Order Code RL31195

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The 2002 Farm Bill: Overview and Status

Updated March 13, 2002

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Summary

Note: CRS has an online briefing book on many aspects of the farm bill: CRS Agriculture Policy and Farm Bill Briefing Book.

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 most recent omnibus farm bill, and many of its provisions expire in 2002.

Although differing in detail and rates of support, both the House and the Senate bills continue marketing loans and fixed payments, create new counter-cyclical assistance tied to target prices (a guaranteed per-bushel pricing system which had been eliminated in 1996), for grains, cotton, and oilseeds, and continue planting flexibility with no supply controls. Both extend, with some modifications, dairy and sugar support (the Senate adds new direct payments for dairy), and end peanut quotas by establishing a support program like that for major crops. Both also contain titles (although somewhat differing) 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.

The Congressional Budget Office (CBO) has estimated that the House bill would create new mandatory spending, over 10 years, of $73.5 billion, over and above baseline estimates (budget authority). Of this, $48.8 billion is new money for farm commodity programs and another $15.8 billion is for conservation. The Senate bill would add, over 10 years, $79.6 billion (which exceeds the $73.5 billion allocated by the budget resolution). Of this, $46 billion is new money for farm commodity programs and another $21.3 billion is for conservation. The Senate figures do not include the $2.4 billion in additional FY2002 costs for 2001 crop and livestock losses and for 2000 apple losses. This aid, approved as a floor amendment to the Senate bill, was designated as "emergency" spending and thus not counted toward the $73.5 billion budget allocation.

Conferees have begun to reconcile the many differences between the two bills. Some of the more contentious differences include Senate provisions that ban meat packer ownership or control of livestock more than 14 days prior to slaughter, and payment limits that are much more restrictive than prescribed by current law or by the pending House bill. Other disparities confronting conferees are whether the bill should be for 5 or 10 years; differing loan, direct payment, and counter-cyclical payment rates for major crops; higher spending in the Senate bill over the next 5 years than in the House version; and more expansive Senate conservation provisions (although both versions call for conservation spending increases), among other things. Finally, the Senate bill's higher cost could further complicate conference; CBO in early March raised, by more than $6 billion, its original 10-year estimate of $73.5 billion, after finding an error in its calculations.

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Most Recent Developments

The Senate approved 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. Approval came after a lengthy debate that began on December 5, 2001, continued during the weeks of December 10 and December 17, and resumed again for several days in February. During the debate, a number of amendments, some controversial, were debated and adopted.

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 extend major farm, food, and related programs through 2011.

Conferees have been appointed to reconcile numerous differences between the two bills. It will be a challenge to complete work before the Easter recess, a deadline USDA officials say they need to implement the law for this year's crops. A further complication is that the Congressional Budget Office (CBO) found, in early March, that it had underestimated the cost of the Senate-passed bill by more than $6 billion.

(A detailed comparison of the two bills – being updated to reflect final Senate action – is in CRS Report RL31272, *A New Farm Bill: Comparing the House and Senate Proposals with Current Law*. For more CRS products, see also the CRS Agriculture Policy and Farm Bill Briefing Book.)

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 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 congressional budget resolution (H.Con.Res. 83), completed in May 2001, reserves, for FY2002-2011, an extra $73.5 billion in direct spending in order to accommodate the cost of legislative changes in farm and related programs. This allowance is over and above the projected CBO baseline for such programs for the same 10-year period. Subsequent re-estimates of the baseline showing shrinking budget surpluses have created some uncertainty regarding available budgetary resources. Proponents had argued that their bills will be consistent with the budget resolution – and, in early 2002, there still appeared to be support within Congress and the Administration to spend the full $73.5 billion.

Table 1 shows the CBO-estimated cost of the farm, food, and related programs in the bill under a continuation of current law, unchanged ("Current Law, Baseline"); and how costs would increase under the House and Senate bills, respectively. These estimates cover both 5 years (FY2002-2006), the term of the Senate bill, and 10 years (FY-2002-2011), the term of the House bill.

Table 1. Farm Bill Cost Comparisons

Budget Category	Current Law Baseline		House Bill		Senate Bill	
	Budget Authority		Estimated Cost Above Baseline			
	5-Yr Total	10-Yr Total	5-Yr Total	10-Yr Total	5-Yr Total	10-Yr Total
	Million $					
Commodity Support	44,065	69,868	25,077	48,785	30,463	45,974
Crop Insurance	16,996	37,243	0	0	-292	-1,901
Conservation	9,618	21,412	6,788	15,787	11,776	21,303
Credit	0	0	0	0	71	71
Forestry	3,292	5,674	108	268	259	326
Trade/Food Aid	1,995	3,990	636	1,436	1,116	2,110
Agricultural Research	360	360	435	1,160	1,068	1,068
Rural Development*	204	204	1,175	2,150	2,281	2,281
Food Stamps**	113,183	245,509	1,515	3,648	2,201	8,308
Other Programs/Agencies	0	0	109	224	83	97
Total	**189,713**	**384,260**	**35,842**	**73,458**	**49,027**	**79,636**

Source: CBO. Figures represent budget authority (not outlay) estimates for programs requiring direct spending. Other programs in the bill are funded through annual appropriations, for which additional costs will be incurred.
*Senate rural development figures include $570 million in new energy title program costs.
**Although a few domestic nutrition program costs outside of food stamps are included here, almost all child nutrition costs are excluded. Child nutrition programs typically are not addressed in farm bills.

Not included in table 1 is $2.4 billion in new "disaster" assistance that was approved as a Senate floor amendment in February 2002. This aid was designated as emergency funding and therefore would not – if it survives conference – be counted, for scoring purposes, toward the $73.5 billion budget limitation on new farm bill mandatory spending.

As noted, CBO in early March had to adjust its projected cost of the Senate bill upward by $6.1 billion after discovering an error in its earlier calculations. This now puts the 10-year cost of the Senate bill about $6.1 billion above the budget resolution allowance. (Table 1 reflects the adjustment.) At least theoretically, this issue might be mitigated by the fact that the Senate bill is for 5 years only, during which it spends a projected $49 billion. On the other hand, House negotiators and the Administration already were highly critical of the Senate bill for spending more of the available $73.5 billion in the first 5 years, leaving (in their view) too little for new agriculture spending in later years. How conferees view and deal with this issue remains to be seen.

Trade. The multilateral Uruguay Round Agreement on Agriculture (URAA) poses another constraint by limiting, to no more than $19.1 billion per year, the value 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]

Both the House and Senate bills continue 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, both bills continue 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 bills create new "countercyclical" programs that also are likely to be subjected to such limits. (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 bills ultimately result in future URAA compliance problems remains to be seen. Both the House and Senate bills contain a provision authorizing the Secretary of Agriculture to keep farm program benefits within the annual WTO limit. The Senate version goes even further by requiring annual USDA notifications to Congress on current and following marketing years' estimates of support to be reported to the WTO, and effectively requiring Congress to consider amending (within 18 months) any programs that might cause the URAA limits to be breached. Critics have questioned the feasibility of implementing

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

this provision. (For an explanation of the URAA rules, See *Farm Support Programs and World Trade Commitments*, CRS Report RL30612; and *Farm Program Spending: What's Permitted Under the Uruguay Round Agreements*, CRS Report RS20840.)

Administration Views

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. The Administration expressed its support for the so-called (and unsuccessful) Cochran-Roberts floor amendment which it said was consistent with the President's principles for sound farm policy.

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." Domestic farm policy must not reduce competitiveness, and seek to expand farm export opportunities. 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.

In releasing the report, Agriculture Secretary Veneman commented that "fundamental, far-reaching changes in policy, programs, procedures, and institutions may be required." She pointed out that current farm policy does not expire until later in 2002, implying that Congress should take more time to debate and pass a new bill.

By late 2001 and early 2002, the Administration was no longer publicly emphasizing the need to proceed more slowly. Moreover, top Administration officials now have pledged their support for a "generous farm bill" and more specifically for the $73.5 billion provided through last year's congressional budget resolution. They also have expressed preference for the House bill, at least partly because it would not require as much spending during the first 5 years as the Senate version (see Table 1).

Despite periodic comments on farm policy in general and the farm bill in particular, the Administration has not been viewed by congressional agricultural leaders as a major player in the debate; whether it will be more active and influential in the upcoming conference remains to be seen.

Selected Provisions

Farm Income and Commodity Price Support[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 are 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. PFC contract payments are projected at $4.1 billion for FY2001. 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 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 the 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.

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[2] CRS contacts: Jasper Womach, 7-7237; Geoffrey S. Becker, 7-7287; Remy Jurenas, 7-7281 (sugar and peanuts); Ralph Chite, 7-7296 (dairy).

Persistently low commodity prices stimulated four 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). (See Supplementary Farm Support Payments for 2001 in the CRS Agriculture Policy and Farm Bill Briefing Book.)

Many policy makers and farm groups are now urging policy changes to provide 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 have called for continuation of annual lump sum assistance like PFC payments. Some want 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 are concerned that such payments are quickly capitalized into land prices and rents. Both the House and Senate bills would continue direct payments that are similar in concept to PFC payments, and both would add soybeans and other oilseeds as eligible crops..

Counter-Cyclical Assistance. There is strong interest in a new counter-cyclical assistance program that is more generous than now provided through marketing loans. Various proposals differ in detail but share a common objective of providing more support when farm prices and/or incomes decline than provided under current law. Both the House and Senate bills contain forms of 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 is wide support to continue marketing assistance loans (including loan deficiency payments, LDPs). However, several groups have called for higher loan rates. Others have proposed "re-balancing" current loan rates by raising them to a level equivalent to soybeans (which are not currently a PFC commodity). Both the House and Senate bills continue marketing loan benefits for grains, cotton, oilseeds, wool, and honey; the Senate 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 oppose any restoration of production control or supply management tools. However, the National Farmers Union and the National Farmers Organization proposed voluntary set-asides for crops – with loan rates increasing as more acres are removed from production – and also commodity reserve programs that (when prices are low) pay producers to store crops on the farm until prices rise. Neither the House nor Senate bill would 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. Some thought was given to direct payments as an alternative or supplement to price support. Both the House and Senate bills continue the sugar and dairy programs, and radically alter the peanut program to function similarly to the grains and cotton programs. The Senate (but not the House) bill also adds a new counter-cyclical direct payment for dairy producers.

"Green" Payments. Some contend that farmers' incomes can be enhanced through so-called green payments, which provide financial incentives based not on the commodities they produce, but rather in exchange for practices that protect land, water, air quality, and/or wildlife; or possibly offer scenic, recreational, or open space amenities. Critics counter that good stewardship of the land should be a responsibility and obligation of all farmers and not require government payments. (See the next section, "Conservation and Environment.")

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) embraces such an approach.

House Bill. The House bill (H.R. 2646) contains the following provisions for ***grains, cotton, and oilseeds***:

- Fixed, decoupled payments (like the current PFC contract payments) at rates shown in the table 2 (page 10), with a per-person payment limit of $50,000 per year. 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." Target prices are shown in the accompanying table. The per-person payment for this subsidy would be limited to $75,000 yearly.

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[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*.

- Continuation of marketing assistance loans (and LDPs) at current rates, except that the soybean rate would be lowered to $4.92/bu. (see table). A payment limit of $150,000 per year would be applied to marketing loan benefits. As under current law, gains from commodity certificates and forfeitures would not be subject to limits. Fixed, decoupled payments and counter-cyclical payments would apply to 85% of each farm's AMTA base or updated acres, and AMTA crop yields.
- Continued flexibility to plant most crops (except fruits and vegetables) on base acres, and no USDA annual acreage control authority.

A new ***peanut*** program would be similar to other crop support, with fixed decoupled payments of $36/ton, a target price of $480/ton, and loan rate of $350/ton; marketing quotas would be ended, with compensation of $200/ton/year for 5 years (a total of $1,000/ton) paid to quota holders for lost asset values. Also, ***sugar*** support at 18¢/lb. raw cane and 22.9¢/lb. refined beet would continue with the no-net-cost rule re-established, a payment-in-kind program and marketing allotments authorized, and no marketing assessment. ***Dairy*** would continue at its current support level of $9.90/cwt. Marketing loans and LDPs would be provided at rates of $1/lb. for ***graded wool***, 40¢/lb. for ***nongraded wool***, $4.20/lb. for ***mohair***, and 60¢/lb. for ***honey***.

Senate Bill. The Senate bill (S. 1731, but adopted as H.R. 2646) would cover 5 years, the 2002 through 2006 crops. Title I, the commodity title, contains the following provisions for ***grains, upland cotton and oilseeds:***

- Direct fixed, decoupled payments (as with the House bill and like current contract payments) at rates shown in table 2 (page 10). The combined per-person annual limit for these payments and for counter-cyclical payments (see next bullet) would be $75,000.
- 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," as with the House bill. Target prices are shown in the accompanying table.
- Continuation of marketing assistance loans (and LDPs) at higher rates than the House bill (see table 2). A payment limit of $150,000 per year would apply. In contrast to the House bill, gains from commodity certificates and forfeitures would count toward the limit.
- Fixed, decoupled payments and counter-cyclical payments would apply to 100% of each farm's current AMTA base acres and crop yields, or updated acres and yields.
- Continued flexibility to plant most crops (except fruits and vegetables) on base acres, and no USDA annual acreage controls.

The ***peanut*** program is similar to the House bill, but the loan and target prices are higher, and the quota payment is higher at $220/ton/year. ***Sugar*** support would continue at the same levels as in the House bill, along with marketing allotments. ***Dairy*** would continue at its current support level of $9.90/cwt., but with an added feature of new counter-cyclical deficiency payments for northeastern states when minimum fluid milk prices are below $16.94/cwt., and for other states, when quarterly all-milk prices fall below the 5-year average for that quarter.

Marketing loans and LDPs would be provided at rates of $1/lb. for ***graded wool***, 40¢/lb. for ***nongraded wool***, no support is included for ***mohair***, 60¢/lb. for ***honey***, $6.78/cwt. for ***dry peas***, $12.79/cwt. for ***lentils***, $17.44/cwt. for ***large chickpeas***, and $8.10/cwt. for and ***small chickpeas***.

The Senate bill also mandates ***specialty crop*** purchases using CCC funds: $100 million in each of FY2002 and FY2003, $120 million in FY2004, $140 million in FY2005, and $170 million in FY2006. Purchases of unspecified commodities are mandated at an additional $30 million each year.

Other bills were introduced in the Senate that offered farm income or commodity support. Among floor amendments of note were:

- The commodity title of S. 1571 (Lugar), a 5-year bill that would: a) offer vouchers (based on each farm's 5-year average gross revenue) to farmers and ranchers for the purpose of purchasing whole farm revenue insurance, depositing in an income stabilization account, or acquiring other risk protection coverages; b) end direct AMTA contract payments after the 2002 crop with farmers having complete planting flexibility beginning in 2003; c) reduce marketing assistance loans each year and terminate them after the 2006 crop year; and d) decrease and phase out all other commodity support programs after 2005. The full Senate rejected a Lugar amendment with these provisions. However, an income stabilization savings account pilot program is included in the approved Senate bill.
- An amendment, offered unsuccessfully during markup by Senators Cochran and Roberts and also defeated, 40-55, on the Senate floor in December, to increase direct payments, keep loan rates at current levels, and create a system of farm savings accounts. However, as noted a farm savings account pilot program is included in the approved Senate bill.

The additional 10-year cost (budget authority) of the House bill's commodity provisions were estimated by CBO to be $48.8 billion over and above a projected current services baseline of $69.9 billion. Thus, total commodity spending under the bill would be nearly $120 billion. CBO estimated the additional cost of the Senate bill's commodity provisions at $45.9 billion (10-year basis).

Conference Issues. The House bill puts more of the support benefit into fixed, decoupled payments while the Senate bill puts more benefit 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.

Table 2. House and Senate Bills: Comparison of Loan Rates, Direct Payment Rates, and Target Prices

Crop	Loan Rates		Direct Payment Rates*		Target Prices*	
	House**	Senate	House	Senate*** 2002/03, 2004/05, 2006	House	Senate
Wheat, $/bu	2.58	2.9960	0.53	0.45, 0.225, 0.113	4.04	3.4460
Corn, $/bu	1.89	2.0772	0.30	0.27, 0.135, 0.068	2.78	2.3472
Sorghum, $/bu	1.89	2.0772	0.36	0.31/0.27, 0.135, 0.068	2.64	2.3472
Barley, $/bu	1.65	1.9973	0.25	0.20, 0.10, 0.05	2.39	2.1973
Oats, $/bu	1.21	1.4980	0.025	0.05, 0.025, 0.013	1.47	1.5480
Cotton, $/lb	0.5192	0.5493	0.0667	0.13, 0.065, 0.0325	0.736	0.6739
Rice, $/cwt	6.50	6.4914	2.35	2.45, 2.40, 2.40	10.82	9.2914
Soybeans, $/bu	4.92	5.1931	0.42	0.55, 0.275, 0.138	5.86	5.7431
Oilseeds, minor, $/lb	0.087	0.0949	0.007	0.01, 0.005, 0.0025	0.1036	0.1049
Peanuts, $/ton (¢/lb)	350 (0.175)	400 (0.20)	36.00 (0.018)	36 (0.018)	480 (0.24)	520 (0.26)
ELS cotton, $/lb	0.7965	0.7965				
Wool, graded, $/lb	1.00	1.00				
Wool, nongraded, $/lb	0.40	0.40				
Mohair $/lb	4.20	2.00				
Honey, $/lb	0.60	0.60				
Sugar, raw cane, $/lb	0.180	0.1800				
Sugar, beet, $/lb	0.229	0.229				
Peas, dry, $/cwt		6.78				
Lentils, $/cwt		12.79				
Chickpeas, large, $/cwt		17.44				
Chickpeas, small, $/cwt		8.10				
Milk, $/cwt****	9.90	9.90				16.94

* Payment bases differ between the bills, except for peanuts.
** Loan rates are maximum allowable levels.
*** Reflects payment rates that begin at higher levels in 2002 and decline by 2006, except for peanuts.
**** $9.90 is the level of farm price support under the dairy product purchase program; it is not a loan rate. See text for an explanation of milk target price program (i.e., counter-cyclical payments) which differs from that for crops.

Another important difference is the Dorgan-Grassley floor amendment, which will 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 make it more difficult to reorganize operations in order to legally exceed this limit. (See CRS Report RS21138, *Farm Commodity Payment Limits: Comparison of Proposals.*)

Finally, conference may be complicated by CBO's announcement that it had underestimated the commodity title's new costs by more than $6 billion. CBO said that it calculated the projected cost of the Senate's fixed payment provisions by assuming that only 85% of participants' base acres would be eligible for coverage. In fact, the Senate version would authorize payments on 100% of base acres.

(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 Farm Income and Commodity Price Support Programs, House Farm Bill Policy for Grains, Cotton, and Oilseeds, Sugar Program, Peanut Program.

Conservation and Environment[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.[5] 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" 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

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[4] CRS contact: Jeffrey Zinn, 7-7257.

[5] Title II of both the House and Senate bills contains most but not all of the bill's conservation provisions; some can be found in other titles as well.

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 are 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.

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 would provide about $15.8 billion in new budget authority by the end of FY2011, an increase of 80% over current levels, according to CBO. Major changes would:

- Increase the CRP enrollment ceiling from 36.4 million acres to 39.2 million acres, and expand the small wetlands pilot program from six states to all states;
- Allow 150,000 acres to be enrolled into the WRP annually;
- Increase annual funding for the Environmental Quality Incentives Program (EQIP) gradually from $200 million in FY2002 to $1.5 billion in FY2010 and FY2011, create a new cost-sharing program for ground and surface water protection that starts at $30 million and grows to $60 million annually, allow EQIP contracts with participants to be as short as 1 year, and increase individual contracts to $50,000 annually and $200,000 in total;

- Allow certified third parties to provide technical assistance, and issue rules for a certification program within 6 months of enactment;
- Increase funding for the Wildlife Habitat Incentives Program (WHIP) from $25 million in FY2002 to $50 million in FY2010;
- Increase funding for the Farmland Protection Program (FPP) to no more than $50 million annually, and make certain non-profits eligible to participate;
- Permanently reauthorize the Resource Conservation and Development (RC&D) Program;
- Establish 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;
- Provide $15 million annually for rehabilitation of aging small watershed projects; and
- Repeal several programs that are not being actively implemented.

Senate Bill. Title II of the Senate bill amends and reauthorizes 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, doubling the current baseline.

- Authorize 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;
- Create 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;
- Authorize payments for technical assistance in support of all mandatory conservation programs;
- Allow certified third parties to provide technical assistance under standards to be developed by USDA;
- Protect the privacy of personal information related to conservation programs;
- Require 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;
- Increase the CRP enrollment ceiling from 36.4 million acres to 41.1 million acres, expand the small wetlands pilot program from six states to all states, allow certain economic uses of CRP lands (with reduced payments), provide longer terms for new hardwood tree

contracts, require a USDA study of the economic and social effects of the CRP, and remove the continuous enrollment option from the county enrollment ceiling of 25% of cropland;

- Allow 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 limit total WRP enrollment to 2.225 million acres;
- Fund EQIP starting at $500 million in FY2002 and gradually increasing to $1.5 billion in FY2006, provide enhanced assistance to beginning and limited resource producers, expand eligible practices to include comprehensive nutrient management plans, allow contracts with participants to be as short as 3 years, limit payments an individual or entity can receive to $30,000 a year or $150,000 per contract longer than 4 years, and use 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;
- Prevent farm program benefits on land converted to agricultural production unless it meets specified requirements;
- Create 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;
- Make the RC&D Program a permanent authorization;
- Increase funding for WHIP from $50 million in FY2002 to $355 million in FY2006, use 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";
- Authorize 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;
- Authorize a grazing lands conservation program to replace one authorized in Sec. 386 of the 1996 farm bill, and provide $60 million annually for it;
- Reauthorize the FPP, providing $150 million in FY2002 and increasing to $500 million in FY2006, make certain non-profits eligible to participate, and use 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;
- Expand state market programs, funded through the CCC;
- Establish a new 2 million acre grasslands reserve, and allow easements to be held by certain private organizations; and
- Restate the provisions creating State Technical Committees to specify membership and responsibilities.

Conference Issues. The conference committee will have to resolve a number of issues, including: differing funding levels for most programs; which (if any) of the numerous new programs that appear in one or the other version should be adopted; whether to retain the Senate-approved water conservation provisions; whether to require minimum funding levels for conservation in all states; how to certify third-party providers and determine what they can do; how to fund technical assistance to support mandatory programs; and whether to protect the privacy of resource information provided by producers.

(For more information 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[6]

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).

Selected Issues. In renewing the food aid and export assistance programs, the 107th Congress again is 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,

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[6] CRS contact: Geoffrey S. Becker, 7-7287.

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, there are questions about whether they lead to substantially higher farm prices and incomes – or whether direct farm subsidies might be more cost-effective. Some critics claim that these 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 has been 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. The farm bill also could be a vehicle for further congressional guidance on objectives and strategy in multilateral and/or bilateral trade negotiations. U.S. agricultural groups generally expect trade negotiations to open new markets. However, some segments of agriculture – e.g., dairy, peanut, sugar, and certain fruit and vegetable producers – are concerned about the potentially negative impacts of increased competition under trade agreements that reduce barriers to imports of such products into the United States.

House Bill. Title III of H.R. 2646 would reauthorize MAP, FMDP, P.L. 480 (Food for Peace), Food for Progress (FFP), export credit guarantees, and EEP through 2011, with some spending increases. For example, MAP funding immediately would be more than doubled, to $200 million per year (from a current $90 million), and FMDP funding increased to $37 million per year; FFP transportation and administrative funding also would be increased. DEIP also would be renewed through 2011 under the dairy provisions of Title I of the bill.

The bill adds international conflict prevention as a new P.L. 480 program objective and increases the minimum level of Title II commodities from 2.025 MMT to 2.25 MMT annually. The measure explicitly permits (but does not require) the President to operate an international food for education and child nutrition program, authorizing such sums as necessary through 2011. Other provisions: require preparation of a comprehensive agricultural trade strategy; and, authorize $3 million annually in CCC funds to establish a program aimed at removing sanitary, phytosanitary (SPS), and related barriers to trade in specialty crops, among other things. During floor consideration, an amendment was approved to require retailers to provide country-of-origin information to consumers of fruits and vegetables (by a vote of 296-121).

Senate Bill. Title III of the Senate bill would reauthorize MAP, FMDP, P.L. 480, FFP, export credit guarantees, and EEP through 2006. Compared with the House, the Senate version: provides for a more gradual increase in annual MAP funding, from the current $90 million to $200 million by FY2006; increases annual FMDP funding to $42.5 million by FY2004; and gives priority for the increased portion of both MAP and FMDP to new eligible trade organizations and emerging markets. Also, the Senate: requires the Secretary to provide a minimum of 400,000 metric tons of commodities annually for FFP; strikes the current statutory restriction against private financing of agricultural sales to Cuba; funds a new biotechnology outreach and education program aimed at foreign customers with funding authorized at $15 million yearly; authorizes a "rapid response" initiative to help exporters affected by unreasonable SPS-related trade barriers; and expresses the sense of Congress regarding trade negotiating objectives for agriculture. DEIP would be renewed through 2006, under the dairy provisions of Title I of the bill.

With regard to food aid, the Title II minimum levels would be increased gradually to 2.5MMT by FY2006 and the annual spending cap doubled, to $2 billion. Conflict prevention would be added as a policy objective. Among the administrative and operational changes, a number are aimed at enhancing the private voluntary organizations' role in the delivery of aid. The Senate trade title also requires the international food for education program at no more than $150 million per year for 4 years (FY2002-2005).

The Senate bill also would require retailers to provide country-of-origin information to consumers of perishable agricultural commodities (i.e., fresh and frozen fruits and vegetables), muscle cuts and ground beef, pork, and lamb, wild and farm-raised fish, and peanuts. The Senate (but not the House) bill would prohibit USDA quality grades on imported meats.

Conference Issues. Although both versions' trade provisions are somewhat similar, a number of differences are at issue during the House-Senate conference. These include: the Senate-proposed easing of sanctions on agricultural sales to Cuba; whether to mandate (Senate) or simply permit (House) the operation of a global food for education program; and how far-reaching to make mandatory country–of-origin labeling (the Senate bill covers more types of foods).

Total additional 10-year cost (budget authority, above baseline) of the House trade title was estimated by CBO to be about $1.4 billion. The CBO estimate for the Senate trade title is about $2.1 billion above baseline over 10 years (although it is just a 5-year renewal).

(See CRS Issue Brief IB10077, *Agricultural Trade Issues in the 107th Congress*; CRS Report RS20997, *Farm Bill Trade and Food Aid Provisions*, and Agricultural Trade and Foreign Food Aid in the CRS Agriculture Policy and Farm Bill Briefing Book. A memorandum with a more detailed comparison of the House and Senate trade provisions with current law is available from Geoff Becker at 7-7287.)

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

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

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.

House Bill. Title V, the credit title of H.R. 2646, requires some program operational and administrative changes, and alters or expands certain eligibility and benefit provisions for FSA farm loans. Among the major provisions are: a 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; and, offering an interest-rate buydown program on certain loans. Title V also would respond to several recent occurrences by authorizing FSA emergency disaster loans to mitigate the effects of increased energy costs and USDA imposed animal quarantines, and allow loans to horse breeders experiencing losses from mare reproductive loss syndrome.

Senate Bill. The Senate bill also requires a number of operational and administrative changes in FSA farm lending programs. Among other things, the bill would alter certain eligibility and benefit provisions, including provisions to make loans more available to beginning farmers. Another provision would allow borrowers with shared appreciation agreements (SAAs) to enter into 25-year easements for agricultural and conservation purposes. The Senate credit title also would enable 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. CBO scored mandatory budget authority under the Senate bill at $66 million (over 10 years) due to reduced receipts under the new SAA provision; the House bill would not increase current mandatory budget authority.

Rural Development[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.

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[8] CRS contact: Tadlock Cowan, 7-7600.

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.)

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 H.R.2646 would provide $3.6 billion in estimated budget authority for rural development in FY2002-2011, of which $1.45 billion is discretionary authorization (subject to annual appropriation) and $2.15 billion is direct (mandatory) authorization.

Mandatory Funding

- Authorizes $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.Amends 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 is provided for grants to establish Agriculture

Innovation Centers for technical assistance to value-added agricultural businesses.

- Authorizes $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.
- Authorizes $30 million per year from the CCC to extend Community Water Assistance Grants through FY2011.
- Provides for $100 million annually in additional mandatory rural development spending from the CCC. The additional funding is 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 during House floor debate, by a vote of 235 to 183; funds are to be transferred from grains, cotton and oilseeds support in the bill to pay for it.

Discretionary Funding

- Creates a USDA Rural Water Grassroots Source Water Protection Program and authorizes funding at $5 million per fiscal year.
- Provides 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.
- Increases loan limits from $25 million to $100 million for certain other rural development loan programs; and loans and guarantees for renewable energy systems are also revised.
- Provides grants to non-profit organizations to construct or refurbish individually-owned household water well systems for low and moderate-income households.
- Extends various RBS and RUS loan and grant program authorization to 2011.

Senate Bill. The rural development title (Title VI) of the Senate bill would provide an estimated $3.4 billion in rural development authorization for FY2002-2006, of which about $1.71 billion is direct (mandatory) budget authority and $1.69 billion is discretionary (subject to annual appropriations). As with H.R.2646, the Senate bill would include 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

- Authorizes 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.
- Provides $100 million per year for new grants and loans at 4% or market rate for broadband access and targets grants to communities of 20,000 or fewer.

- Authorizes $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.
- Authorizes $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.Authorizes $130 million for a new program to train firefighters and emergency medical personnel.
- Creates 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 authorizes $120 million in loan subsidies and grants. A Senate floor amendment limits to 10% investments in areas containing a city with a population greater than 100,000. Both funds are to be administered through the Small Business Administration.

Discretionary Funding

- Extends, modifies, and/or increases various RBS and RUS loan and grant program authorization to 2006.
- Provides $5 million each year FY2002-2006 for grants to broadcasting systems.
- Establishes a new Rural Entrepreneurs and Microenterprise Assistance Program with appropriations authority of $10 million per fiscal year for 5 years.
- Authorizes an increase in water and waste disposal funding from $590 million to $1.5 billion per year.
- Authorizes $30 million per year to regional development organizations.
- Creates a new Rural Telework Centers program and provides $30 million annually.
- Authorizes $25 million annually for a new Barn Preservation Program.
- Provides $25 million annually for grants to senior citizen programs.
- Authorizes of $51 million for new SEARCH grants to provide technical assistance to very small communities in meeting environmental goals.
- Establishes 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 authorize the National Rural Development Partnership.

Agricultural Research, Extension, and Education[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 current farm bill debate is 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 have prompted many lawmakers to call for additional security for federal and state research facilities, and for increased research on agriculture and food protection.

House Bill. Title VII (Research and Related Matters) of H.R. 2646 would:

- Reauthorize research programs through 2011; this includes the Initiative for Future Agriculture and Food Systems, which would be funded through the CCC (instead of U.S. Treasury transfers) at a

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[9] CRS contact: Jean Rawson, 7-7283.

total of $1.16 billion to be distributed in equal amounts over a 7-year period;

- Seek 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);
- Initiate 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 establish a competitive grants program to strengthen the teaching programs at those colleges;
- For the tribally controlled land grant colleges (the 1994 Institutions), (1) authorize direct appropriations to take the place of the endowment fund established by the 1994 law; (2) double the authority for annual federal payments to each institution to $100,000; and (3) make the 1994 schools eligible to receive formula funds for research and extension under the Hatch and Smith-Lever Acts;
- Create 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 would:

- Increase annual appropriations authority for ARS research from $850 million to $1.5 billion and for state extension programs from $420 million to $500 million for 2002 to 2006;
- Raise mandatory funding for the Initiative for Future Agriculture and Food Systems from $120 million to $225 million annually, and expresses the sense of Congress that federal investments in food and agricultural research should double over the next 5 years;
- Similarly to H.R. 2646, mandate 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;
- Increases the matching funds requirement for the 1890 (historically black) land grant colleges and mandate annual appropriations that are at least 15% of the amount appropriated for the 1862 institutions;
- Create a competitive grants program for the construction and modernization of food and agricultural research facilities;
- Permit 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);
- Establish a training and technical assistance program on risk management for beginning farmers and ranchers;
- Create a 5-year, $60 million extension grant program to promote the development of electronic commerce enterprises in rural areas;
- Make grants to youth organizations (e.g., Girl and Boy Scouts, 4-H, Future Farmers of America) for expanding programs in rural areas;
- Include 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.

Food Stamps and TEFAP[10]

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 a little 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. And participation rates appear to be notably low among working poor families with children and the elderly.

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 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 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. Over 500,000 legally resident noncitizens remain ineligible for food stamps, although 1998 amendments had 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. Moreover, participation by eligible citizen children with legally resident noncitizen parents and *eligible* noncitizens has declined greatly since 1996.

Food Stamp Reform Agendas. There is not a unified reform agenda, and most alternatives 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 much more decision-making with states and tampering with what

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[10] CRS contact: Joe Richardson, 7-7325.

they see as a 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 announced its food stamp reform agenda as part of its FY2003 budget package. The Administration estimates its reforms would cost $4.2 billion in new food stamp spending over the next 10 years. They include increasing benefits modestly for larger households (similar to what is proposed in the House and Senate farm bills, see below), standardizing or giving states control over several rules to ease administrative burdens on program operators and applicants/recipients, excluding the value of one vehicle per adult in judging eligibility, making eligible all noncitizens who have resided in the U.S. legally for 5 years (similar to part of the Senate farm bill's proposal, see below), restructuring and reducing spending for employment and training programs for food stamp recipients (similar to the Senate farm bill, see below), ending automatic eligibility for some beneficiaries of Temporary Assistance for Needy Families (TANF), and 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 House and Senate farm bills, see below).

However, with the House and Senate farm bills in conference, it is unclear how the Administration's reform package will be taken up – perhaps in the welfare reform reauthorization debate later this year.

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 in a serious economic downturn. 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.

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

- Benefits to larger households are raised modestly by disregarding more of their income;
- Administrative burdens are 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 are allowed to provide "transitional food stamp benefits" for 6 months to families leaving TANF for work; and
- The quality control system is substantially revamped, easing pressures on states and giving them new bonuses for high performance.

For TEFAP, the House bill reauthorizes, and significantly increases 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 is $3.64 billion (budget authority/outlays above baseline). Additional spending for a Seniors Farmers' Market Nutrition program totals $150 million.

Senate Bill. The Senate bill would reauthorize all expiring food stamp program and appropriation authorities through FY2006. It also includes amendments that – much like the House bill – raise benefits to larger households, allow states to conform rules to TANF and Medicaid and grant transitional food stamps, ease quality control penalties, and institute new bonus payments. However, it goes 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 extends TEFAP authorizations through FY2006 and, as with the House bill, increases 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 is $8.32 billion (budget authority above the baseline) or $8.89 billion (outlays above the baseline) – although, as noted, the bill is a 5-year extension. Additional spending for commodity purchases for child nutrition programs and farmers' market and other initiatives totals $440 million. Costs are 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.)

Other Provisions

Competition Issues.[11] Provisions in Title IX of the House bill would create an Interagency Task Force on Agricultural Competition, and authorize 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 contains provisions that would:

[11] CRS contact: Jerry Heykoop, 7-0248.

- Remove mandatory arbitration clauses from livestock contracts and allow for dispute settlement through other legal means in addition to arbitration;
- Ban 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. The ban – likely to be among the more contentiously conference issues – would not apply to producer-owned cooperatives, or to producer-owned packers that annually slaughter less than 2% of livestock slaughtered in the United States;
- 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;
- Allow contract producers to discuss the contract with advisors and enforcement agencies even if the contract contains a confidentiality clause.

Forestry.[12] The House and Senate bills both contain 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 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*.)

Energy.[13] 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

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[12] CRS contact: Ross Gorte, 7-7266.

[13] CRS contact: Brent Yacobucci, 7-9662.

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. Total mandatory spending would increase by $110 million annually. The title also includes authorizations for the following appropriations: $55 million annually for various research, development, and demonstration projects on carbon sequestration; $5 million annually for biofuels. In addition, the title eliminates a $49 million annual authorization for biomass research and development. The House bill includes some comparable energy-related provisions, but in other titles.

Miscellaneous. Both the House and Senate bills provide for an increase in authorized funding for the outreach program for socially disadvantaged farms, from $10 million to $25 million per year. Both also make it illegal to buy, sell, transfer, or drag non-ambulatory ("downer") animals, and make it illegal to transport animals across state lines for participation in animal fighting or for export.

Other sections in Title IX (the miscellaneous title) of the ***House 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.

During floor action, the full ***Senate*** approved an amendment to the commodities title (Title I) by Senator Baucus that would provide $2.4 billion in new "disaster" assistance, including $1.8 billion for 2001 crop losses, $500 million for livestock producers for calendar year 2001 losses in a county that receives an emergency designation, and $100 million in 2000 crop market loss assistance for apple producers. This aid was designated as emergency funding and therefore would not be counted, for scoring purposes, toward the $73.5 budget limitation on new farm bill mandatory spending. Also, the livestock funding is in addition to a provision authorizing the appropriation of $500 million annually for disaster feed assistance for livestock producers. Examples of the many other miscellaneous provisions in the ***Senate bill***, most located in Title X, include:

- An 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;
- Creation of both a national organic certification cost-share program and authority for a generic research and promotion program funded through industry assessments;
- An expansion of various agricultural marketing programs, including mandated funding reaching $10 million per year by FY2005 for state agriculture department marketing programs, and a new farmers market promotion program;
- Creation of a new Assistant Secretary of Agriculture for Civil Rights;
- Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) to increase registration fees, and to create a new School Environmental Protection Program for elementary and secondary schools (requiring development of state and local school pest management plans);
- Establishment of a Food Safety Commission;

- Authorization of $10 million in annual appropriations for an assistance program for "geographically disadvantaged" farmers and ranchers, defined as those who are in an insular area – e.g., Puerto Rico and the U.S. territories.

Most of the above provisions were added by a nearly 392-page managers floor amendment adopted by the Senate just prior to final passage.