct, decoupled fixed annual payments are \$36 per ton, and new counter-cyclical

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<sup>1</sup> CRS Report RL31195, *The 2002 Farm Bill: Overview and Status*, contains program details.

payments are based on target prices of \$495/ton for 1998-2001 producers. The nonrecourse marketing loan rate for all peanuts produced is \$355/ton.

**Sugar.** Import quotas and loans continue to support prices at 18¢/lb.(raw cane) and 22.9¢/lb. (refined beet). The no-net cost rule is re-established; marketing assessments and loan forfeiture penalties are both eliminated. Marketing allotments, to avoid loan forfeitures, are authorized, as is acreage reduction in exchange for Commodity Credit Corporation (CCC)-owned sugar.

**Dairy.** Price support through commodity purchases is continued at the current level of \$9.90/cwt. (100 lbs.) through 2007. A 3½-year National Dairy Program will provide payments equal to 45% of the difference between \$16.94 and the Boston Class I (fluid use) price, whenever that price is lower than \$16.94; each farmer’s payments are limited to 2.4 million lbs. of annual production (approximately a 120-140-cow herd).

**Other Commodities.** Marketing loans and LDPs are provided for *wool, mohair, honey, dry peas, lentils, and small chickpeas*. The law requires \$200 million annually to be spent on Section 32-funded purchases of *fruits, vegetables, and other specialty crops*.

**Selected Loan Rates, Fixed Payment Rates, and Target Prices, P.L. 107-171**

Crop	Loan Rates	Fixed Payments	Counter-Cyclical Target Prices
	(2002/03, 2004/07) *	2002-2007	(2002/03, 2004/07) *
Wheat, \$/bu	2.80, 2.75	0.52	3.86, 3.92
Corn, \$/bu	1.98, 1.95	0.28	2.60, 2.63
Cotton, \$/lb	0.52, 0.52	0.0667	0.724, 0.724
Rice, \$/cwt	6.50, 6.50	2.35	10.50, 10.50
Soybean, \$/bu	5.00, 5.00	0.44	5.80, 5.80

\* Reflects rates that change in some years.

The commodity title contains a “*circuit breaker*” provision requiring the Secretary of Agriculture to ensure that trade-distorting domestic farm subsidies do not exceed the annual limits (\$19.1 billion) agreed to under the multilateral 1994 trade agreements.

**Conservation (Title II)**

The new law increases the acreage cap for the *conservation reserve program* from 36.4 million, to 39.2 million, acres, of which up to 1 million acres can be used for the farmable wetland program in all states. It increases the acreage cap for the reauthorized *wetlands reserve program* from 1.075 million, to 2.275 million, acres; 250,000 acres can be enrolled annually. The law gradually increases the *environmental quality incentives program* to reach a \$1.3 billion annual funding level through by FY2007, with funding split at 60% for livestock and 40% for crops. Also reauthorized are the *wildlife habitat incentives program*, with annual funding gradually increased to \$85 million; and the *farmland protection program*, with annual funding gradually increased to \$125 million.

The law creates a new 2 million acre *grasslands reserve program*, with CCC funds of up to \$254 million over FY2003-07, and a new *conservation security program* providing incentive payments to farmers who adopt and maintain specified conservation practices on working lands, at an estimated cost of \$187 million over FY2003-07. It provides \$275 million over 6 years to *rehabilitate small, aging watershed* impoundments.

## Trade (Title III)

The new farm bill reauthorizes the *market access program* through FY2007, gradually increasing annual funding to \$200 million by FY2006, and the *foreign market development cooperator program*, at \$34.5 million annually. The law reauthorizes, at current levels, the *export enhancement program*, (and, in the commodity title, Title I) the *dairy export incentive program*. It continues, also at current levels, *CCC export credit guarantees* (the so-called GSM programs).

The measure reauthorizes P.L. 480 (the *Food for Peace* program). It eliminates the annual \$1 billion cap on Title II spending (commodity donations for humanitarian and development activities), and increases the minimum level of Title II commodities to 2.5 million metric tons per year, among other program changes. *Food for Progress* is reauthorized with increased funding caps, and minimum annual quantity at 400,000 metric tons. The law authorizes the President to establish the “McGovern-Dole *International Food for Education and Child Nutrition Program*” providing U.S. agricultural commodities and financial and technical assistance for foreign preschool and school feeding programs and for pregnant and nursing women and young children, with funding mandated at \$100 million in FY2003 and subject to appropriation in FY2004-2007. Other reauthorized programs include the *Bill Emerson Humanitarian Trust*, the *emerging markets*, and *farmer-to-farmer* programs..

Under Title X, retailers, in 2 years, must provide *country-of-origin* information for meats, fruits, vegetables, seafood, and peanuts; the program is voluntary until then.

## Nutrition Programs (Title IV)

The law reauthorizes the *food stamp* program through FY2007, also making such changes as: expanded eligibility for noncitizens; increased benefits for larger households; extensive state options to conform food stamp rules to other aid programs, simplify program operations, and enhance client access; “transitional” benefits for those leaving cash welfare; and new systems for state “quality control” with eased penalties and bonuses for high performance. It reauthorizes *the emergency food assistance program*, *nutrition assistance for Puerto Rico and American Samoa*, the *commodity supplemental food program*, and *nutrition assistance on reservations*, adding funding for some of them.

## Credit (Title V)

The law establishes *authorized funding levels for USDA farm credit programs* (authorized by the Consolidated Farm and Rural Development Act) for FY2003-07. Provisions aim to *improve access to such loans, particularly for beginning farmers and ranchers*. For example, the law will provide for 2 additional years of eligibility for loans once a borrower has reached the current maximum years of eligibility; and new loans for

borrowers with one-time debt forgiveness if delinquency was caused by a natural disaster. Several changes also are made in the privately owned and operated *Farm Credit System*.

## Rural Development (Title VI)

The farm bill provides *\$870 million in mandatory authorizations*, (total, FY2002-07), for a number of new rural development programs. Other authorized programs and initiatives are subject to annual discretionary appropriations. Among the rural development initiatives are *value-added agricultural market development grants*, *rural broadcast and broadband services*, rural and regional *planning*, funding for *backlogged water and sewer applications*, the *Rural Business Investment Program*, and *Rural Strategic Investment Program*. The 1996 farm bill had created the Fund for Rural America, which the new law does not continue, and the *Rural Community Advancement Program* (RCAP), which it does reauthorize (except, the National Reserve Account and the Rural Venture Capital Demonstration Program are eliminated).

## Research and Related Matters (Title VII)

P.L. 107-171 *reauthorizes university research and state cooperative extension programs* at such sums as necessary through FY2007. It reauthorizes the *Initiative for Future Agriculture and Food Systems* (a competitive grants program on critical emerging issues and high-priority research), gradually increasing annual funding authorizations to \$200 million annually by FY2006. The law authorizes such sums as necessary for a competitive grants program to construct and upgrade security at public university facilities conducting *counter-terrorism research*, and for research and extension to improve *bio-terrorism prevention, preparedness, and response*. Funding is increased for research programs at the *1890 colleges*, among other research program changes.

## Forestry (Title VIII)

A new *Forest Land Enhancement Program* provides \$100 million (total) to assist private forest landowners to adopt sustainable forest management practices. A new program to help local governments fight wildfires is among other provisions in the title.

## Energy (Title IX)

A new energy title extends, with mandatory funding, the *CCC bioenergy* program; establishes new programs for *federal purchases of bio-based products and education on biodiesel fuel benefits*; establishes new and expanded loan and grant programs to assist farmers in purchasing *renewable energy* systems and improving energy efficiency; and reauthorizes and funds the *Biomass Research and Development Act* through FY2007.

## Miscellaneous (Title X)

The miscellaneous title of the bill covers a wide range of programs and issues. For example, it: overhauls virtually all *animal health protection laws* administered by USDA's Animal and Plant Health Inspection Service; creates a *national organic certification* cost-share program and new *farmers market promotion* program; increases the annual authorization of appropriations for *outreach for socially disadvantaged*

*farmers*, from \$10 million to \$25 million; establishes a *new USDA Assistant Secretary for Civil Rights*; makes it illegal under certain instances to transport *animals for fighting*; exempts research rats, birds, and mice from the *Animal Welfare Act*; provides \$94 million in 2000 crop market loss *assistance for apple growers*; creates a *biotechnology education* program; and addresses several “*agricultural competition*” issues by extending to contract hog producers the same statutory protections provided through USDA to livestock sellers and poultry growers and by clarifying that animal producers with contracts can discuss their terms with advisors and with government agencies.

### Six-Year Cost Estimates (2002-20007)

	Budget Authority in Million Dollars, March 2002 Baseline		
	Baseline	New Spending	Total Projected Spending
Commodity Support	61,337	37,587	98,924
Conservation	12,075	9,198	21,273
Trade	1,572	532	2,104
Nutrition (a)	146,820	2,793	149,613
Rural Development	160	870	1,030
Research	240	520	760
Forestry	0	85	85
Energy	0	405	405
Other Provisions (b)	0	(303)	(303)
<b>Total, 6 years</b>	<b>222,204</b>	<b>51,687</b>	<b>273,891</b>

*Source: CRS compilation of Congressional Budget Office data. For more discussion, see What Is the Cost of the 2002 Farm Bill? in the CRS Agriculture Policy and Farm Bill Briefing Book.*

(a) Farm bill changes to nutrition spending include changes to food stamps, the emergency food assistance program, and child nutrition programs, as well as new spending for demonstration programs. Child nutrition programs are not included in baseline, since their reauthorization is not addressed by the farm bill.

(b) “Other Provisions” in the farm bill primarily consist of savings associated with the federal crop insurance program. However, crop insurance is not included in the baseline, since the reauthorization of the program is not part of the farm bill.

### For More Information

- More extensive materials, including links to other sites and resources, can be found in the CRS Electronic Briefing Book on *Agriculture Policy and the Farm Bill*.
- USDA has an extensive website on the new farm bill, including its own side-by-side comparison of previous and new law.
- The text and summary of the new farm bill are posted on the websites of the House Agriculture Committee and Senate Agriculture Committee.

## Selected Talking Points

Following are some of the arguments offered in debate over the final new measure. CRS takes no position on these or any other views. **The new farm bill:**

### (PRO)

*Will address continuing economic problems* including lowest real net farm cash income since 1930s and 5<sup>th</sup> straight year of low prices; without it, farm income and land values will plunge.

*Maintains market orientation* by giving farmers flexibility to plant crops based on market signals, unbound by most government-imposed supply controls or supply management; market prices and production will be minimally impacted.

*Is balanced regionally*, helping both southern and northern tier crops, and spreading dairy benefits nationwide.

*Fully complies with the FY2002 budget resolution* permitting the expenditure of another \$73.5 billion in direct spending over 10 years (above April 2001 baseline). It provides no more in subsidies than under the 1996 farm law as supplemented by subsequent emergency farm aid.

*Complies with trade obligations.* A new “circuit breaker” requires cuts in trade-distorting subsidies so that their annual \$19.1 billion limit is not breached. It also places the U.S. in a stronger position to negotiate new agricultural trade reforms: the U.S. will not unilaterally cut its own support until others do so – whether they are domestic supports, or import barriers (foreign agricultural tariffs average 62% compared to 12% for the U.S.).

*Is the largest investment in conservation* in recent farm bill history – a new \$17.1 billion, 80% over baseline.

*Will help stimulate rural economies* by spreading farm payments through rural economies but also by adding \$870 million for innovative rural development.

### (CON)

*Will worsen farmers’ economic situation* by inflating land values (especially for the 42% of farmers who rent land), and stimulating overproduction, causing farm prices and incomes to decline further.

*Maintains outmoded commodity-oriented policies*, where major subsidies are tied to prices of just a few major row crops. This, plus target prices and loan rates well above market prices will continue to distort production and prices.

*Provides the largest benefits to just a handful of farm belt states*; 75% of all payments will go to just 13 states.

*Was enacted as a newer baseline shows the U.S. budget deficit worsening.* New, lower commodity price forecasts also mean this bill will cost much more than \$73.5 billion, which could make it the most expensive farm bill in history at a time of other more pressing national priorities.

*Has features that will be viewed by other countries as violating U.S. obligations.* The limit likely will be breached, and the “circuit breaker” will be administratively and politically infeasible to employ. It undermines U.S. negotiating credibility, including the U.S. stated position that subsidies should be reduced worldwide. Many countries sharply criticize the new U.S. law, and are considering increases in their own subsidies and import barriers.

*Spends four times as much money on commodity price support* as on conservation.

*Will help few rural areas.* Only a small portion of rural counties have agricultural bases, and in those, farm benefits do not generate good jobs and long-term growth.