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Wheat, Feed Grains, Cotton, Rice, and Oilseeds Provisions of the Enacted 1996 Farm Bill[1]

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SUMMARY

The "Agricultural Market Transition Act" (Title I of the 1996 farm law) ushers in a new system of price and income supports for producers of wheat, feed grains, cotton, rice, and oilseeds. The new system offers a 7-year "production flexibility contract" to producers with cropland enrolled in the old grains or cotton programs in one of the past 5 years. Each contract will provide fixed, but declining, annual payments that no longer are tied to market prices, to the planting of a specific crop, or to annual land set-aside requirements. The new law earmarks about $37 billion through 2002, effectively creating, for the first time, an annual limitation on such direct payments. In addition, marketing assistance loans are offered for most producers of wheat, feed grains, rice, cotton, and oilseeds.

DESCRIPTION OF THE NEW PROGRAM

For decades, federal law has required the U.S. Department of Agriculture (USDA) to offer price and related support to producers of nearly two dozen specified farm commodities. Through 1995, the primary price support tools for the crops covered in this report--specifically wheat, feed grains (corn, sorghum, barley, oats), rice, and cotton--were: (1) target price deficiency payments, which increased when market prices were low, and decreased when market prices were high; (2) crop loans offered at harvest time; and (3) acreage reduction programs, usually imposed as a condition of receiving support payments and loans. Support for oilseeds was limited to loans. The Department's Farm Service Agency, or FSA (formerly the Agricultural Stabilization and Conservation Service) each year announced a "program" stipulating what and how much a participating farmer could plant, and what his or her crop benefits would be, based on statutory formulas.

These programs generally derived their authority from three permanent laws which are still on the books: the Agricultural Adjustment Act of 1938 (P.L. 75-430); the Agricultural Act of 1949 (P.L. 81-439); and the Commodity Credit Corporation (CCC) Charter Act of 1948 (P.L. 80-806). However, Congress has frequently altered key provisions of these original laws-

[1]Sources include: the conference report accompanying the 1996 farm bill (H.R. 2854; H. Rept. 104-494); fact sheets issued by the U.S. Department of Agriculture; various reports by the Agriculture and Food Policy Center of Texas A&M University; and recent CRS reports.

-usually through omnibus multi-year farm or budget bills--to adjust to contemporary market conditions, control spending, or address other policy concerns.

The most recent legislation, the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127), again suspends most of the provisions of permanent law for grains and cotton (section 171). In their place, this new farm law establishes, for the next 7 years, a new support program under Title I, the "Agricultural Market Transition Act," also known widely as "Freedom to Farm." Following are selected key provisions.

Production Flexibility Contracts

Under subtitle I-B, 7-year "production flexibility contracts" are offered for fixed (but generally declining) annual payments to producers with acreage that had been enrolled in the old wheat, feed grains, upland cotton, and/or rice programs in at least 1 of the past 5 crop years. These contracts replace target price payments.

USDA has announced a *one-time* signup period for the contracts, from May 20 through July 12, 1996; after that, only producers with crop bases exiting the conservation reserve program (CRP) can enroll. Payments will be made in two installments each year.

Available funding. Annual spending for the 7-year production flexibility contracts is specified by section 113 of the law. The annual totals are allocated among crops based on the following percentages, intended to reflect their previous share of recent CCC outlays: wheat, 26.26%; corn, 46.22%; sorghum, 5.11%; barley, 2.16%; oats, 0.15%; upland cotton, 11.63%; rice, 8.47%. The law also requires that the rice allocation be supplemented by an additional $8.5 million annually, beginning in FY1997. This spending, which will continue to be funded through the CCC, USDA's commodity financing arm, is viewed as both a guarantee and a ceiling on outlays (see table 1 for annual funding, by crop).

Seven-year cumulative spending for commodity contracts is locked in at $35.7 billion. Provisions in the law require that additional funding adjustments be made within the individual crop allocations to compensate for past deficiency payments made to, or repaid by, farmers. The net result of these adjustments is expected to add another approximately $1.5 billion (over and above the $35.7 billion) to contract funding.

This upward adjustment in total available funding translates into higher per-unit payment rates. That effectively benefits wheat, feed grain, and cotton farmers who, because crop prices are now higher than anticipated a year ago, must repay the advances they received on their projected 1995 deficiency payments. (Unreturned advances will be deducted from individuals' 1996 or 1997 contract payments).

Previously, annual CCC outlays for income supports increased or decreased depending upon market prices for supported crops. The new, fixed spending levels apply to contract payments only; CCC annual outlays for crop loans, and for other commodity programs and related activities, can continue to rise and fall depending upon market and other conditions not directly influenced by statute.

Table 1. Funding for Transition Payments by Crop and Fiscal Year
(millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total
Corn	2,574	2,489	2,681	2,590	2,371	1,909	1,852	16,466
Sorghum	285	275	296	286	262	211	205	1,820
Barley	120	116	125	121	111	89	87	769
Oats	8	8	9	8	8	6	6	53
Wheat	1,463	1,414	1,523	1,471	1,347	1,085	1,053	9,356
Cotton	648	626	675	652	597	480	466	4,144
Rice	472	465	500	483	443	358	348	3,069
Total	5,570	5,394	5,809	5,612	5,139	4,139	4,017	35,680

Payments. Section 114 specifies how payments will be calculated, as follows:

- USDA first will determine ***per-unit (per-bushel or per-pound) rates*** for each crop by (1) calculating, for each contract crop, total national production--set at 85% of total national contract acreage times farm program yield--and then (2) dividing that amount into the total pot of money allotted annually for each of these crops. Various estimates of *average* payment rates over the 7-year period have ranged as follows: 32 to 38 cents per bushel for corn; 37 to 45 cents per bushel for sorghum; 24 to 30 cents per bushel for barley; 2.7 to 6 cents per bushel for oats; 61 to 67 cents per bushel for wheat; 7.1 to 8.1 cents per pound for upland cotton; and $2.57 to $2.59 per 100 pounds (cwt.) for rice. These estimates are averages; payment rates generally decline each year over the life of the contract. Final rates will be announced by USDA once officials determine the actual number of acres (national contract acreage) enrolled by U.S. farmers: fewer enrolled acres will mean higher rates, and vice versa.

- ***Each farm's total annual payment*** for each contract commodity can then be calculated by multiplying the above payment rate times 85% of the "acreage base" times the "program yield." A farm's "acreage base" is the average acres planted or considered planted under the old program for the prior 5 years for wheat and feed grains, and the prior 3 years for upland cotton and rice. "Program yields" (i.e., theoretical per-acre production under the old program) remain frozen at 1986 levels. The total annual payment for those with multiple contract crop bases will be the sum of the calculations for each of the individual contract commodities. An example of a contract calculation appears on page 6.

Contract payments are tied to *land*, not individuals. Generally, section 111 stipulates that an individual must: (1) own eligible farmland and assume all or part of the production risk; (2) operate eligible farmland with a share-rent lease with a landowner, who must sign the same contract; (3) operate eligible farmland that is cash-rented (rules here vary depending upon lease duration). USDA must continue a policy of protecting the interests of tenants and sharecroppers. Precisely how this will be accomplished--and whether, as some critics predict, landowners will have a greater advantage over tenants than in the past--remains to be seen.

Planting flexibility. Previously, each commodity program participant's farm had a separate acreage base for each program crop, and with some exceptions had to be planted to the specified crop, but not in excess of the acreage base. The new law combines crop-specific bases into a single contract acreage base for each farm. Section 118 effectively permits participating farmers to plant any combination of wheat, feed grains, cotton, rice, oilseeds, or other crops on the entire contract acreage (or put the land into a conserving use). Generally, fruits and vegetables *cannot* be planted on contract acres; however, exceptions apply for USDA-specified regions with a history of double-cropping contract commodities with fruits or vegetables, and for individuals with a fruit and vegetable planting history. Unlimited haying and grazing is permitted on all acreage, including contract acreage. On land outside of the contract acreage, there are no constraints on the choice of crops.

Section 111 explicitly requires that contract land be used for agriculture-related activities, which would include conservation uses, and that contract holders satisfy conservation compliance and wetlands protection regulations. Farmers no longer are required to buy catastrophic crop insurance to receive contract benefits, as long as they waive eligibility for any disaster assistance (section 193).

No annual acreage reduction. Section 171 repeals USDA's authority to impose annual cropland diversion requirements (notably, an Acreage Reduction Program, or ARP) that shift acreage out of crop production and into conserving uses. ARPs were imposed in the past to reduce acres eligible for payments and thereby cut federal expenditures, and also to raise market prices by reducing supplies.

Crop Loans

Under subtitle I-C, nonrecourse marketing assistance loans, and loan deficiency payments, continue to be available upon harvest. Section 132 generally requires that the rates per bushel (or per pound) be set at 85% of average market prices for the preceding 5 years, excluding the high and low years (the upland cotton formula differs somewhat). As table 2 indicates, maximum rates are specified for all crops. Some have minimums, and USDA has authority to lower wheat and feed grain rates by as much as 10% to minimize surpluses.

Eligibility for wheat, feed grains, upland cotton, and rice loans is limited to those with production flexibility contracts, although the entire farm's production (not just contract acres) can qualify. However, *all* oilseed and extra-long staple (ELS) cotton is eligible at harvest, whether or not it is grown on a contract farm (oilseeds and ELS cotton are not considered "contract" crops eligible for payments).

Loan repayment provisions. Technically crop loans must be repaid with interest within 9 months (10 months for cotton) of borrowing or else the producer forfeits the collateral crop to the government, which has "no recourse" other than to accept it in lieu of repayment. However, section 134 continues the concept of "marketing loans," which enable the farmer to repay the loan at a USDA-calculated rate that is intended to approximate market prices. If that repayment rate is below the original USDA loan rate, the farmer captures the difference as an inherent subsidy. Moreover, loan deficiency payments (equal to marketing loan gains) also are made to eligible producers who choose *not* to take out loans (section 135).

Table 2. Crop Loan Rates

Commodity	Maximum Rate	Minimum Rate
Corn (bushel)	$1.89	No minimum; up to 10% reduction (below formula-set rate) permitted to minimize surpluses
Sorghum, Barley, Oats (bushel)	Other feed grain rates must be set at levels "fair and equitable" relative to corn feed value	
Wheat (bushel)	$2.58	No minimum; up to 10% reduction permitted
Upland Cotton (pound)	51.92 cents	50 cents
ELS Cotton (pound)	79.65 cents	No minimum
Rice (100 pounds)	$6.50	$6.50
Soybeans (bushel)	$5.26	$4.92
Other Oilseeds (pound)	93 cents	87 cents

Under section 135, USDA will continue to calculate cotton and rice loan repayment rates based on world market prices. Wheat, feed grains, and oilseeds repayment rates will be calculated so as to minimize loan forfeitures and government surplus acquisitions, and to encourage the movement of commodities into private markets (likely to be the local elevator or "posted county" price). Under section 163, interest rates that producers pay on new commodity loans are increased by 1%.

Section 171 suspends the farmer-owned reserve, which permitted wheat and feed grain producers (under specified surplus conditions) to extend their loans for up to an additional 27 months or more. Cotton loans no longer can be extended for an extra 8 months; however, so-called cotton "Step 2" payments, made whenever U.S. cotton prices are more than 1.25 cents per pound above world prices, are continued, subject to a 7-year spending limitation of $701 million (section 136).

Annual Payment Limits

Annual contract payments are limited by section 115 to no more than $40,000 per "person" actively engaged in farming (compared with $50,000 previously for target price deficiency payments). Marketing loan gains or loan deficiency payments remain limited to a separate $75,000 per person. There is no change in the so-called "three entity rule" which permits a person to receive up to half of the above annual limitations on each of two more farms, effectively enabling total benefits to reach $230,000 annually (a total of $80,000 in contract payments and another $150,000 in marketing loan gains). Annual payment limitations apply to the sum of benefits for all crops; there is not a separate cap for each crop.

Commission on 21st Century Production Agriculture

Subtitle I-G establishes a Commission on 21st Century Production Agriculture to conduct a comprehensive review of U.S. agricultural conditions, the effects of the new market transition contracts, and related issues, and to make recommendations for future farm policy. Initial and final reports are due by June 1, 1998, and January 1, 2001, respectively.

Determining a Producer's Annual Contract Payment: Example

(Theoretical example is a farmer with 300 acres of corn base and 450 acres of upland cotton base.)

CORN CONTRACT ACRES: *(1996 "acreage base"--average acres planted or considered planted for the prior 5 years)*	300 acres
TIMES 85%:	255 acres
TIMES PROGRAM YIELD: *(frozen at 1986 level)*	120 bushels/acre
EQUALS PAYMENT QUANTITY:	30,600 bushels
TIMES PAYMENT RATE: *(example; actual rate to be determined by USDA)*	38 cents
EQUALS TOTAL PAYMENT FOR CORN:	$11,628

COTTON CONTRACT ACRES: *(1996 "acreage base"--average acres planted or considered planted for the prior 3 years)*	450 acres
TIMES 85%:	382.5 acres
TIMES PROGRAM YIELD: *(frozen at 1986 level)*	600 pounds/acre
EQUALS PAYMENT QUANTITY:	229,500 pounds
TIMES PAYMENT RATE: *(example; actual rate to be determined by USDA)*	8 cents
EQUALS TOTAL PAYMENT FOR COTTON:	$18,360

TOTAL ANNUAL CONTRACT PAYMENT: *$29,988*

(Producer can plant any crop or combination of crops, except for restrictions on fruits and vegetables, on the entire 750 acres. On any additional acres on the farm, there are no restrictions.)