

Report for Congress

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The 2002 Farm Bill: Overview and Status

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Summary

Note: The online CRS Agriculture Policy and Farm Bill Briefing Book covers many aspects of the farm bill, and includes a summary of selected provisions.

Federal farm support, nutrition, agricultural trade and food aid, conservation, credit, marketing, rural development, agricultural research, and related policies are governed by a variety of separate laws. Although these laws may be considered and as free-standing legislation, many of them are evaluated periodically, revised, and renewed through an omnibus, multi-year farm bill. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127) was the last omnibus farm bill, and many of its provisions were due to expire in 2002.

On May 2, 2002, the House voted, 280 to 141, to approve the conference report on a 6-year omnibus farm bill (H.R. 2646; H.Rept. 107-424). The Senate approved the conference report on May 8, and the President signed the bill into law (P.L. 107-171) on May 13, 2002.

The final version continues marketing loans and fixed payments, and creates new counter-cyclical assistance tied to target prices (similar in some ways to a guaranteed per-bushel pricing system eliminated in 1996) for grains, cotton, and oilseeds, with continued planting flexibility and no supply controls. The bill extends, with modifications, dairy and sugar support (the bill creates new counter-cyclical payments for dairy), and it overhauls the peanut program by replacing quotas with a support program like that for other major crops. The final bill also contains titles to expand conservation program funding; reauthorize agricultural export and food aid programs; and amend and extend research, nutrition (food stamps), credit, and rural development activities, among others.

Total direct (mandatory budget authority) spending in the bill is \$273.9 billion over 6 years (FY2002-2007), according to Congressional Budget Office (CBO) estimates (March 2002 baseline). Of this total, \$51.7 billion is new spending (above the March 2002 baseline). Of the new spending, \$37.6 billion is for commodity programs; \$9.2 billion is for conservation. Total direct spending (baseline plus new) for food stamps and other nutrition title programs is \$149.6 billion over 6 years – \$2.8 billion above baseline.

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The 2002 Farm Bill: Overview and Status

Most Recent Developments

On May 13, 2002, President Bush signed into law a new 6-year omnibus farm bill (H.R. 2646; P.L. 107-171). The House had voted, 280 to 141, to approve the conference report (H.Rept. 107-424) on May 2, 2002, and the Senate approved the conference report on May 8, 2002, by a vote of 64 to 35. The U.S. Department of Agriculture (USDA) is now working to begin implementation of the provisions, most of which take effect this year.

The Senate had approved its version of an omnibus 5-year (2002-2006) farm bill (reported as S. 1731 and passed as H.R. 2646) on February 13, 2002, by a vote of 58 to 40. The full House, on October 5, 2001, had approved (by a vote of 291-120) its new 10-year omnibus farm bill (H.R. 2646). The bill would have extended major farm, food, and related programs through 2011.

(See also The 2002 Farm Bill: Selected Highlights in the CRS Agriculture Policy and Farm Bill Briefing Book, and farm bill information, including the final language and statement of managers, posted on the House Agriculture Committee and Senate Agriculture Committee websites. USDA also has an extensive website on the new farm bill, including its own side-by-side comparison of previous and new law.)

Overview

Federal farm support, food assistance, agricultural trade, marketing, and related policies are governed by a variety of separate laws. Although these laws may be considered and passed as free-standing legislation, many of them are evaluated periodically, revised, and renewed through an omnibus, multi-year farm bill. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127) was the most recent omnibus farm bill, and many of its provisions were set to expire in 2002.

The heart of every omnibus farm bill is farm income and commodity price support policy – namely the methods and levels of support that the federal government provides to agricultural producers. However, farm bills also typically include titles on agricultural trade and foreign food aid, conservation and environment, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and other programs.

Budgetary and Trade Constraints

Budget. Like most legislation, the farm bill is considered within federal budget constraints. The May 2001 congressional budget resolution (H.Con.Res. 83) reserved, for FY2002-2011, an extra \$73.5 billion in direct spending to accommodate the cost of legislative changes in farm and related programs. This allowance is over and above the projected Congressional Budget Office (CBO) baseline (April 2001) for such programs for the same 10-year period. Congress used the April 2001 budget baseline to score the bill, and CBO's "official" scoring concluded that it would not exceed the May 2001 congressional budget resolution allowance.

As the bill progressed through Congress, subsequent re-estimates of the federal budget baseline showed fading budget surpluses in general, and higher than previously-estimated costs for some farm programs in the new bill (e.g., more recent projections suggest that some farm prices will be lower than had been projected in April 2001). These new estimates created some uncertainty regarding available budgetary resources, and whether enough lawmakers would continue to support the new spending approved a year earlier. Ultimately, they did.

Tables 1 and 2, below, show respectively, CBO-estimated costs over 6 years (the term of the new law), and over 10 years. "Baseline" means a continuation of current law, unchanged; "new spending" is how much costs might increase under the new law.

Both the April 2001 and March 2002 baseline estimates are shown.

**Table 1. 2002 Farm Bill, 6-Year Cost Estimates
Budget Authority**
(in million \$)

	April 2001 Baseline			March 2002 Baseline		
	Baseline	New Spending	Total Projected Spending	Baseline	New Spending	Total Projected Spending
Commodity Support	55,534	31,169	86,703	61,337	37,587	98,924
Conservation	11,583	9,198	20,781	12,075	9,198	21,273
Trade	1,566	532	2,098	1,572	532	2,104
Nutrition (1)	134,556	2,657	137,213	146,820	2,793	149,613
Rural Development	0	870	870	160	870	1,030
Research	240	520	760	240	520	760
Forestry	0	85	85	0	85	85
Energy	0	366	366	0	405	405
Other Provisions (2)	0	(336)	(336)	0	(303)	(303)
Total, 6-year spending	203,479	45,061	248,540	222,204	51,687	273,891

**Table 2. 2002 Farm Bill, 10-Year Cost Estimates
Budget Authority**
(in million \$)

	April 2001 Baseline			March 2002 Baseline		
	Baseline	New Spending	Total Projected Spending	Baseline	New Spending	Total Projected Spending
Commodity Support	77,045	47,771	124,816	85,365	56,714	142,079
Conservation	21,412	17,079	38,491	22,089	17,079	39,168
Trade	2,610	1,144	3,754	2,640	1,144	3,784
Nutrition (1)	239,436	6,400	245,836	257,966	6,625	264,591
Rural Development	0	870	870	160	870	1,030
Research	240	1,323	1,563	240	1,323	1,563
Forestry	0	100	100	0	100	100
Energy	0	405	405	0	405	405
Other Provisions (2)	0	(1,594)	(1,594)	0	(1,441)	(1,441)
Total, 10-year spending	340,743	73,497	414,241	368,460	82,819	451,279

Source: CRS compilation of Congressional Budget Office data.

(1) 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.

(2) "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 see *What Is the Cost of the 2002 Farm Bill?* in the CRS Agriculture Policy and Farm Bill Briefing Book.)

Trade. The multilateral Uruguay Round Agreement on Agriculture (URAA) posed another potential constraint on legislators. The URAA limits the United States to providing no more than \$19.1 billion per year worth of domestic farm supports most likely to distort production and trade (these are so-called "amber box" programs). The agreement spells out rules for determining whether a policy is market distorting or whether it is exempt from the annual subsidy calculation. According to USDA's Economic Research Service (ERS):

The U.S. has so far met commitments under the URAA, but surges in direct payments to producers after 1997 in response to low market prices have raised concerns that domestic subsidy levels might eventually exceed the ceiling on domestic supports established under the URAA. U.S. support is expected to

remain below its ceiling under current farm programs, but increases in support under new programs could cause a compliance problem with the URAA commitments...[and] could hamper efforts in the new multilateral trade talks to accomplish U.S. goals for liberalizing international trade and getting other countries to reduce domestic support to their agriculture sectors and increase market access.¹

The bill continues a system of direct payments not tied to current production or prices of specific commodities, which, proponents believe, will not have to be counted as trade distorting and therefore are not subject to URAA farm subsidy limits. They also believe that the bill's conservation-related programs are among those that are exempt from the limits. However, the bill continues crop marketing loan benefits and the dairy price support program, which already have been classified as trade-distorting (and thus are counted toward URAA annual limits).

Further, the bill creates a new "countercyclical" program that also is likely to be subjected to such limits. And, farmers who receive direct payments will be permitted to update their historical production bases on which such payments are tied. (See "Farm Income and Commodity Price Support" later in this report for an explanation of these programs.) Whether these and other types of subsidies in the bill ultimately result in future URAA compliance problems and/or challenges by foreign trading partners remains to be seen.

The bill does contain a provision requiring the Secretary of Agriculture to attempt to keep farm program benefits within the annual URAA limit. Critics have questioned the feasibility of implementing this so-called "circuit breaker." Besides the political difficulties of proposing farm program cutbacks, USDA would face administrative problems.

If such calculations were made in advance and USDA found that farm support might exceed the allowable \$19.1 billion, would the Secretary have to withhold from farmers some or all of the year's expected subsidy? Which commodities and/or supports would be affected – some of them, or would she make an across-the-board reduction? What if USDA wrongly predicted that spending would not exceed the \$19.1 billion, but it ultimately did? Defenders of the provision counter that the provision would not be as complicated as critics contend, suggesting that relatively modest adjustments in programs and payment levels could be made easily on an as-needed basis. (See *Farm Support Programs and World Trade Commitments*, CRS Report RL30612.)

Meanwhile, the United States is involved in a new round of multilateral trade negotiations under the aegis of the World Trade Organization (WTO). Critics contend that the scope and level of subsidies in the new farm law, and their potential to perpetuate market distortions, undermine the U.S. argument in the new trade round that the world's agricultural subsidies should be further disciplined. Many foreign officials, and some U.S. analysts, have pointedly noted that the new U.S. farm policy raises questions about the sincerity of the U.S. negotiating position. The law will

¹ USDA, Economic Research Service. "Aligning U.S. Farm Policy With World Trade Commitments," *Agricultural Outlook*, January-February 2002, p. 12.

encourage other countries to increase their domestic subsidies and/or import barriers to protect their own farmers, critics add, many of whom are characterizing U.S. farm policy as highly protectionist and destructive to farmers worldwide, particularly in developing nations.

Defenders of the bill counter that the United States cannot unilaterally back away from supporting its farmers before the European Union (EU) and other competitors agree to do likewise. In the United States, agricultural interests have long complained that the EU and Japan are permitted, under the URAA, to spend much more on domestic farm support. The Japanese annual allowable level is approximately twice the U.S. level, at \$37.1 billion versus \$19.1 billion. The EU's level is likely more than \$60 billion when converted from EU to U.S. currency, more than three times the U.S. level, they argue. Maintaining and even increasing U.S. subsidies (within allowable limits) provide U.S. negotiators with more leverage in the negotiations over foreign trade barriers and export subsidies as well as domestic price supports, defenders argue.

Administration Views

The Administration, by late 2001, was backing away from early criticism of the evolving farm bill, and was pledging its support for a "generous farm bill." On May 2, 2002, the President said he would sign the final bill, commenting:

I am pleased that the compromise agreement on the farm bill resulted in better balanced commodity loan rates; spending that is no longer front-loaded; and the strongest conservation provisions of any farm bill ever passed by Congress. The final provisions of the farm bill are also consistent with America's international trade obligations, which will strengthen our ability to open foreign markets for American farm products. While this compromise agreement did not satisfy all of my objectives, I am pleased that this farm bill provides a generous and reliable safety net for our Nation's farmers and ranchers and is consistent with the principles I outlined.

By May, the Administration had mounted a vigorous public defense of the new bill, particularly in response to widespread foreign criticism.

Such Administration support is a marked departure from its earlier criticisms. On October 3, 2001, as the House began to debate its bill, the White House Office of Management and Budget (OMB) issued a Statement of Administration Policy stating that it did not support H.R. 2646 because it would encourage overproduction of commodities, fail to help farmers most in need, jeopardize global markets, and boost federal spending at a time of economic uncertainty.

The OMB Statement of Administration Policy on the Senate bill, issued December 5, 2001, argues that S. 1731 would: stimulate overproduction (partly through higher crop loan rates); result in higher consumer milk prices; hurt U.S. farm trade by among other things risking U.S. ability to meet current trade obligations and undermining U.S. efforts to phase out worldwide export subsidies in the future; authorize ineffective conservation programs; poorly direct farm aid by increasing payments regardless of need; weaken accountability in domestic nutrition programs; and result in unknown budget costs.

Previously, on September 19, 2001, the Administration had released a 120-page report, *Food and Agricultural Policy: Taking Stock for the New Century*, which concludes, among other things, that farm policy should be tailored to reflect the wide differences among U.S. farms and farming practices. Current programs tend to tilt benefits most heavily toward highly efficient commercial farms (which enables them to expand operations and lower costs even more), with no direct relationship between benefits and a farm's financial need. Landowners, not necessarily farm operators, benefit the most through higher land values and higher farmland rental rates caused by current support programs, the report states. Farm policy must promote "more sustainable prosperity" for farmers, relying on the market and not government for long-term support, although government could provide aid for "unexpected events" beyond their control, according to the report.

The report also argues that trade policy not only must focus on more access to foreign markets, but also be supported by domestic policies that meet U.S. trade obligations and provide the latitude "to pursue ambitious goals in trade negotiations." The report suggests that future policy should shift emphasis from traditional commodity price supports toward the demand side of agriculture – focusing on marketing and consumption, particularly overseas. Conservation programs, food safety and affordability, nutrition, and rural development also are addressed.

Despite its periodic comments on farm policy in general and the farm bill in particular, the Administration was not viewed by most observers as a major influence in the legislative debate.

Selected Provisions

Farm Income and Commodity Price Support (Title I)²

The 1996 farm bill significantly revised federal farm commodity policy. (See CRS Report RS20848, *Farm Commodity Programs: A Short Primer*.) Title I, the Agricultural Market Transition Act (AMTA), replaced production-based deficiency payments (the difference between legislated target prices and lower market prices) for wheat, feed grains, upland cotton, and rice with fixed "production flexibility contract" (PFC) payments. These payments were made irrespective of market prices or current planting choices. AMTA authorized \$36 billion in PFC payments over the 7-year life of the law to producers with a participation history in the previous commodity programs. Previous annual supply controls, including crop-specific acreage bases and cropland set-asides, were ended by the 1996 law. (See CRS Report RS20271, *Grains, Cotton, and Oilseeds: Federal Commodity Support*.)

In addition, AMTA maintained the price guarantees of the marketing assistance loan program for contract commodities, soybeans and other oilseeds, and extra long

² Subject headings are not necessarily synonymous with the names of the Titles in the new law, but such Titles are where most of the provisions discussed generally are located. CRS contacts for Title I: Jasper Womach, 7-7237; Geoffrey S. Becker, 7-7287; Remy Jurenas, 7-7281 (sugar and peanuts); Ralph Chite, 7-7296 (dairy).

staple (ELS) cotton. This counter-cyclical program makes up the difference between low market prices and specified commodity nonrecourse loan rates with direct payments. CCC net outlays for marketing assistance loan gains and loan deficiency payments (LDPs) were \$6.4 billion in FY2000, an estimated \$5.6 billion in FY2001, and a projected \$4.9 billion in FY2002 according to USDA.

AMTA continued market price support programs for sugar and peanuts, which operate through CCC loans and import quotas. The 1996 law also scheduled the elimination of the longstanding dairy price support program, but Congress has since continued it. Permanent tobacco price support authority was not modified in 1996.

Persistently low commodity prices stimulated 4 years of large *ad hoc* emergency farm aid packages amounting to approximately \$23 billion in non-disaster related farm income assistance, over and above amounts already authorized by AMTA. About \$18 billion went to PFC contract holders. Much of the rest was for special subsidies for producers of soybeans, peanuts, tobacco, milk, honey, wool, and mohair. The most recent congressional “emergency” action was P.L. 107-25, which provided \$5.5 billion to be paid out in FY2001 as allowed for in the budget resolution (H.Con.Res. 83).

Most farm interests have supported a more certain method of funding future counter-cyclical income support than *ad hoc* laws. The options below, except as noted, mainly apply to policies for grains, cotton, and oilseeds.

PFC Payments. Most (although not all) producer groups support continuation of annual lump sum assistance like PFC payments. Some wanted PFC eligibility expanded to include soybeans, and possibly even such commodities as tobacco, peanuts, milk, wool, mohair, apples, cranberries, which all recently received direct payments under the emergency assistance laws. Critics contend that such payments are quickly capitalized into land prices and rents. The final bill continues direct payments that are similar in concept to PFC payments, and adds soybeans and other oilseeds as eligible crops.

Counter-Cyclical Assistance. There has been wide support for a new counter-cyclical assistance program that is more generous than now provided through marketing loans. Early proposals differed in detail but shared a common objective of providing more support when farm prices and/or incomes decline than provided under current law. The final conference bill contains new counter-cyclical assistance, tying such support to per-bushel or per-pound target prices for individual commodities – not revenue, income, or receipts. (See CRS Report RS20913, *Farm Counter-Cyclical Assistance*.)

Marketing Loan Assistance. There also has been wide support to continue marketing assistance loans (including loan deficiency payments, LDPs). However, several groups called for higher loan rates. The final bill continues marketing loan benefits for grains, cotton, oilseeds, wool, and honey; it also makes peas, lentils and chickpeas newly eligible. (See CRS Report 98-744, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments*.)

Supply Management. Most major agricultural groups opposed any restoration of production control or supply management tools. The final bill does not re-introduce these policy tools.

Price-Supported Commodities. Support programs for tobacco, peanuts, sugar, and milk maintain farm prices above what the market might otherwise dictate. Nonrecourse price support loans and marketing quotas apply to virtually all U.S. tobacco and to peanuts. Sugar utilizes nonrecourse loans and tariff rate quotas to support prices and limit the entry of less expensive imports. Milk price support is provided through: direct USDA purchases of dairy products at specified prices; milk marketing orders (which pool receipts and set classified prices for most fluid grade milk); and comparatively high duties on imported milk products.³ Critics, including the WTO, consider these subsidies to be highly production and trade distorting. Supporters contend that these programs are effective in maintaining farm incomes and low cost to taxpayers. The final bill continues the sugar and dairy programs, and alters the peanut program to function similarly to the grains and cotton programs. The bill also adds a new counter-cyclical direct payment for dairy producers.

Risk Management. Another proposed alternative would phase out all supports tied to the production of specified commodities and replace them with assistance designed to encourage producers to expand their use of various risk management tools. The subsidized federal crop insurance program is an existing risk management program. However, some argue for a broader approach that might include a combination of whole farm revenue insurance, income stabilization accounts, more use of futures markets, contracts with commodity buyers, and other options. A comprehensive bill introduced by Senator Lugar (S. 1571) embraced such an approach, but it was not adopted in the final bill.

Final Bill. Among the *grains, cotton, and oilseeds* provisions in the final version of H.R. 2646 are:

- Fixed, decoupled payments (like the current PFC contract payments) at rates shown in the Table 3;
- New counter-cyclical deficiency payments that make up the difference between a crop's average market price plus the fixed decoupled payment, and its "target price" (see table 3);
- Continuation of marketing assistance loans (and LDPs) generally at higher than current rates (see table). Fixed, decoupled payments and counter-cyclical payments would apply to 85% of each farm's AMTA base or updated acres, and AMTA crop yields;
- Fixed decoupled payments and counter-cyclical payments are calculated at 85% of each farm's base acres and crop yields as set in 1996 Act; producers can update bases. Those who update bases can also update yields for counter-cyclical payments;

³ Until October 1, 2001, when it expired, the Northeast Interstate Dairy Compact authorized producers there to receive higher prices than the national level. For an explanation, see CRS Issue Brief IB97011, *Dairy Policy Issues*.

- Continued flexibility to plant most crops (except fruits and vegetables) on base acres, and no USDA annual acreage control authority;
- Beginning with *2003 crops*, separate annual limits of \$40,000 for fixed payments; \$65,000 for counter-cyclical payments; \$75,000 for marketing loan gains (however, no limit on gains from generic commodity certificates when provided by USDA in lieu of cash). The so-called “three-entity” rule and husband wife rule were both retained, effectively doubling these dollar limits. Farm program participation is restricted to those with less than \$2.5 million per year in adjusted gross income (3-year average). (Peanuts have a separate payment limitation.)

A new *peanut* program is similar to other crop support, with fixed decoupled payments of \$36/ton, a target price of \$495/ton, and loan rate of \$355/ton; marketing quotas would be ended, with compensation of \$220/ton/year for 5 years (a total of \$1,100/ton) paid to quota holders for lost asset values. Also, *sugar* support at 18¢/lb. (raw cane) and 22.9¢/lb. (refined beet) continues, with the no-net-cost rule re-established, the marketing assessment eliminated, and the loan forfeiture penalty eliminated. Sales of domestic sugar will be subject to marketing allotments.

Dairy will continue to be supported through the dairy price support program at the current level of \$9.90 per hundredweight (cwt.), as proposed by both the House and the Senate, with the program scheduled to expire December 31, 2007. Farm milk prices are supported at this level through government purchases of surplus dairy products from dairy processors. Separately, conferees also adopted a counter-cyclical direct payment program for dairy farmers as proposed by the Senate, but with several modifications. Whenever the minimum monthly fluid milk price falls below \$16.94/cwt., all producers nationwide will receive a payment equal to 45% of the price shortfall. Producers will be allowed to receive a payment on up to 2.4 million pounds of their annual milk production. The counter-cyclical payment program expires on September 30, 2005. CBO estimates the cost of these payments at \$1.3 billion over the 3 ½ year life of the program.

Marketing loans and LDPs are provided for *graded wool*, *nongraded wool*, *mohair*, *honey*, *dry peas*, *lentils*, and *chickpeas* (see rates in table).

House-Senate Differences. The House bill put more of the support benefit into fixed, decoupled payments while the Senate bill put more benefits into loan deficiency payments. The fixed, decoupled payments are not tied to current production or prices and so are not considered to be potentially trade distorting (i.e., “amber box”). In contrast, higher loan rates generate increased benefits when market prices are low and so serve as counter-cyclical assistance – thereby likely to fall into the amber box. The cost of such varying payments also are difficult to predict in the future, making farm spending budget projections uncertain at best.

Another important difference was the Senate plan to limit support payments more strictly than the House version, to \$225,000 per individual (\$275,000 for a couple), including marketing loan benefits, fixed payments, counter-cyclical payments, plus gains from commodity certificates and forfeitures. The rules also

would have made it more difficult to reorganize operations in order to legally exceed this limit. (See Commodity Program Payment Limits Under the 2002 Farm Bill in the CRS Agriculture Policy and Farm Bill Briefing Book, and CRS Report RS21138, *Farm Commodity Payment Limits: Comparison of Proposals.*)

Table 3. Loan Rates, Fixed Payment Rates, and Target Prices

Crop	Loan Rates		Fixed Payment Rates		Counter-Cyclical Target Prices	
	Prior Law (2002 level)	2002 Law (2002/03, 2004/07) *	Prior Law (2002 level)	2002 Law	Prior Law (1995 level; NA 1996-2002)	2002 Law (2002/03, 2004/07) *
Wheat, \$/bu	2.58	2.80, 2.75	0.46	0.52	4.00	3.86, 3.92
Corn, \$/bu	1.89	1.98, 1.95	0.26	0.28	2.75	2.60, 2.63
Sorghum, \$/bu	1.71	1.98, 1.95	0.31	0.35	2.61	2.54, 2.57
Barley, \$/bu	1.65	1.88, 1.85	0.19	0.24	2.36	2.21, 2.24
Oats, \$/bu	1.21	1.35, 1.33	0.021	0.024	1.45	1.40, 1.44
Cotton, \$/lb	0.5192	0.52, 0.52	0.0554	0.0667	0.729	0.724, 0.724
Rice, \$/cwt	6.50	6.50, 6.50	2.050	2.35	10.71	10.50, 10.50
Soybeans, \$/bu	5.26	5.00, 5.00	NA	0.44	None	5.80, 5.80
Oilseeds, minor, \$/lb	0.093	0.096, 0.093	NA	0.008	None	0.098, 0.101

* Reflects rates that change in some years. NA=not applicable.

(See: CRS Report RL31251, *Commodity Support Provisions: Comparison of Current Law with House and Senate Farm Bills*; CRS Issue Brief IB97011, *Dairy Policy Issues*; CRS Issue Brief IB95117, *Sugar Policy Issues*; CRS Report RL30924, *Peanut Program Policy Issues*; CRS Report RS20896, *Farm Commodity Programs: Wool and Mohair*; CRS Report RS20759, *Farm Commodity Programs: Honey*; and separate entries in the Agriculture Policy and Farm Bill Briefing Book on Farm Income and Commodity Price Support Programs; Grains, Cotton, and Oilseeds: Farm Bill Policy; Sugar Program; the Dairy Price Support Program; Dairy Farmer Counter-Cyclical Assistance; and the Peanut Program.)

Conservation and Environment (Title II)⁴

The conservation title both amends existing programs and adds new ones to protect or restore agricultural lands and provide resource and environmental benefits to society. USDA agencies implement current conservation policies through a combination of cost sharing payments and technical assistance, backed by education and research for numerous land retirement and working land programs. Participation in these programs is voluntary.

Starting with the omnibus farm bill in 1985, Congress expanded the conservation mission significantly beyond its traditional focus on controlling soil erosion and providing water to enhance production. The goals now include wetlands protection, wildlife habitat protection and development, and air and water quality improvement, among others. Since the 1996 farm bill was enacted, new issues have emerged, including sequestering carbon and addressing global climate change, producing energy from biomass, protecting and restoring grasslands, reducing non-point water pollution caused by very large animal feeding operations, and addressing other “off-farm” environmental impacts.

Over the years, Congress has added new conservation tools, including controls over environmentally fragile lands and wetlands for producers who want to receive federal farm benefits, and easements to protect resource values while keeping the land under the control of the farmer. The expanded conservation effort is reflected in funding levels. Conservation activities at USDA received just over \$1 billion in FY1985; they now receive more than \$3 billion annually. However, most of this growth has been for land retirement and easements (e.g., the Conservation Reserve and Wetlands Reserve Programs, CRP and WRP), while the other activities have grown little or not at all in real terms. In the 1996 farm bill, funding for five conservation programs was moved from discretionary spending, subject to the annual appropriations process, to mandatory funding through the CCC. Funding of mandatory conservation programs totaled just over \$2 billion in FY2001, according to CBO. (See CRS Report RL30331, *Conservation Spending in Agriculture: Trends and Implications*, for a tabulation of programs and review of spending over the past 20 years.)

Numerous programs were scheduled to expire by the end of FY2002. During several days of hearings in 2001, the agriculture committees explored program and policy options. Farm groups generally suggested increasing funds for existing programs and reducing conservation impediments to farm operations. Other interest groups, while supporting some of the farmer proposals, recommended more substantial changes. One broader approach encompassing the idea of “green payments” was introduced by Chairman Harkin in a freestanding bill (S. 932) before being incorporated, as the Conservation Security Program, into the Senate-approved farm bill.

⁴ Title II of the new law contains most but not all of the bill’s conservation provisions. CRS contact: Jeffrey Zinn, 7-7257.

Final Bill. The conservation title of the final bill:

- Increases the CRP acreage cap from 36.4 million to 39.2 million acres, and retains language directing the Secretary to give priority to areas where ongoing projects could be rapidly completed;
- Reauthorizes the WRP and increases the acreage cap to 2.275 million acres;
- Provides increasing annual funding for the Environmental Quality Incentives Program (EQIP) to reach a level of \$1.3 billion annually, with 60% of program money to go to livestock producers and 40% to crop producers; and redefines the purpose of EQIP to promote agricultural production and environmental quality as compatible goals;
- Provides for the Wildlife Habitat Incentives Program (WHIP) in FY2002 – \$15 million, FY2003 – \$30 million, FY2004 – \$60 million FY2005-07 – \$85 million;
- Provides for the Farmland Protection Program (FPP) in FY2002 – \$50 million, FY2003 – \$100 million, FY2004-05 – \$125 million, FY2006 – \$100 million, and FY2007 – \$97 million;
- Provides \$254 million to create a new, 2 million acre Grasslands Reserve Program, with 40% of the funds going to 10-, 15-, and 20-year contracts similar to those under the CRP, and 60% going to 30-year and permanent easements;
- Reauthorizes the Small Watershed Rehabilitation Program and authorizes appropriation of \$275 million in total through FY2007;
- Gives priority for annual funding of conservation programs to states that have not received at least \$12 million in cumulative conservation funding in that fiscal year;
- Provides \$2 billion in new mandatory funding for a Conservation Security Program that makes incentive payments to farmers for adopting and expanding natural resource stewardship practices;
- Provides that money for technical assistance would come from the mandatory funding for each program;
- Permits a wide range of state, local, and non-governmental groups to become certified providers of technical assistance to producers participating in the new and expanded conservation programs authorized in Title II.

House Bill. Final approval of H.R. 2646, including a conservation title, came in the House after it adopted a manager’s amendment removing several controversial conservation provisions from the committee-reported bill. For example, the committee version would have transferred administration of some conservation programs from USDA’s Natural Resources Conservation Service (NRCS) to USDA’s Farm Service Agency (FSA), and limited the penalties for farming wetlands (“swampbuster”) only to the year in which the infraction occurred. After the manager’s amendment was adopted, committee leaders led a successful effort to defeat (200-226) the so-called Kind-Boehlert amendment, a bipartisan alternative conservation title endorsed by many environmental organizations. This amendment, a revised version of the Work Lands Stewardship Act (H.R. 2375), would have

shifted \$1.9 billion annually from support for grains, cotton, and oilseeds in H.R. 2646 to the conservation title, to fund a variety of expanded conservation activities.

The conservation provisions in Title II of the House-passed bill provided about \$15.8 billion in new budget authority by the end of FY2011. Major changes:

- Increased the CRP enrollment ceiling from 36.4 million acres to 39.2 million acres, and expanded the small wetlands pilot program from six states to all states;
- Allowed 150,000 acres to be enrolled into the WRP annually;
- Increased annual funding for the Environmental Quality Incentives Program (EQIP) gradually from \$200 million in FY2002 to \$1.5 billion in FY2010 and FY2011, created a new cost-sharing program for ground and surface water protection that starts at \$30 million and grows to \$60 million annually, allowed EQIP contracts with participants to be as short as 1 year, and increased individual contracts to \$50,000 annually and \$200,000 in total;
- Allowed certified third parties to provide technical assistance, with rules for a certification program within 6 months of enactment;
- Increased funding for the Wildlife Habitat Incentives Program (WHIP) from \$25 million in FY2002 to \$50 million in FY2010;
- Increased funding for the Farmland Protection Program (FPP) to no more than \$50 million annually, and made certain non-profits eligible to participate;
- Permanently reauthorize the Resource Conservation and Development (RC&D) Program;
- Established a new 2 million acre grassland reserve, with a spending cap of \$254 million in mandatory funding over 10 years;
- Establish a new Farmland Stewardship Program to better coordinate conservation programs on eligible lands, with all spending to come through other programs;
- Provided \$15 million annually for rehabilitation of aging small watershed projects; and
- Repealed several programs that are not being actively implemented.

Senate Bill. Title II of the Senate bill amended and reauthorized many of the same programs as H.R. 2646, but only through FY2006. CBO estimated that the Senate bill would increase budget authority for conservation by about \$11.8 billion through FY2006 and about \$21.3 billion through FY2011. Provisions:

- Authorized new water conservation programs to allow the Department to purchase water rights from willing sellers, temporarily or permanently. One program would allow easements to be purchased on up to 500,000 acres under the Conservation Reserve Enhancement Program, with priority given to protecting endangered species, among other specified purposes (to be in accord with all applicable state laws). Second, a new water benefits program would provide funds to eligible states to improve instream flows, promote water conservation, or purchase water rights, funded

at \$25 million in FY2002 and increasing to \$100 million annually in FY2004-2006;

- Created a new Conservation Security Program to provide payments to all producers who practice conservation, with payment levels, up to specified limits, dependent upon which of three levels of conservation they practice;
- Authorized payments for technical assistance in support of all mandatory conservation programs;
- Allowed certified third parties to provide technical assistance under standards to be developed by USDA;
- Protected the privacy of personal information related to conservation programs;
- Required the Secretary to examine the opportunities to consolidate and coordinate conservation programs, and to implement the Soil and Water Resources Conservation Act by April 30, 2005;
- Increased the CRP enrollment ceiling from 36.4 million acres to 40.5 million acres, expand the small wetlands pilot program from six states to all states, allow certain economic uses of CRP lands (with reduced payments), provided longer terms for new hardwood tree contracts, required a USDA study of the economic and social effects of the CRP, and removed the continuous enrollment option from the county enrollment ceiling of 25% of cropland;
- Allowed 250,000 acres to be enrolled into the WRP annually (with up to 25,000 of these acres to be enrolled in a new Wetlands Reserve Enhancement Program), and limited total WRP enrollment to 2.225 million acres;
- Funded EQIP starting at \$500 million in FY2002 and gradually increasing to \$1.5 billion in FY2006, provided enhanced assistance to beginning and limited resource producers, expanded eligible practices to include comprehensive nutrient management plans, allowed contracts with participants to be as short as 3 years, limited payments an individual or entity can receive to \$30,000 a year or \$150,000 per contract longer than 4 years, and used a portion of EQIP monies to fund programs for competitive grants for innovative conservation practices, water conservation in the Southern Plains, and a pilot program for drinking water supplies;
- Prevented farm program benefits on land converted to agricultural production unless it meets specified requirements;
- Created a new partnership program to assist producers to address environmental issues or to address conservation issues on a watershed basis, using 5% of the funding provided for EQIP;
- Made the RC&D Program a permanent authorization;
- Increased funding for WHIP from \$50 million in FY2002 to \$355 million in FY2006, used at least 15% of the funds for projects related to threatened and endangered species, and not more than 15% of the funds to enroll lands for at least 15 years to protect “essential plant and animal habitat”;
- Authorized new programs to purchase flood plain easements (Watershed Risk Reduction Program), to support organic farming research, to establish a retirement program for wetlands and

adjoining areas where cranberries are grown (Cranberry Acreage Reserve), to develop a water management plan for the Klamath River basin; to initiate a source water protection program, and to initiate a Great Lakes Basin Erosion Control Program;

- Authorized a grazing lands conservation program to replace one authorized in Sec. 386 of the 1996 farm bill, and provided \$60 million annually for it;
- Reauthorized the FPP, providing \$150 million in FY2002 and increasing to \$500 million in FY2006, made certain non-profits eligible to participate, and used up to \$10 million of the funds made available annually to initiate a new market viability program;
- Set a minimum annual overall conservation funding level at \$12 million per state;
- Expanded state market programs, funded through the CCC;
- Established a new 2 million acre grasslands reserve, and allow easements to be held by certain private organizations; and
- Restated the provisions creating State Technical Committees to specify membership and responsibilities.

(See: CRS Report RL31255, *Resource Conservation Title: Comparison of Current Law with House and Senate Farm Bills*; CRS Issue Brief IB96030, *Soil and Water Conservation Issues*; and CRS Report RL31131, *Selected Conservation Proposals for the Next Farm Bill*. A short discussion of conservation with links to other documents can be found in Conservation and Environment in the CRS Agriculture Policy and Farm Bill Briefing Book.)

Foreign Trade and Food Aid (Title III)⁵

Exports are viewed by most U.S. agricultural groups as critical to farm prosperity. Thus, trade titles in omnibus farm bills are important vehicles for addressing agricultural trade problems, export assistance, and foreign food aid programs. Other policy venues also are important. For example, negotiations are under way in the World Trade Organization (WTO) to strengthen multilateral agricultural trade rules. Regional and bilateral trade negotiations also will affect conditions of competition for U.S. farm products.

Provisions of the 1996 Law. Title II of the 1996 farm bill extended and amended the major U.S. foreign food aid and agricultural export programs. It reauthorized through FY2002 Titles I, II, and III of P.L. 480 (the Food for Peace program), which respectively provide concessional financing of U.S. agricultural exports, commodity donations for humanitarian and development activities, and bilateral development grants of food. The farm bill extended to FY2002, at previously authorized funding levels, export credit guarantees for agricultural sales (the so-called GSM programs). It also extended, at reduced spending levels, the Export Enhancement Program (EEP, an export subsidy program) and the Market Access Program (MAP, which assists in the export promotion of U.S. farm products), as well as the Foreign Market Development Cooperator Program (FMDP).

⁵ CRS contact: Geoffrey S. Becker, 7-7287.

Selected Issues. In renewing the food aid and export assistance programs, the 107th Congress was confronted with questions of policy direction and funding. Levels of spending and volumes of product subsidized under EEP and the Dairy Export Incentive Program (DEIP) are subject to limitations under the Uruguay Round Agreement on Agriculture (URAA). In practice, EEP has been used very little in recent years; DEIP has been used to the limits of the URAA. Market promotion programs like MAP, the food aid programs, and export credits (GSM) are not considered to be trade distorting under the current URAA, and therefore are not subject to spending disciplines. Foreign trading partners challenge this assertion, countering that the United States has utilized food aid and export credits as ways to dispose of heavily subsidized farm surpluses, thereby distorting trade.

Some have questioned whether export subsidy and promotion support actually increases overseas sales or simply displaces what would have occurred anyway. Even if sales increase, do they lead to substantially higher farm prices and incomes – or might direct farm subsidies be more cost-effective? Some critics claim that the trade programs benefit primarily large food and export companies (who can afford to pay for promotion activities themselves) or foreign buyers more than U.S. producers. Defenders cite studies claiming positive outcomes from such spending. Similar questions arise with regard to foreign food aid.

One issue was whether to mandate the Global Food for Education Initiative, launched as a \$300 million pilot program by the Clinton Administration to help establish school and pre-school food programs in developing countries.

Final Bill. The final version of H.R. 2646, in Title III, reauthorizes, generally through 2007, the major foreign food aid and agricultural export programs. Selected provisions of Title III would:

- Reauthorize MAP, with funding at \$100 million in FY2002, \$110 million in FY2003, \$125 million in FY2004, \$140 million in FY2005, and \$200 million in FY2006 and FY2007;
- Reauthorize FMDP with funding at \$34.5 million annually through FY2007;
- Reauthorize EEP, DEIP (in Title I) and Export Credit Guarantees through FY2007, generally at current funding levels;
- Reauthorize P.L. 480 Food for Peace through FY2007, eliminate the annual \$1 billion cap on Title II spending, increase the minimum level of commodities to 2.5 million metric tons per year, fund transportation, storage and handling at between 5% and 10% of annual Title II funding, and make other program changes;
- Reauthorize FFP through FY2007, increase funding caps for the program, and set minimum annual tonnages at 400,000 metric tons, among other program changes;

- Authorize 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;
- Reauthorize the Bill Emerson Humanitarian Trust, the Emerging Markets, and Farmer-to-Farmer programs through FY2007;
- Create an exporter assistance program (with \$2 million annually in CCC funds) to address foreign barriers to U.S. specialty crop exports.

The final conference agreement requires, in 2 years, retailers to provide country-of-origin information to consumers for meat, fruits, vegetables, seafood, and peanuts; the program is voluntary until then. Not in the conference version is a Senate-passed provision which would have ended the current statutory restriction against private financing of agricultural sales to Cuba, and a Senate-passed provision that would have prohibited USDA quality stamps on imported meats.

(See CRS Issue Brief IB10077, *Agricultural Trade Issues in the 107th Congress*; CRS Report RS20997, *Farm Bill Trade and Food Aid Provisions*, and *Farm Bill Trade and Food Aid Provisions and Agricultural Trade and Foreign Food Aid in the CRS Agriculture Policy and Farm Bill Briefing Book*.)

Food Stamps and TEFAP (Title IV)⁶

Among the domestic food assistance programs administered by the USDA, two are noteworthy in the context of the farm bill. Authorization of appropriations, and other authorities related to the Food Stamp program and The Emergency Food Assistance Program (TEFAP), expire at the end of FY2002.

Food Stamp Issues. Although food stamp enrollment is now increasing, it is about one-third below its peak in the spring of 1994 and only 10% higher than the all-time low. Over half of this decline came from a sharp drop in the rate at which those who are eligible actually participate.

State officials, program advocates, and supporters of the 1996 welfare reform law (with its goal of moving families from welfare to work) maintain that various aspects of food stamp eligibility, benefit, and administrative rules thwart participation and effective administration, especially in the case of working poor families and the elderly. They point to overly complex policies and food stamp rules that differ too greatly from those applied by states in administering Temporary Assistance for Needy Families (TANF) programs and Medicaid. They assert that the food stamp “quality control” system penalizes too many states too harshly for

⁶ CRS contact: Joe Richardson, 7-7325.

erroneous benefit/eligibility determinations (pressuring them to “over-administer” the program). Finally, some believe that benefit levels (especially for working families with children) are not high enough to merit the effort involved in applying for and maintaining eligibility.

The continued ineligibility of many legally resident noncitizens and the confusion engendered by the rules governing their eligibility also have sparked reform proposals. Well over 500,000 legally resident low-income noncitizens remain ineligible for food stamps, although 1998 amendments restored eligibility to some who were made ineligible for food stamps by the 1996 welfare reform law, and several states are funding food stamps for others.

Food Stamp Reform Agendas. There has not been a unified reform agenda, and most alternatives for change would impose significant new costs. Many *states* call for simplified federal food stamp rules, much greater state control over program policies, and more standardized benefit/eligibility rules that will make it easier on both administrators and applicants/recipients. They also want major revision of the quality control system. *Program advocates* emphasize the inadequacy of benefits and the need to restore eligibility to noncitizens. Although they support reform of the quality control system and selective changes to make eligibility/benefit determinations simpler for applicants, they resist vesting too much decision-making with states and tampering with what they see as a nationally uniform food stamp “safety net.” *Welfare reform supporters* also agree with quality control reforms, but stress the need to ensure that the food stamp program fulfills a major role in supporting the working poor as its first priority.

The Administration. The Administration’s food stamp reform package (announced with its FY2003 budget) included: (1) increasing benefits modestly for larger households (similar to the farm bill final agreement, see below), (2) standardizing or giving states control over several rules to ease administrative burdens on program operators and applicants/recipients, (3) excluding the value of one vehicle per adult when judging eligibility, (4) making eligible all low-income non-citizens who have resided in the U.S. legally for 5 years (similar to the final farm bill, see below), (5) restructuring and reducing spending for employment and training programs for food stamp recipients (similar to the farm bill conference agreement, see below), (6) ending automatic eligibility for some TANF beneficiaries, and (7) substantially reforming the food stamp quality control system to penalize fewer states and give bonuses to states performing well (although in a different way than the final farm bill, see below). It had an estimated 10-year cost of \$4.2 billion.

TEFAP Issues. Federal food donations under TEFAP have recently increased, and private-sector donations to emergency feeding organizations are on the rise. But many contend that federal help has not kept pace with growing demand and is well below what is required. Perhaps more important, they argue that the costs of storing and distributing food given out by state/local providers (whether privately or federally donated) are seriously underfunded.

Final Bill. The final farm bill reauthorizes all expiring food stamp authorities through FY2007. Drawing on both the House and Senate measures (see sections below), the agreement:

- Expands eligibility for noncitizens by making eligible all low-income legal permanent resident noncitizen children (without regard to their date of entry) and other individuals (legal permanent residents, refugees/asylees) who have resided in the United States for 5 or more years (these changes account for 40% of the cost of the nutrition title of the agreement and are expected to affect some 390,000 persons when fully implemented);
- Raises benefits to larger households modestly (by increasing the amount of income that is disregarded when setting their benefits);
- Allows states to provide “transitional” food stamp benefits for 5 months to families leaving TANF;
- Sets up a number of state options to reduce recipient reporting requirements, simplify benefit calculations, and conform income and asset eligibility rules with those of other public assistance programs;
- Increases funding for nutrition assistance grants (in lieu of food stamps) to Puerto Rico and American Samoa; and
- Revamps the quality control system to (1) dramatically reduce the number of states sanctioned (only those with persistently high rates of erroneous benefit and eligibility determinations would be penalized) and (2) grant bonus payments to states with exemplary administrative performance.

The conference agreement also reauthorizes TEFAP through FY2007, increases funding for TEFAP food purchases by \$40 million a year, and raises the appropriations authorization for distribution costs from \$50 million to \$60 million a year.

Funding for food stamp and TEFAP expansions are over 90% of the cost of the nutrition title. Costs also cover extra money for Puerto Rico and American Samoa, funding for commodity purchases for child nutrition programs, and added funds for the WIC farmers’ market program (FY2002 only) and the farmers’ market program for seniors.

House Bill. The House bill reauthorized all expiring food stamp authorities through FY2011. It also included significant structural changes intended to increase benefits to families with children and ease burdens on administrators and applicants/recipients:

- Benefits to larger households were raised modestly by disregarding more of their income;
- Administrative burdens were lightened by allowing states to conform the way they count income for food stamp purposes to the methods they use in their TANF or Medicaid programs;
- States were allowed to provide “transitional” food stamp benefits for 6 months to families leaving TANF for work; and
- The quality control system was substantially revamped, easing pressures on states and giving them new bonuses for high performance.

For TEFAP, the House bill reauthorized, and significantly increased funding for, food purchases and distribution costs through FY2011.

The 10-year CBO cost estimate for the food stamp and TEFAP provisions of the House bill was \$3.64 billion (budget authority/outlays above baseline). Additional spending for a Seniors Farmers' Market Nutrition program totaled \$150 million.

Senate Bill. The Senate bill reauthorized all expiring food stamp authorities through FY2006. It also included amendments that – much like the House bill – raised benefits to larger households, allowed states to conform rules to TANF and Medicaid and grant transitional food stamps, eased quality control penalties, and instituted new bonus payments to states for high performance. However, it went well beyond the House measure, primarily by:

- Expanding eligibility for noncitizens (more extensively than proposed by the Administration);
- Setting up state options to: establish when eligibility will be redetermined, reduce recipient reporting requirements, simplify benefit calculations, and conform asset eligibility rules with TANF and Medicaid standards;
- Increasing benefits for recipients with very high shelter costs;
- Liberalizing and simplifying work requirements for able-bodied adults without dependents;
- Ending limits on spending of work/training funds and changing the federal share of this spending; and
- Permitting use of food stamp benefits to buy dietary supplements.

The Senate measure also extended TEFAP authorizations through FY2006 and, as with the House bill, increased funding for food purchases and distribution costs.

Overall, the CBO estimate for the 10-year increase in food stamp and TEFAP spending engendered by the Senate bill was \$8.32 billion (budget authority above the baseline) or \$8.89 billion (outlays above the baseline) – although, as noted, the bill was a 5-year extension. Additional spending for commodity purchases for child nutrition programs and farmers' market and other initiatives totaled \$440 million. Costs were included in both Title I and Title IV of the bill.

(See Food Stamps and TEFAP in the CRS Agriculture Policy and Farm Bill Briefing Book.)

Farm Credit (Title V)⁷

Omnibus farm bills commonly contain a credit title that makes policy changes to USDA agricultural credit programs and addresses issues that relate to commercial lenders, such as the Farm Credit System (FCS, a confederation of federally chartered, member owned banks and associations) and commercial banks. Credit is an important production input for many farmers. Long-term credit is used to finance

⁷ CRS contacts: Jerry Heykoop, 7-0248; Ralph Chite, 7-7296.

purchases of real estate, and shorter-term loans finance production input expenses such as livestock, seed, feed, fuel, and fertilizer.

USDA's Farm Service Agency (FSA) serves as a lender of last resort to eligible family-sized farmers whose financial condition is too weak to permit them to obtain commercial credit. FSA provides direct loans to farmers and also guarantees the timely repayment of principal and interest on certain loans made by commercial lenders. FSA makes and guarantees real estate and operating loans, and also makes direct emergency disaster loans. These loan programs have permanent authority under the Consolidated Farm and Rural Development Act, and unlike the farm commodity programs, do not require periodic reauthorization. However, Congress frequently uses the farm bill to make changes to loan program terms, conditions, and eligibility requirements.

Final Bill. The final bill generally reauthorizes USDA farm lending programs and provides greater access to USDA farm credit programs for beginning farmers and ranchers. It increases the percentage that USDA may lend for down payment loans and extends the duration of these loans; and establishes a pilot program to encourage beginning farmers to be able to purchase farms on a land contract basis. The measure extends emergency loans for losses due to USDA-imposed animal or plant quarantines. Regarding shared appreciation agreements (SAAs), the Secretary may modify a recapture loan on which a payment has become delinquent; reamortized loans may not exceed 25 years and may not reduce outstanding principal or unpaid interest. Conferees also adopted Senate provisions dealing with FCS (see below).

House Bill. Title V, the credit title of House-passed H.R. 2646, required some program operational and administrative changes, and altered or expanded certain eligibility and benefit provisions for FSA farm loans. Among the major provisions: removal (through the end of 2006) of the requirement that an FSA borrower has to "graduate" to a commercial lender; an extension of a requirement, through 2011, that USDA earmark a certain portion of FSA loans for beginning farmers; offering an interest-rate buydown program on certain loans; and, prohibiting USDA from collecting any payments under shared appreciation agreements, through December 31, 2002. Title V of the House version also authorized FSA emergency disaster loans to mitigate the effects of increased energy costs and USDA imposed animal quarantines, and allowed loans to horse breeders experiencing losses from mare reproductive loss syndrome.

Senate Bill. The Senate-passed bill also required a number of operational and administrative changes in FSA farm lending programs. Among other things, the bill altered certain eligibility and benefit provisions, including provisions to make loans more available to beginning farmers. Another provision allowed borrowers with SAAs to enter into 25-year easements for agricultural and conservation purposes. The Senate credit title also enabled CoBank (an FCS arm) to finance facilities for storage and handling in foreign countries that purchase U.S. farm products, by allowing CoBank to finance equipment and facilities off the farm.

Rural Development (Title VI)⁸

The 1980 Rural Policy Act (P.L.96-355) designates USDA as the lead federal agency for coordinating rural development. The stated mission of the rural development agencies within USDA is to enhance rural communities by targeting financial and technical resources in areas of greatest need. Four agencies in USDA are responsible for the mission area: the Rural Housing Service (RHS), the Rural Business-Cooperative Service (RBS), the Rural Utilities Service (RUS), and the Office of Community Development, which provides community development support through Rural Development's field offices. The mission area also administers the rural portion of the Empowerment Zones and Enterprise Communities Initiative and the National Rural Development Partnership.

The rural development title of past farm bills has supported local business development and expansion and the physical infrastructure of rural areas, e.g., subsidies for housing, electricity, telephones, water and waste disposal, and community facilities. More recently, policymakers have pushed for programs that support innovative and alternative industry development, enhanced telecommunications access, as well as new funding mechanisms. Pressure for such alternatives has continued as policymakers recognize the changing structure of agriculture and the diversity of rural communities. Some rural areas have grown and prospered during the last decade, particularly those within commuting distances of metro areas. Other rural areas are falling further behind as their primary industries (including agriculture) either decline or adapt to a global marketplace and economy that often means fewer employment opportunities and lost population, especially in farm-dependent areas.

Local investment strategies, notably value-added agriculture – e.g., regional food processing plants, cooperatives, organic farming – are being promoted by many in the farm sector. While holding promise for agriculture and surrounding communities, there are limits on how many yogurt plants, small dairy processors, or food processors can be supported by these local economies, especially with increasingly global competition in these sectors.

Thus, the kinds of rural entrepreneurship seen in the past (e.g., in the above types of value-added enterprises) may give way to future forms of rural entrepreneurship that build around new, or previously ignored resources. Among the possibilities are investment in environmental entrepreneurship or environmental capital, public-private development of carbon emission markets and sustainable land management innovations tied to national (clean water) and international agreements (carbon emissions), and environmentally sensitive land use for non-agricultural purposes (e.g., recreation). New forms of agricultural production and marketing, particularly agriculture within metro regions, also suggest future possibilities for enhancing rural opportunities. (See Rural Development in the CRS Agriculture Policy and Farm Bill Briefing Book.)

Final Bill. Rural development programs are authorized at \$870 million for 6 years. The conference committee retained most new rural development programs

⁸ CRS contact: Tadlock Cowan, 7-7600.

and initiatives in the Senate and House bills (see below for details) while reducing the programs' levels of mandatory authorization. The conferees reduced the House direct authorization amount by \$305 million and the Senate direct authorization amount by \$841 million. A portion of this reduction reflects repeal of the Fund for Rural America in both House and Senate versions of the farm bill.

Neither the Rural Endowment Program, authorized for \$82 million in the Senate version, nor the Rural Entrepreneurs and Microenterprise Assistance Program, authorized at \$50 million, is retained in the conference report. Although the National Rural Cooperative and Business Equity Fund, authorized at \$150 million in the Senate version, was also deleted by the conference committee, a Rural Strategic Investment Program is funded at \$100 million. The conference committee authorized \$280 million in loan guarantees for the Rural Business Investment Program while reducing the level of loan subsidies by \$20 million.

In other programs, Broadband Service to Rural Areas is reduced to \$100 million from \$500 million; and local television loan guarantees are reduced by \$120 million. Valued-added Agricultural Market Development Grants are reduced from \$75 million per year to \$40 million per year. A one-time removal of backlogged applications for pending rural development loans and grants (estimated by the CBO at \$454 million) is authorized at \$360 million and limited to water and waste water programs. Finally, the Rural Firefighters and Emergency Personnel Grant Program is reduced from \$130 million to \$50 million.

House Bill. Funding authorization for rural development programs in recent farm bills has consisted almost entirely of discretionary funding. The Fund for Rural America (Section 793 of the 1996 farm bill (P.L. 104-127) was an exception. Title VI of the House-passed bill provided \$3.6 billion in estimated budget authority for rural development in FY2002-2011, of which \$1.45 billion was discretionary authorization (subject to annual appropriation) and \$2.15 billion was direct (mandatory) authorization.

Mandatory Funding.

- Authorized \$20 million per fiscal year for new local television broadcast signal loan guarantees to rural areas under the Launching Our Communities' Access to Local Television Act of 2000. Amended the 2000 Agricultural Risk Protection Act (P.L.106-224) to authorize \$50 million annually FY2002-2011 from the CCC for new value-added agricultural market development grants. Not less than \$5 million of this funding for FY2002 and not less than \$10 million for FY2003-2004 was provided for grants to establish Agriculture Innovation Centers for technical assistance to value-added agricultural businesses.
- Authorized \$15 million from the CCC for each fiscal year through 2011 for a new Pilot Program for Strategic Regional Development Plans and Implementation in ten rural communities in states with a large proportion of rural residents.
- Authorized \$30 million per year from the CCC to extend Community Water Assistance Grants through FY2011.

- Provided for \$100 million annually in additional mandatory rural development spending from the CCC. The new funding to be allocated as follows: \$45 million for the Program for Strategic Regional Development Plans and Implementation; \$45 million for Community Water Assistance Grants; \$10 million for value-added agricultural market development grants. This provision was adopted on a House floor vote, 235 to 183; funds were to be transferred from grains, cotton and oilseeds support in the bill to pay for it.

Discretionary Funding.

- Created a USDA Rural Water Grassroots Source Water Protection Program and authorized funding at \$5 million per fiscal year.
- Provided authorization for rural water and waste facility grants in amounts deemed necessary rather than being limited to 75% of the cost of developing a facility.
- Increased loan limits from \$25 million to \$100 million for certain other rural development loan programs; and loans and guarantees for renewable energy systems were also revised.
- Provided grants to non-profit organizations to construct or refurbish individually-owned household water well systems for low and moderate-income households.
- Extended various RBS and RUS loan and grant program authorizations to 2011.

Senate Bill. The rural development title (Title VI) of the Senate bill provided an estimated \$3.4 billion in rural development authorization for FY2002-2006, of which about \$1.71 billion was direct (mandatory) budget authority and \$1.69 billion was discretionary (subject to annual appropriations). As with H.R.2646, the Senate bill included mandatory funding for several new initiatives and discretionary funding authorization to support new loan and grant programs and a range of existing loan and grant programs.

Mandatory Funding.

- Authorized a new Rural America Infrastructure Account for a one-time expenditure (estimated cost is \$700 million) to close the backlog of pending rural development loans and grants.
- Provided \$100 million per year for new grants and loans at 4% or market rate for broadband access and targeted grants to communities of 20,000 or fewer.
- Authorized \$82 million for FY2002-2003 and such sums as necessary in FY2004-2006 for a new Rural Endowment Program to develop long-term planning in economically depressed communities.
- Authorized \$75 million annually for new value-added agriculture market development grants with a 5% set-aside for organic products and priority given to grant proposals under \$200,000. Authorized \$130 million for a new program to train firefighters and emergency medical personnel.

- Created two venture equity capital mechanisms for rural areas (1) the National Rural Cooperative and Business Equity Fund. The Fund would match the first \$150 million provided by private investors; \$50 million of the private funds would be guaranteed up to \$300 million; (2) the Rural Business Investment Corporations (RBICs). Private equity firms could apply to USDA to form Rural Business Investment firms that may receive leverage equal to 300% of its private capital. The provision authorized \$120 million in loan subsidies and grants. A Senate floor amendment limited to 10% investments in areas containing a city with a population greater than 100,000. Both funds to be administered through the Small Business Administration.

Discretionary Funding.

- Extended, modified, and/or increased various RBS and RUS loan and grant program authorization to 2006.
- Provided \$5 million each year FY2002-2006 for grants to broadcasting systems.
- Established a new Rural Entrepreneurs and Microenterprise Assistance Program with appropriations authority of \$10 million per fiscal year for 5 years.
- Authorized an increase in water and waste disposal funding from \$590 million to \$1.5 billion per year.
- Authorized \$30 million per year to regional development organizations.
- Created a new Rural Telework Centers program and provided \$30 million annually.
- Authorized \$25 million annually for a new Barn Preservation Program.
- Provided \$25 million annually for grants to senior citizen programs.
- Authorized of \$51 million for new SEARCH grants to provide technical assistance to very small communities in meeting environmental goals.
- Established the Northern Great Plains Regional Authority and provides \$30 million in authorization for each year fiscal year, 2002-2006.

Both the Senate and House bills authorized the National Rural Development Partnership.

Agricultural Research, Extension, and Education (Title VII)⁹

1996 Farm Bill. Title VIII of the 1996 farm bill authorized USDA's agricultural research, extension, and education programs and modified public agricultural research policy. Also, a research-related provision in the rural development title of the 1996 Act authorized a competitive grants program (the Fund for Rural America) to support rural development projects and rural-focus research projects. Although not subsequently fully funded by appropriators, the Fund marked a significant change in that federal money for the program (\$100 million annually for 3 years, of which roughly one-third was for research grants) was to be transferred directly to USDA from the U.S. Treasury instead of being appropriated.

1998 Research Legislation. In 1998 Congress passed separate legislation superseding Title VIII of the 1996 farm bill, making several significant reforms and reauthorizing USDA's research, extension, and education programs through 2002. The Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185) extended the new provisions contained in the 1996 farm bill (including the Fund for Rural America) and adopted additional policy changes to: (1) require greater accountability for program relevance and merit on the part of institutions receiving federal funds; (2) increase the funding authority for multi-state research projects; (3) phase in a matching funds requirement for the 1890 (historically black) colleges; and, (4) authorize several new research programs. Of the latter, the most significant is a 5-year, \$600 million Initiative for Future Agriculture and Food Systems, a competitive grants program intended to promote cutting-edge research in the areas of genomics, biotechnology, food safety, new uses for agricultural products, natural resource management, and farm profitability. Congress authorized funding for the program – \$120 million annually – to come directly from savings in mandatory spending stemming from reforms made in the food stamp program in 1997.

Selected Issues. In part because of difficulties in obtaining consistent financing for the innovative funding mechanisms authorized in the 1996 farm bill and the 1998 research reform law (the Fund for Rural America and the Initiative for Future Agriculture and Food Systems), a primary research policy issue in the recent farm bill debate was funding. In June 2001, a bipartisan group of 49 House members, including 24 from the House Agriculture Committee, wrote to Agriculture and Appropriations Committee leaders urging that a portion of the budget increase set aside for agriculture be used to double funding for research programs over the next 5 years, including \$500 million in the coming year. In addition, the September 11, 2001 terrorist attacks prompted many lawmakers to call for additional security for federal and state research facilities, and for increased research on agriculture and food protection.

⁹ CRS contact: Jean Rawson, 7-7283.

Final Bill. The final version of H.R. 2646:

- Permits the annual appropriation through FY2007 of such sums as are necessary for research at the state agricultural experiment stations and the Cooperative Extension System (currently limited to \$850 million and \$420 million, respectively);
- Permits the annual appropriation through FY2007 of such sums as are necessary to support the endowment for the 1994 (tribally controlled) land grant institutions; increases the annual payment to each 1994 Institution from \$50,000 to \$100,000; and makes the 1994 schools eligible for competitive grants under the Integrated Activities program of CSREES;
- Increases the matching funds requirement for the 1890 (historically black) land grant colleges to 100% over 5 years; and raises the minimum amount that can be appropriated for research and extension at the 1890 schools to a fixed percentage of the amounts appropriated for 1862 schools (15% for research; 25% for extension);
- Reauthorizes the Initiative for Future Agriculture and Food Systems, with funds gradually increased to \$200 million annually by FY2006 and FY2007; and encourages grants under the Initiative to support minority-serving institutions, rural economic development and several other priority issue areas;
- Authorizes appropriations for grants to schools in the U.S. Territories (renamed “insular areas” for the purposes of Title VII) to support distance education and teaching programs at insular area land grant schools;
- Creates a special authority for appropriations to support biosecurity preparedness and response;
- Provides a one-time allocation of \$8 million in FY2002 in CCC funds to support the activities of Girl Scout, Boy Scout, FFA, and 4-H groups in rural areas, with appropriations authorized in subsequent years;
- Establishes a program to make grants to colleges, agencies or organizations that can provide training, education, and technical assistance to beginning farmers and ranchers.

House Bill. Title VII (Research and Related Matters):

- Reauthorized research programs through 2011; this includes the Initiative for Future Agriculture and Food Systems, to be funded through the CCC (instead of U.S. Treasury transfers) at a total of \$1.16 billion to be distributed in equal amounts over a 7-year period;
- Sought to increase funding for the 1890 colleges by gradually increasing the matching funds requirement from its current level of 50%, to 60% in 2003 and to 100% in 2007 (rising in 10% increments from 2003);
- Initiated a 50% matching funds requirement for the land grant colleges in the “insular areas,” (redefined to include Puerto Rico,

Virgin Islands, Guam, American Samoa, N. Mariana Islands, Micronesia, the Marshall Islands, and Palau), and established a competitive grants program to strengthen the teaching programs at those colleges;

- For the tribally controlled land grant colleges (the 1994 Institutions), (1) authorized direct appropriations to take the place of the endowment fund established by the 1994 law; (2) doubled the authority for annual federal payments to each institution to \$100,000; and (3) made the 1994 schools eligible to receive formula funds for research and extension under the Hatch and Smith-Lever Acts;
- Created a new subtitle that amends the Research Facilities Act (7 U.S.C. 390 et seq.) to permit the assessment of civil penalties to cover damage from violence against agricultural research facilities.

Senate Bill. The research title (also Title VII) among other things:

- Increased annual appropriations authority for agricultural experiment station research in the states from \$850 million to \$1.5 billion and for state extension programs from \$420 million to \$500 million for 2002 to 2006;
- Raised mandatory funding for the Initiative for Future Agriculture and Food Systems from \$120 million to \$225 million annually, and expressed the sense of Congress that federal investments in food and agricultural research should double over the next 5 years;
- Similarly to H.R. 2646, mandated greater support for research at the insular area institutions (those in Puerto Rico, Guam, and other U.S. territories) by requiring increases in state matching funds, and authorizing an appropriation of \$4 million per year for a distance education program for those institutions;
- Increased the matching funds requirement for the 1890 (historically black) land grant colleges and mandated annual appropriations that are at least 15% of the amount appropriated for the 1862 institutions;
- Created a competitive grants program for the construction and modernization of food and agricultural research facilities;
- Permitted higher federal reimbursements for indirect costs associated with research grants (these had been capped at 19%, well below the 35% average for most federally supported research);
- Established a training and technical assistance program on risk management for beginning farmers and ranchers;
- Created a 5-year, \$60 million extension grant program to promote the development of electronic commerce enterprises in rural areas;
- Made grants to youth organizations (e.g., Girl and Boy Scouts, 4-H, Future Farmers of America) for expanding programs in rural areas;
- Included a biosecurity subtitle to: (1) establish an Agriculture Infrastructure Security Fund that would be used to support science to protect animal and plant health and the food supply; (2) establish a 15-member commission to advise the Secretary on use of the fund; and (3) authorize a total of \$300 million over 3 years for biosecurity

planning and response programs, including the modernization and construction of research facilities.

Other Provisions (Titles VIII, IX, and X)

Competition Issues.¹⁰ Provisions in Title IX of the House bill would have created an Interagency Task Force on Agricultural Competition, and authorized appropriations to enhance the capability of USDA’s Grain Inspection, Packers and Stockyards Administration (GIPSA) to review competitive implications of structural change in the meat packing industry, with sums specifically earmarked to hire attorneys. The Senate bill contained provisions that would: remove mandatory arbitration clauses from livestock contracts and allow for dispute settlement through other legal means in addition to arbitration; extend GIPSA authority to include livestock production contracts (currently, GIPSA protects broiler farmers who grow under contract and livestock producers who sell directly to packers, but it does not have authority over livestock producers who grow under contract.); and allow contract producers to discuss the contract with advisors and enforcement agencies even if the contract contains a confidentiality clause.

Among the more contentious conference issues was the Senate-passed ban on packer ownership or control (to such an extent that the producer is no longer “materially participating” in the production) of livestock for more than 14 days prior to slaughter. Conferees did not include this ban in the final bill, and also deleted the Senate’s provisions dealing with arbitration clauses. Both House provisions were dropped, too. However, conferees left, in Title X of the final bill, the Senate’s provisions extending GIPSA authority over swine production contracts, and allowing contract producers to discuss their contracts.

Forestry.¹¹ The House and Senate bills both contained forestry titles (Title VIII in each). Both would reauthorize the Forest Service’s Office of International Forestry and the Renewable Resources Extension Act; and would double the authorized funding for forestry extension. Both bills would authorize “stewardship end result contracts,” where the Forest Service could require timber purchasers to reduce wildfire fuel levels, essentially trading goods (timber) for services (fuel reduction); authorize the Agriculture and Interior Secretaries to make grants to biomass-to-energy facility operators “to offset the costs incurred to purchase” potentially hazardous wildfire fuels; and authorize a new program to assist local governments fight fires.

The House bill would replace the existing Forestry Incentives and Stewardship Incentives Programs with a new coordinated Forest Land Enhancement Program to provide cost-sharing to private landowners for planning and implementing sustainable forestry practices, with \$20 million annually in mandatory appropriations. The Senate bill would reauthorize the Forestry Incentives Program (the Stewardship Incentives Program is permanently authorized), and would create a new sustainable forest management program, with \$48 million annually in mandatory appropriations. The Senate bill also would: create a new forestry

¹⁰ CRS contact: Jerry Heykoop, 7-0248.

¹¹ CRS contact: Ross Gorte, 7-7266.

cooperatives grant program (with \$2 million annually in mandatory spending); a new program to help states with watershed issues on nonfederal lands; a new Chesapeake Bay Watershed Forestry Program; a new Suburban and Community Forestry and Open Space Initiative; a new Office of Tribal Relations and Assistance to Tribal Governments; a new research and treatment program for Sudden Oak Death Syndrome; and a new Adaptive Ecosystem Restoration Program for Arizona and New Mexico. (See CRS Report RL31065, *Forestry Assistance Programs*.)

The final bill reauthorizes the Forest Service's Office of International Forestry and the Renewable Resources Extension Act, and doubles the authorized funding for forestry extension. It generally follows the House bill in replacing the Forestry and Stewardship Incentives Programs with a new Forest Land Enhancement Program, with \$100 million in mandatory appropriations through FY2007, but with some modifications to purposes and practices based on the Senate bill. The final bill also authorizes a new program to assist local governments in fighting wildfires, but does not include "stewardship end results contracts" or biomass-to-energy facility grants to reduce hazardous wildfire fuels. It also does not include several other programs contained in the Senate bill.

Energy.¹² The Senate approved a new energy title creating a variety of competitive grant and/or loan programs targeted at conversion of biomass to fuels and chemicals, development of renewable energy, improvements in agricultural energy efficiency, and development of hydrogen and fuel cell technologies for farm applications. In addition, the title would require the federal government to purchase of bio-based products, if available. The House bill included some comparable energy-related provisions, but in other titles.

The conference committee maintained, in a new Title IX, most of the provisions of the Senate version, but at reduced funding levels. The conferees also added funding for the Commodity Credit Corporation Bioenergy Program, which pays biofuels (mainly ethanol and biodiesel) producers who expand their production capacity. Under the final bill, mandatory spending on energy programs increases by \$366 million between FY2002 and FY2006, and by \$450 million through FY2011, according to CBO. (See CRS Report RL31271, *Energy Provisions of the Farm Bill: Comparison of Current Law With House and Senate Bills*.)

Miscellaneous.¹³ The final bill, reflecting both the House and Senate bills, provides for increased authorized funding for the outreach program for socially disadvantaged farms, from \$10 million to \$25 million per year. While House and Senate bills proposed making it illegal to buy, sell, transfer, or drag non-ambulatory ("downer") animals, the final conference report only provides for the Secretary to prepare a report and to issue regulations on humane treatment of "downers." The final bill, like the House and Senate bills, make it illegal, in certain instances, to transport animals across state lines (or for export) for participation in animal fighting ventures.

¹² CRS contact: Brent Yacobucci, 7-9662.

¹³ CRS contact: Alex Segarra, 7-9664.

Other sections in the miscellaneous title (Title X) of the final bill include: explicit authority for the Secretary of Agriculture to provide economic and disaster assistance to livestock and dairy producers, subject to appropriations; and an increase in Section 32 carryover authority from \$300 million to \$500 million annually.

Conferees did not include a Senate approved provision in the commodities title (Title I) of the final bill that would have provided \$2.4 billion in new “disaster” assistance, including \$1.8 billion for 2001 crop losses, and \$500 million for livestock producers for calendar year 2001 losses in a county that received an emergency designation. However, the final bill retains the Senate provision for providing \$94 million in 2000 crop market loss assistance for apple producers. Examples of the many other miscellaneous provisions in the final bill, most located in Title X, include:

- Overhaul of virtually all animal health protection laws administered by USDA’s Animal and Plant Health Inspection Service, in order to consolidate and update them (see CRS Report RL31350, *Updating Animal Health Protection Statutes: Comparison of Current Law with the Senate Farm Bill and House Proposals*);
- Creation of a national organic certification cost-share program;
- A new farmers market promotion program;
- A new Assistant Secretary of Agriculture for Civil Rights;
- Establishment of a Food Safety Commission;
- An amendment to the definition of ‘animal’ under the Animal Welfare Act to exclude some animals used in laboratory studies;
- A program for public education regarding the use of biotechnology in agriculture; and
- Stiffer criminal penalties for violations of the Plant Protection Act of 2000.