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The Federal Agriculture Improvement and Reform Act of 1996: An Overview

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Summary

Faced with spring planting decisions and the prospect of having to operate farm programs under outdated, permanent agricultural statutes because of expiring provisions in the 1990 farm law, the House and Senate passed omnibus farm legislation in the early months of 1996. Following quick resolution of the House-Senate bill differences, the President signed H.R. 2854, the Federal Agriculture Improvement and Reform Act, also called the 1996 farm bill, on April 4, 1966 (P.L. 104-127).

At the core of U.S. farm policy are federal programs that support farm income and some commodity prices. The 1996 law makes substantial policy changes to many of these programs. It replaces the earlier target price deficiency payment system for grains and cotton with predetermined and capped annual contract payments to participating producers through 2002. Payments are tied to overall crop history, rather than to individual crops, and no longer are linked to market prices. Earlier nonrecourse commodity loan and marketing loan repayment provisions are largely maintained; however, the new law ends annual federal acreage reduction and strict planting requirements.

With respect to the other federally supported farm commodities, the new law: 1) reauthorizes the dairy price support program, but phases it out by the end of 1999, and requires a consolidation of federal milk marketing orders; and 2) extends the sugar and peanut programs for 7 years, with some modifications, but keeps largely intact their broad program structures.

The trade title of the new law extends through FY2002 authority for the Export Enhancement Program (EEP) and Market Access Program (MAP, formerly the Market Promotion Program, or MPP), the dairy export incentive program (DEIP), export credit guarantees, and P.L. 480 food aid programs.

The conservation title of the new law builds on conservation initiatives enacted in 1985 and 1990, and, in a major departure from previous policy, converts the majority of conservation spending to entitlements by financing them with Commodity Credit Corporation (CCC) funds.

The new law also authorizes a new structure for the delivery of rural development assistance that increases states' discretion over the allocation of federal rural development funds, and authorizes an annual transfer of $100 million from the U.S. Treasury for 3 years to establish a Fund for Rural America. Extensions of funding authority and revisions to agricultural research programs, credit, and crop insurance are also in the new law.

The food title of the FAIR Act extends the food stamp program through FY1998 and the commodity donation programs through FY2002, and authorizes funding for new community-based food security projects. Major cost-reducing changes to the food stamp program, and authority for the program through FY2002, are contained in the 1996 welfare bill (P.L. 104-193).

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Background and Legislative History

Congress traditionally modifies and renews many U.S. Department of Agriculture (USDA) programs through omnibus legislation called a "farm bill." Federal programs that support many farmers' income and certain commodity prices have traditionally been the core of omnibus farm bills.[1] Additionally, a farm bill typically includes modifications to programs affecting soil and water conservation, forestry, domestic and foreign food assistance, export market development, agricultural research and education, farm credit, and rural development. Many of the provisions of the previous farm bill, the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624), expired at the end of fiscal or calendar year 1995; others were due to expire at the end of the 1995 crop or marketing year.

When the 104th Congress began consideration of a new farm bill in 1995, the farm sector, by most measures of economic performance, was faring relatively well. Although some farmers in some regions had suffered production disasters due to drought or floods, or experienced low market prices, farm income and farm equity had increased overall in the previous 5 years. Consumers were also faring well, with modest increases in food prices, most of which were driven by higher marketing costs rather than higher farm prices.

Nonetheless, questions pertaining to U.S. competitiveness, perceived inequities in the distribution of program benefits, the general economic well-being of today's farm households, and the comparatively small role of farming in the employment and income base of many rural communities were all forces shaping the commodity program debate. In addition, commodity price support programs are always a key issue in the farm and budget debates, in part because so many "farm belt" producers rely on them each year to supplement their incomes, and also because 70% or more of harvested U.S. cropland is planted to these crops. Over the past decade, annual outlays for the grains and cotton programs have averaged about $9.4 billion, or 70%, of the average of $13.5 billion in total annual outlays for all farm commodity support -- making grains and cotton prominent targets in the search for budgetary savings.

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[1] The federal government has provided commodity price support for producers of food grains (wheat, rice); feed grains (corn, sorghum, barley, oats, rye); cotton; oilseeds (soybeans, sunflower seed, canola, rapeseed, safflower, mustard seed, flaxseed); peanuts; sugar (cane and beets); and milk. The tobacco program is authorized separately, under the Agricultural Adjustment Act of 1938, as amended (7 U.S.C. 1311-1316 and 7 U.S.C. 1445). The wool and mohair price support programs, previously authorized under the National Wool Act of 1954, as amended, ended with the 1995 marketing year under the provisions of P.L. 103-130.

The 104th Congress began 1995 with consideration of new farm policies to replace the expiring law high on its agenda. However, the year ended without enactment of a major farm bill, which was caught up in congressional efforts to balance the budget in 7 years.

The FY1996 budget resolution that Congress completed on June 29, 1995, had assumed a $48.8 billion reduction in mandatory USDA spending over 7 years when compared with the February 1995 Congressional Budget Office (CBO) baseline -- $13.4 billion for agricultural programs (nearly a 20% reduction), $30.4 billion for food stamps (approximately a 10% reduction), and $4.6 billion (nearly a 6% reduction) for child nutrition programs. In late November 1995, Congress cleared for the President a reconciliation measure (H.R. 2491) intending to save $12.3 billion in farm commodity and other agricultural programs, and $39.1 billion for food stamps, child feeding, and other domestic nutrition programs. (Sweeping savings and structural changes in domestic nutrition programs also were included in a massive welfare reform bill, H.R. 4, that was vetoed by the President. A subsequent welfare reform bill, which was enacted, contained somewhat moderated -- but still substantial -- changes in domestic feeding programs.)

Shortly after the President vetoed the 7-year budget bill on December 6, 1995, and before subsequent White House-congressional budget talks faltered, CBO updated its baseline to December 1995, projecting USDA Commodity Credit Corporation (CCC) spending (under "current services") at about $48.7 billion over 7 years, compared with $56.6 billion in its previous February baseline. The $8 billion lower agriculture spending number reflected economists' assumption that higher than expected grain and cotton prices would necessitate smaller federal farm payments, which were directly tied to market prices under the expiring law. Thus, many agricultural interests began arguing that farm program cuts should be scaled back to fit the lower baseline projections -- or that the higher than needed savings be redirected to increases in such areas as conservation or rural development.

In the wake of the budget impasse, congressional farm leaders returned to work on a freestanding "farm bill." The first action came in the House Agriculture Committee, which reported a freestanding bill (The Agricultural Market Transition Act; H.R. 2854) on January 30, 1996. On February 7, the full Senate -- bypassing Agriculture Committee action -- cleared, 64-32, its own farm bill (The Agricultural Reform and Improvement Act, S. 1541; later readopted as H.R. 2854 to satisfy procedural requirements), which contained essentially the same commodity provisions -- but no dairy title -- as in the House bill. Like the House bill, the Senate legislation included major conservation, and international trade and aid titles in addition to new commodity price support measures. However, it was more wide-ranging than the House committee bill, with additional titles (adopted during floor debate) covering research, agricultural credit, rural development, and food stamps, among others.[2]

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[2] On February 27, 1996, House Agriculture Committee Chairman Pat Roberts introduced a separate measure, the Agricultural and Regulatory Relief and Trade Act (H.R. 2973), containing research, conservation, trade, rural development, credit, and other provisions, and said that he only wanted to consider this bill after work on H.R. 2854/S. 1541 was finished. Momentum to consider this legislation was lost when the conferees on H.R. 2854 acted to (continued...)

On February 29, 1996, the full House passed, 270-155, H.R. 2854, containing commodity and related provisions that paralleled those in the vetoed balanced budget act. A key, and controversial, element of the plan called for replacing farm income support for grains and cotton with 7 years of fixed, but declining, payments disconnected both from actual market prices for commodities and from most USDA planting requirements. Other provisions of H.R. 2854 would have extended but modified the sugar, peanut, and dairy programs.

Major amendments were adopted on the House floor that significantly altered the Agriculture Committee version adopted on January 30, 1996. This included major changes to the dairy title and expansion of the conservation and agricultural trade and aid titles of the Committee version. Other major floor amendments were not successful, including those to (1) phase out the peanut and sugar programs and traditional grains and cotton programs, (2) mandate $3.5 billion in additional spending for rural development, (3) divert $1.9 billion from commodity program subsidies into research, and (4) substitute a farm bill similar to the Senate version.

After H.R. 2854 was reported by the House Agriculture Committee, the Congressional Budget Office (CBO) estimated that the overall bill would achieve 7-year savings of about $5.4 billion below the "current services" spending baseline projected in December 1995. However, the various floor amendments -- notably conservation -- would have reduced this savings estimate, possibly by as much as $3 billion or more. The entire Senate-passed bill would have resulted in 7-year savings of just under $1 billion, according to CBO estimates.

Once the House approved its farm bill on February 29, 1996, efforts began immediately to work out the differences between the two chambers' versions. Members of Congress were under pressure from farmers facing spring planting in only a few weeks. Furthermore, the lack of a new farm law would have placed the USDA in the position of having to implement wheat and feed grain programs mandated by the permanent authority of the Agricultural Act of 1949. The policy mechanisms of the permanent law are generally considered to be inappropriate in the current economic environment as they can cause significant budget exposure.

On March 21, 1996, conferees completed action on the substantial differences between the Senate and House bills. Among the differences that proved most difficult to resolve were dairy policy, rural development programs, and whether or not to preserve the 1949 permanent mandatory support authority. The conference agreement, which passed the Senate by a vote of 74-26 and the House by a vote of 318-89, ended up looking more like the Senate bill, but with some important differences. The President signed the bill -- the Federal Agriculture Improvement and Reform Act (FAIR Act, or 1996 farm bill) -- into law on April 4, 1996 (P.L. 104-127).

The FAIR Act is projected to result in outlays of roughly $60 billion over the next 7 years, more than $2.1 billion below baseline spending estimates under previous law, as estimated by CBO. Approximately $44 billion of these outlays are

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[2] (...continued)
expand the conference bill to match the scope of the Senate-approved farm bill, S. 1541.

for the commodity, export and other programs funded through CCC. Mandatory spending in the bill for conservation and related programs accounts for nearly $13 billion of the estimated outlays. These outlays, along with additional spending on rural development and several smaller items, serve to offset much of the projected commodity program savings in the bill.

These figures *exclude* the cost of (and any projected savings in) the food stamp program, which was reauthorized in the FAIR Act with virtually no changes for only 2 years, and commodity distribution programs, which the Act extended for 7 years. Savings in the food stamp program were achieved later as part of comprehensive welfare reform legislation (P.L. 104-193, H.R. 3734). This law is projected by the CBO to reduce total federal spending for food programs by $26 billion over 6 years, of which $23.3 billion will be savings in the food stamp program, achieved primarily by placing restrictions on eligibility and by reducing benefits. Reductions in spending for the child nutrition programs account for the balance of the projected savings.

(For more information see CRS Reports 96-903, *The U.S. Department of Agriculture: Appropriations for FY1997*, and 96-304, *The 1996 Farm Bill: Comparison of Selected Provisions with Previous Law*.)

Major Provisions of the 1996 FAIR Act

Title I--Agricultural Market Transition Act

This comprehensive title makes significant changes in the mechanisms by which the federal government provides price support to producers of wheat, feed grains, cotton, rice, and oilseeds. Congress also made changes to the support programs for milk, peanuts and sugar in separate subtitles of this title.

The Agricultural Market Transition Program was an idea originally contained in House Agriculture Chairman Pat Roberts' "Freedom to Farm Act" (H.R. 2195). Subsequently, it appeared in the 1995 budget reconciliation bill that the President vetoed (H. 2491), and then again in the free-standing 1996 Senate and House farm bills (S. 1541, H.R. 2854) that became the 1996 FAIR Act.

The program replaces previous target price deficiency payments with fixed "production flexibility contract payments" for 7 years. Total funding for contract payments is locked in for a 7-year period at about $37 billion. The proposal largely preserves the existing design and levels of support through nonrecourse commodity loans and marketing loan repayment provisions. Among the other significant departures from past policy are an end to USDA-imposed annual acreage cutbacks and to strict planting requirements.

The Act also retains the permanent authority of the Agricultural Act of 1949. This was in concession to the minority party's concern that eliminating permanent authority would remove the need to reconsider farm policy when the FAIR Act expires in 2002, and could result in the disappearance of all farm supports. Relatedly, Subtitle G of Title I establishes a Commission on 21st Century Production

Agriculture to conduct a comprehensive review of domestic agricultural conditions, the effects of the new market transition contracts, and other factors, and to make recommendations for future farm policy. Initial and final reports are due in June 1998 and January 2001, respectively.

The elimination of base-acre planting constraints, the elimination of annual acreage reduction programs, and the relatively broad planting flexibility afforded by the Agricultural Market Transition Program are the features that will most affect production agriculture. In the coming year, farmers are expected to make greater efforts to increase production in response to high prices than would have been possible under the expiring programs.

(For more information see CRS Report 96-351, *Wheat, Feed Grains, Cotton, Rice and Oilseeds: Provisions of the Enacted 1996 Farm Bill*.)

Dairy

The federal government traditionally has used two major policy tools to support milk markets: the dairy price support program and federal milk marketing orders. USDA indirectly supports farm milk prices by its standing offer to purchase surplus dairy products from processors. Federal milk marketing orders, also administered by USDA, have permanent legislative authority. Federal orders regulate processors (fluid milk bottlers or manufacturers of dairy products) that sell milk or milk products within an order region by requiring them to pay not less than an established minimum price for the Grade A milk they purchase from dairy producers.

The new law reauthorizes the dairy price support program, including USDA authority to purchase surplus cheese, butter, and nonfat dry milk through December 31, 1999. The level of support is maintained at the current level of $10.35 per hundredweight (cwt.) for the remainder of 1996, but then drops to $10.20 in 1997, $10.05 in 1998, and $9.90 in 1999. The program will terminate on December 31, 1999, and be replaced on January 1, 2000, with a recourse loan program for processors of cheese, butter, and nonfat dry milk to assist them in managing their inventories of these products. In return for the lower level of price support and the gradual elimination of the program, the deficit reduction assessment paid by milk producers to defray the cost of the price support program under previous law is eliminated.

The new law also requires a reduction in the number of milk marketing orders, to at least 10 but no more than 14 -- and gives USDA 3 years to administratively achieve this goal. If at the end of 3 years, USDA has not completed the consolidation, the Department will lose its current authority of assessing producers and processors for the cost of administering milk marketing orders, and instead USDA will have to absorb the cost in its budget. If consolidation is delayed by a legal challenge, the 3-year deadline given to USDA would be extended by the duration of any injunction.

The structure of federal milk marketing orders has long been the subject of policy debate. Producer groups in the Upper Midwest (Wisconsin and Minnesota) contend that federal orders are in need of reform, while many dairy processors contend that orders are market-distorting and should be gradually eliminated. Milk producer groups in the Northeast and Southeast generally support the current order system and maintain that any changes to the system should be handled administratively by USDA.

The new law also gave the Secretary of Agriculture the power to grant the six New England states the authority to enter into a regional dairy compact for a period of time that would end at the same time as the adoption of marketing order consolidation. (On August 9, 1996, the Secretary announced that he had found "compelling public interest" in such a compact, thus allowing the six states to begin implementation.) Prior to the farm bill, the legislatures of those states had already agreed to enter into a dairy compact that would create an interstate commission with the power to set a minimum price paid by dairy processors to dairy farmers in the six states, at a level above the federal minimum price. However, such compacts must first be approved by Congress, as required by the U.S. Constitution. The New England states sought approval for the compact because dairy farm groups in the region maintain that the minimum milk prices dictated by federal orders have not been sufficient to cover the costs of production of family-sized farms, thus forcing many farmers out of business. Opponents maintain that the compact will artificially encourage the production of milk within the Northeast region at the expense of other parts of the country that have lower production costs and can sell at lower prices.

A separate provision in the new law explicitly permits California to keep in place its higher nonfat solids standards for fluid milk, and leaves the national standards unchanged. The House Agriculture Committee version of the farm bill would have increased the national minimum nonfat solids standards of fluid milk to the California level. The provision was deleted from H.R. 2854 on the House floor. Proponents of an increase in the national standards contend that milk fortified with nonfat solids is a better tasting, more nutritious product that would likely increase consumer demand for fluid milk. The opposition, led by dairy processors and some consumer groups, counters that fortifying milk with nonfat solids would be so costly that the higher consumer costs would more than offset any positive effects of the higher standards.

(For more information, see CRS Issue Brief 95103, *Dairy Policy Issues*; and CRS Reports 96-419, *Dairy and the 1996 Farm Bill: A Legislative History*, and 96-440, *Dairy Provisions of the Enacted 1996 Farm Bill*.)

Sugar and Peanuts

Both the sugar and peanut programs came under attack during the 104th Congress from opponents seeking to take advantage of a changed political climate and broader interest in reforming farm programs. Sugar and peanut users (food manufacturing companies) proposed outright repeal or significant changes, arguing that market forces and not federal controls should determine the availability and price of each commodity. Some processors (i.e, shellers that prepare peanuts for sale to peanut product manufacturers or export, cane sugar refiners that process raw sugar into white sugar ready for human and industrial use) proposed reforms they argued were needed to improve their long-term competitiveness as intermediaries in the food marketing chain. Producers and initial processors of sugar crops, and peanut growers, acknowledged the need to tackle market orientation and program cost issues, and proposed changes to address such concerns.

The new law extends the sugar and peanut programs for 7 years and largely keeps intact their broad program structure. However, some features initially proposed by the sugar and peanut producing sectors were modified to partially respond to the market-oriented objectives sought by users of both commodities.

Sugar. The enacted 1996 farm bill authorizes a sugar program through 2002, repeals standby restrictions on the marketing of domestically produced sugar, freezes price support loan rates at 1995 levels (18 cents per pound for raw sugar, 22.9 cents/lb. for refined beet sugar), and increases by 25% the budget deficit reduction (marketing) assessment rate paid by processors. The program's "no-cost" requirement was repealed, perhaps inadvertently in the drafting of the bill.

Two controversial provisions responded to sugar user concerns. The first authorizes USDA to make "recourse" loans (repayable only in cash) to raw cane sugar mills and refined beet sugar refiners whenever USDA announces a fiscal year import quota level lower than 1.5 million short tons. If the quota announced is equal to or not above this level, USDA will offer "non-recourse" loans (where growers can forfeit, or hand over, sugar offered as collateral as full payment). The second requires USDA to impose about a 1 cent/lb. penalty on any processor (having taken out a non-recourse loan) who forfeits sugar to the CCC. The production sector opposed this provision, which was pushed by some sugar users seeking an opening to gain possible access to lower priced sugar.

In general, the three most affected interest groups -- growers and sugar processors, cane refiners, and sugar users -- were somewhat dissatisfied with the final sugar program provisions. The sugar production sector argued that it will face considerable price uncertainty whenever a recourse loan policy would come into effect. Sugar users contended that the proposed program offers little change from current policy and does not lower sugar support levels. Cane sugar refiners expressed concern that retaining current price support levels means more refineries will close and that U.S. cane sugar refining capacity will continue to shrink.

During Senate floor debate February 7, 1996, Senator Gregg offered an amendment that effectively would have continued the sugar program for only 2 years instead of for 7 years as proposed for the other commodities, thereby subjecting it to renewed and separate scrutiny. The amendment was defeated, 35-61. On the House side, a floor amendment by Representatives Dan Miller and Charles Schumer to phase out the sugar program over 5 years was defeated by a closer vote of 208-217. This left the sugar program provisions in both the House and Senate farm bills nearly identical.

Peanuts. The new law authorizes price support for peanuts through the 2002 crop, continues the quota system with some changes, and is likely to eliminate all of the peanut program's projected budget costs. The new quota for peanuts limits the amount that all eligible growers can sell for domestic food use. Two levels of price support will continue to be available: a high level for quota peanuts, and a much lower rate for peanuts produced in excess of each farm's quota (referred to as "additionals"). Budget savings of over $400 million are achieved by eliminating the "minimum national quota" and "undermarketings" provisions and requiring growers to pay additional assessments if needed to cover program costs. One related change will allow USDA to set the quota at a level equal to domestic food demand rather than above it. Final provisions also include some features of the peanut growers' proposal and a compromise between 1995's $678/ton quota loan rate and the peanut shellers' call for a support level around $550/ton. Price support on quota peanuts will be reduced 10% to $610/ton starting with the 1996 crop, and then be frozen at that level through the 2002 crop. Growers opposed any support reduction; manufacturers argued that the reduction was not deep enough to reverse the decline in domestic peanut use.

During Senate debate in early February 1996, Senator Santorum offered an amendment to phase down quota loan rates and, beginning in 2001, to eliminate the quota system altogether. The amendment was tabled (defeated), 59-36, on February 7. A House floor amendment by Representative Shays to phase out the peanut program over 7 years by making steep annual reductions in the quota loan rate also was defeated, by a vote of 209-212 on February 28. The main features of the new program were the same in both the House- and Senate- passed farm bills, with a few differences. One final compromise makes producers who effectively sell their crop to the federal government for 2 years rather than to a buyer who makes a written price offer at the quota support level ($610/ton), ineligible for price support benefits for one year. Conferees also (1) settled differences reflecting regional rivalries and peanut type supply/demand imbalances on how program losses are to be shared, and (2) agreed to allow the sale and lease of 40% (over 5 years) of a county's poundage quota across county lines but still within the same state.

(For more information, see CRS Issue Brief 95117, *Sugar Policy Issues*, CRS Report 96-606, *Farm Commodity Programs: Sugar*; and CRS Issue Brief 95118, *Peanuts: Policy Issues*.)

Crop Insurance and Risk Management

Miscellaneous provisions in Title I of the 1996 farm bill make several changes to the federal crop insurance program administered by USDA. Under the new farm law, a producer no longer is required to acquire the minimum level of crop insurance coverage, as long as the producer waives, in writing, any eligibility for future disaster payments. It also allows USDA to continue to offer the basic level of insurance coverage in states or regions that have an insufficient number of approved private insurance providers, but requires USDA to shift policies to private companies when private coverage is adequate. The new law also creates a new Office of Risk Management within USDA with jurisdiction over the crop insurance program, and makes seed crops and aquaculture eligible for payments under the noninsured assistance program. Other provisions institute separate pilot programs for insect infestation, nursery crop insurance coverage, futures and options trading, and revenue insurance. The permanently authorized livestock assistance programs, which assist livestock producers when they lose a significant portion of their on-farm feed to a natural disaster, are terminated.

For more information, see CRS Report 96-477, *Crop Insurance and Risk Management: Provisions in the Enacted 1996 Farm Bill*.

Title II--Agricultural Trade

U.S. agricultural exports are important to the financial health of the farm and agribusiness sectors. Agricultural exports reached a record $60 billion in FY1996, up from $54.1 billion in FY1995, and surpassing the previous record of $43.8 billion set in FY1981. Agricultural exports are projected to decline a little in FY1997, to $58 billion.

Four types of programs assist agricultural exports: (1) export subsidy programs, including the Export Enhancement Program (EEP); (2) market development programs, including the Market Access Program (MAP); (3) export credit guarantee programs (GSM-102 and -103); and (4) U.S. foreign food aid programs.

The new farm law makes a number of important changes in agricultural export programs. It authorizes through FY2002 maximum funding levels for EEP that are lower in early years than the maximum levels allowed by the Uruguay Round Agreement on Agriculture. It authorizes MPP through FY2002 but at a reduced level of $90 million annually. It includes specific authorization for the first time for the Foreign Market Development Program (Cooperator Program), which heretofore had been included as a line item in the budget of the Foreign Agricultural Service.

The new law authorizes the level of export credit guarantees for buyers of U.S. agricultural products in foreign countries at $5.5 billion, the current level. It extends authorities for P.L. 480 food aid programs (concessional sales, humanitarian donations, and bilateral development grants) to FY2002. The agreement also reauthorizes the Food for Progress Program and makes some changes in Section 416(b) foreign commodity donations.

Changes included in the new law appear to reinforce both the market development and humanitarian aims of food aid programs. Private entities become eligible for Title I sales agreements. Intergovernmental organizations, in addition to private voluntary organizations and cooperatives, become eligible for funds to defray project-related and administrative costs. The agreement authorizes a 4 million metric ton Food Security Commodity Reserve of wheat, corn, sorghum, and rice to meet unanticipated emergency humanitarian food needs in developing countries.

The agreement calls for the Secretary of Agriculture to develop a strategy for implementing federal agricultural export programs and to establish quantitative goals against which to measure the success or failure of the strategy.

Provisions on some of these programs are also contained in the FY1997 agriculture appropriations act (P.L. 104-180). The act limits EEP funding to $100 million, contains no restriction on the level of MAP funding, and supports the authorized level of $5.5 billion for export credit guarantees. It provides for a total P.L. 480 program level of $1.110 billion in FY1997 ($77.6 million less than in FY1996), but in spite of the overall reduction, the conferees provided for an increase in funding for Title II of P.L. 480 (humanitarian food donations overseas).

(For more information, see CRS Issue Brief 95088, *Agricultural Export and Food Aid Programs*; CRS Report 95-391, *Agricultural Export Programs, Food Aid and the Farm Bill*; CRS Report 95-388, *Export Enhancement Program: Background* *and Current Issues;* and CRS Report 94-303, *P.L. 480: History and Legislation, Programs and Policy Issues*.)

Title III--Conservation

The conservation provisions of the FAIR Act more fully integrate resource conservation and environmental concerns with agricultural policies, continuing a trend that started with the 1985 farm law and continued with the 1990 farm law. Provisions in this title change the resource conservation effort in significant ways that go beyond individual programs.

- Total funding for conservation is estimated to grow by about $300 million per year;

- A majority of the conservation funding will be mandatory;

- The conservation agenda is broadened by adding wildlife considerations to many programs and by further elevating nonpoint pollution as a program priority; and

- Some conservation programs will be targeted to priority areas, which are to be designated in each state.

The farm bill (H.R. 2854) that the House Agriculture Committee voted out on January 30, 1996, contained limited conservation provisions, largely adopting the provisions that had been included in reconciliation legislation. These provisions were limited to amendments to the Conservation Reserve and Wetlands Reserve programs, and creation of a new cost-sharing program to assist livestock producers.

The Senate-approved omnibus farm bill (S. 1541) included a much more substantial conservation title. It contained modified versions of provisions that had been a part of the reconciliation package. It also included many others that surfaced for the first time during Senate floor action. Many of these ideas had been included, as conceptual points, in the Clinton Administration's farm bill guidance, issued in May 1995. These provisions were largely supported by the environmental and conservation communities.

In conference, the more far-reaching Senate-passed provisions generally prevailed. Furthermore, provisions on highly erodible lands and wetlands conservation that had not been in either Chamber's bill, but had been sought by agricultural interests, were added by the conference committee. These provisions include:

- reauthorizing the CRP and WRP, making them both entitlements, allowing landowners who meet certain qualifications to terminate CRP contracts early, limiting the use of permanent easements in future WRP enrollments, and setting maximum enrollment limits;

- creating a new $200 million per year ($130 million in FY1996) entitlement for conservation cost-sharing, called the Environmental

Quality Incentive Program (EQIP), and dedicating half the funding to addressing problems associated with livestock production;

- creating several new grazing measures, including a land management program, a National Natural Resources Conservation Foundation, a wildlife habitat program, a farmland protection initiative, and a floodplain easements program;

- creating a pilot Conservation Program Option (with capped funding levels each year) for producers who participate in both the CRP and the market transition program, by providing a 10-year contract (rather than 7 years) in returning for meeting specified resource conservation requirements; and

- amending the highly erodible cropland and wetland conservation provisions to provide producers with greater flexibility for meeting conservation requirements.

(For more information, see CRS Reports 96-165, *Conservation Provisions in S. 1541 and H. R. 2854: A Comparison*, and 96-330, *Conservation Provisions in the 1996 Farm Bill: A Summary*.

Title IV--Nutrition Assistance

Major changes to domestic food assistance programs were part of legislative initiatives in the 104th Congress to revamp Federal farm support, balance the budget, and reform welfare. Food stamp spending figured prominently in legislative decisions about omnibus farm measures as the Congress confronted difficult choices between food and farm program spending. This delayed agreement in 1995 on omnibus farm legislation needed to reauthorize food stamp, commodity donation, and agricultural support programs expiring at the end of FY1995. These programs, however, were funded by FY1996 appropriation law (P.L.104-37), and food program authorities were extended under the food title of the omnibus farm bill (P.L.104-127) that ultimately was enacted in April 1996.

Historically, the inclusion of a food assistance title in the farm bill has helped bring urban support for farm programs and farm support for food aid programs. Incorporating a 7-year extension of food stamp and commodity donation programs into the Senate farm bill was credited (along with conservation and rural development titles) with garnering wider support for the bill this year as well. In the House, where it was assumed that changes to food programs would be contained in welfare reform legislation, no nutrition program provisions were contained in the 1996 farm bill that this Chamber approved. Ultimately, farm bill conferees compromised on a 2-year extension of the food stamp program and a 7-year extension of several pilot projects for employment and training programs for food stamp recipients, nutrition assistance for Puerto Rico and American Samoa, and commodity donation programs like the Emergency Food Assistance Program (EFAP) and the Commodity Supplemental Food Program (CSFP). They also agreed to the creation of a new community food security program, which allows the Secretary to spend not more than $1 million in FY1997 and up to $2.7 million in each of fiscal years 1998-2002 to make grants to communities to help them meet the food needs of low-income populations.

Both welfare reform and budget reconciliation measures approved by the House and Senate during the 104th Congress contained provisions substantially revising the funding and structure of federal food programs. During the first session, the House and Senate passed welfare and reconciliation bills (H.R. 4 and H.R. 2491) that achieved 7-year net outlay savings of $30.1 and $33.5 billion, respectively, in projected spending for domestic food programs (85% of the reductions were from food stamp program changes). These bills were vetoed by President Clinton. In the second session, the Congress approved a welfare-budget measure (H.R. 3734) that the President signed (P.L.104-193). This new law extends appropriations authority for the Food Stamp Act through FY2002, and is projected by CBO to reduce net federal spending under this Act by a total of $23.3 billion over 6 years, primarily through new restrictions on eligibility for non-working recipients and non-citizens, and reductions in benefits. Total food program reductions from this law, including those for child nutrition programs, are projected to be about $26 billion over 6 years.

The enacted welfare measure also combines the EFAP and soup kitchen food bank programs and requires that $100 million be used annually from food stamp funds to buy commodities for the emergency feeding facilities distributing food to the needy under this program.

A major source of contention between the two Chambers and between the Administration and Congress -- namely, provisions requiring child nutrition block grants and allowing states the option to block-grant food stamps under certain circumstances, and placing a ceiling on food stamp spending -- were *not* contained in the 1996 welfare/budget law. However, a new food stamp eligibility requirement was included for able-bodied adults without dependents that generally limits them to 3 months of eligibility unless working at least half-time (this had been opposed by the Administration). The Administration also opposed the prohibition on food stamp eligibility for most legal aliens and the reduction in benefits for those with high shelter costs, both of which were in the enacted measure. In signing both the farm and welfare measures, the President expressed concern that some of these laws provisions might endanger the safety net for farmers and for poor Americans and indicated that he would press for corrections if this occurred.

(For further information, see CRS Report 96-861, *Federal Food Programs: Legislation in the 104th Congress;* CRS Report 95-475, *National School Lunch Act: Facts and Issues*;CRS Report 96-987, *Child Nutrition Legislation in the 104th Congress*, CRS Report 95-366, *Food Stamp Reform Legislation: A Brief Summary*; CRS Report 96-642, *TEFAP and Soup Kitchen-Food Bank Program: Legislation in the 104th Congress*; and CRS archived Issue Brief 95047, *Child Nutrition Issues in the 104th Congress*).

Title V--Agricultural Promotion

The FAIR Act for the first time grants USDA broad-based authority to establish national generic promotion ("check-off") programs for virtually any agricultural commodity. Formerly, individual programs first had to be authorized expressly by

Congress. The new law also explicitly authorizes the establishment of new check-off programs for rapeseed and canola, kiwifruit, and popcorn.

Section 501 of the new law also states, as "findings" of Congress, that generic advertising programs are in the national public interest and vital to the welfare of the agricultural economy; and that they never were designed or intended to restrict, prohibit, or replace the advertising and promotion activities of any individuals or groups of individuals (among other things). Congress inserted this language partly in response to recent court decisions that have raised legal questions over the constitutionality of the mandatory fee assessments that are the basis for the promotion programs.

(For more information, see CRS Report 96-381, *Agricultural Marketing and Regulatory Provisions of the 1996 Farm Bill*.)

Title VI--Credit

Congress frequently includes a credit title in omnibus farm legislation as a vehicle for making policy changes to USDA credit programs, as well as addressing issues that relate to institutional lenders, such as commercial banks and the Farm Credit System (FCS).

The new law contains a credit title that directly affects eligibility for USDA farm loans and the servicing of its delinquent accounts. Among its many provisions, the credit title would eliminate a requirement that USDA provide operating loans to certain farm borrowers even if they are delinquent on previous loans; deny new farm loans to any borrower who had a delinquent loan on which the debt was forgiven; reduce the mandated period USDA must wait to notify borrowers that they are delinquent and to inform them of their loan servicing options; continue the shift in USDA lending resources from direct loans to guaranteed loans; and expedite the sale of acquired USDA farm property.

The agreement closely resembles the credit title in the Senate version of the farm bill. The House version of the farm bill did not contain a credit title. However, a separate bill, (H.R. 2590) introduced by House Agriculture Committee leadership would have applied more stringent qualifications than the Senate bill for new USDA farm loans and would have restricted USDA's options for servicing delinquent borrowers.

Because consideration of the farm bill was delayed until 1996, some credit issues had already been considered by Congress in stand-alone legislation. On February 10, 1996, the President signed into law the Farm Credit System Regulatory Relief Act of 1995 (P.L. 104-105, H.R. 2029), which affects the operations of both the Farm Credit System (FCS) and Farmer Mac. This legislation was expedited because certain regulatory issues affecting the Farm Credit System required immediate congressional attention. Additionally, many policymakers contended that the worsening financial condition of Farmer Mac warranted prompt legislative action. P.L. 104-105 expands Farmer Mac authorities, but also requires it to build up its capital reserves within a specific timeframe or face shutdown.

(For additional information, see CRS report 96-431, *Credit Provisions of the Enacted 1996 Farm Bill*.)

Title VII--Rural Development

The House originally did not include a rural development section in its version of the farm bill, intending, at some later date, to authorize rural development, agricultural research, conservation, and other USDA discretionary programs under separate legislation (see footnote 2). However, during conference consideration of farm legislation, the House accepted the rural development provisions included in the Senate version of H.R. 2854. The provisions encompassed in Title VII of the FAIR Act substantially restructure the delivery of rural development assistance to communities with populations of 50,000 or less by:

- creating a state-administered rural development block grant program -- the Rural Community Advancement Program (RCAP) -- patterned after the Clinton Administration's Rural Performance Partnership Initiative outlined in its FY1996 budget;
- inaugurating an economic development initiative labelled the Fund for Rural America;
- greatly expanding federal assistance for distance learning and telemedicine; and
- repealing authority for a number of unused rural development programs.

Under the RCAP provisions of Title VII of the FAIR Act:

- three distinct rural development-related funding pools are established dedicated to rural community facilities, rural utilities, and rural business and cooperative development;
- USDA's State Rural Development Offices may transfer up to 25% of the funds among the three accounts provided that no more than 10% of the funds are transferred from any one of the three accounts nationally;
- assistance may be provided in any combination of loans, grants, or loan guarantees at the discretion of USDA's State Rural Development Offices; and
- a state may control up to 10% of its RCAP allocation through the creation of a RCAP-funded, state-administered block grant.

Under provisions of Title VII, the Fund for Rural America will receive $100 million annually in unappropriated U.S. Treasury funds for each of the fiscal years 1997, 1998, and 1999. Funding is to be allocated equally among the three program areas: rural development, research, and a discretionary fund. Rural development may include business enterprise grants, loans, loan guarantees, water and waste water projects, housing assistance, and distance learning and telemedicine grants and loans. Research grants are to be awarded competitively to eligible federal research agencies, national laboratories, colleges, universities, research foundations, or private research organizations with at least 15% of such grants awarded to institutions that rank in the bottom one-third of other grant funds received. The remaining one-third of funds are to be allocated among research and rural development activities at the discretion of the Secretary of USDA.

Title VII authorizes a 5-year (FY1997 to 2002) annual appropriation of $100 million to carry out provisions of the Distance Learning and Telemedicine Program. This new initiative is based on the modestly funded Distance Learning and Medical Link program first authorized by the Food, Agriculture, Conservation, and Trade Act of 1990. As of April 1996, the program has awarded $27.5 million in grants to 90 projects designed to expand educational opportunities to rural students and provide timely and modern health care to rural residents. The new program will provide loans as well as grants to eligible entities for the construction of facilities.

In addition to the significant changes mentioned above, Title VII of the FAIR Act also alters rural development programs to target water and waste facility loans and grants to smaller communities, to limit the size of grants under the Business Opportunity Grants program, and to continue the Emergency Community Water Assistance Grant program, among other things.

Title VII converts the independent USDA agency, the Alternative Agricultural Research and Commercialization Center, into a wholly-owned government corporation. The Corporation is charged with expediting the development and commercialization of alternative, nontraditional, nonfood, nonfeed products derived from agricultural products and forestry materials through grants, loans, loan guarantees and other mechanisms. Title VII authorizes an appropriation of $75 million for each of FY1996 to 2002 to be used to establish a revolving fund to finance the Corporation's activities.

Title VIII--Research, Extension, and Education

Omnibus farm bills traditionally include extensive titles covering agricultural research and extension programs. These titles reauthorize an array of programs, and set, redirect, and/or reaffirm research priorities, among other things. A vast network of federal agricultural laboratories, state land-grant universities and their agricultural experiment stations, and federal, state, and county Extension offices comprise the public agricultural research and education system. This system, along with the teaching programs of the agricultural schools, is largely credited with developing and disseminating the production technologies that have helped to make U.S. agriculture so highly productive and globally competitive.

In 1996, farm bill conferees largely agreed to the Senate provisions on research, extension, and education, while acceding to the House's desire to limit portions of the reauthorization to 2 years. The enacted 1996 farm bill authorizes a new research and extension policy advisory board to replace three existing ones, and it continues funding through FY2002 for public agricultural research, education, and extension programs. Annual funding authority is set at $850 million for Agricultural Research Service programs, $310 million in Hatch Act formula funds for state agricultural experiment stations, $460 million for the Cooperative Extension System, and $500 million for the National Research Initiative Competitive Grants program. Other policy changes include: establishing a merit-review process for proposals to build new university research facilities; requiring a 10-year strategic plan for the construction, consolidation, modernization and closure of public agricultural research facilities; and requiring development of a new system for tracking and evaluating the outcomes of research and extension activities.

The House wanted the 2-year limit on the Senate research provisions because House Agriculture Committee leaders have embarked on a more extensive review of agricultural research and extension policy. A series of hearings took place in the spring of 1996; separate legislation is expected to be introduced sometime near the start of the 105th Congress in 1997.

(For further information, see CRS Report 96-596, *Research Provisions in the Enacted 1996 Farm Bill and Issues for Further Consideration*.)

Title IX--Miscellaneous

Title IX contains miscellaneous provisions relating to certain USDA marketing and regulatory programs. Among other measures, Section 918 of the title requires the establishment of a new Safe Meat and Poultry Inspection Panel; Sections 901 to 905 of the new law permit USDA (subject to the availability of appropriations) to issue guidelines for the regulation of the commercial transportation of horses and other equines destined for slaughter; and Section 917 allows the Animal and Plant Health Inspection Service (APHIS) to access user fee revenues sufficient to meet the demand for inspection of incoming luggage and cargo for agricultural pests and diseases.