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Farm Commodity Policy: Programs and Issues for Congress

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Summary

Farm commodity programs represent the heart of U.S. farm policy. The 2002 farm bill (P.L. 107-171) establishes farm income support and commodity price support programs for the 2002-2007 crop years. The payment framework combines the direct payments of the 1996 farm bill (P.L. 104-127) with counter-cyclical payments of prior laws. About 25 commodities representing a third of gross farm sales qualify for support.

The 109th Congress is facing several issues regarding farm commodity programs, including budget reconciliation that could reopen the farm bill, payment limits (S. 385), dairy program extension (H.R. 1260, S. 273, S. 307), international trade, and planting flexibility (S. 194). This report will be updated as events warrant.

Since the 1930s, federal law has required the U.S. Department of Agriculture (USDA) to offer price and income support to producers of certain farm commodities.[1] Authority comes from three permanent laws: the Agricultural Adjustment Act of 1938 (P.L. 75-430), the Agricultural Act of 1949 (P.L. 81-439), and the Commodity Credit Corporation (CCC) Charter Act of 1948 (P.L. 80-806). Congress typically alters provisions in these laws through multiyear farm bills or appropriations to address current market conditions, federal budget levels, or other policy concerns.

The most recent authorizing legislation, the Farm Security and Rural Investment Act of 2002 (the 2002 farm bill, P.L. 107-171, May 13, 2002), temporarily suspends most provisions of the permanent laws. Title I contains provisions for farm income and commodity price support programs for the 2002-2007 crop years. Other titles in the law affect conservation, trade, nutrition, credit, rural development, and research.[2]

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[1] For more information about the history of federal farm income support programs, see CRS Report 96-900, *Farm Commodity Legislation: Chronology, 1933-2002.*

[2] See CRS Report RS21233, *The 2002 Farm Law at a Glance*, and CRS Report RL31704, *A New Farm Bill: Comparing the 2002 Law with Previous Law and House and Senate Bills.*

Policy Background

When farm programs were first authorized in the 1930s, most of the 6 million farms in the United States were small and diversified. Policy makers reasoned that stabilizing farm incomes using price supports and supply controls would help a large part of the economy (25% of the population lived on farms) and assure abundant food supplies.

In recent decades, the face of farming has changed. Farmers now comprise less than 2% of the population. Most agricultural production is concentrated in fewer, larger, and more specialized operations. In 2002, about 7% of farms accounted for 76% of the sales (these 151,000 farms had average sales over $1 million). Most of the country's 2 million farms are part-time, and operators rely on off-farm jobs for most of their income.

Although some features of the commodity programs date to the 1930s, the programs have evolved to respond to changes in agriculture, the economy, the federal budget, and international trade. Congress and the Administration have sought for decades to make farming more market-oriented. However, periods of low prices and economic pressures on smaller "family farms" from consolidation have made that goal difficult to achieve.

When Congress began writing the 2002 farm bill, farm groups asked for automatic payments when commodity prices were low, rather than waiting for emergency *ad hoc* "market loss payments" that were appropriated each year from 1998 to 2001 (see CRS Report RL30794, *Farm Economic Relief and Policy Issues in the 106th Congress: A Retrospective*). The 2002 farm bill restored "counter-cyclical payments," similar to the deficiency payments and target prices that existed from 1974 to 1995 but were eliminated by the 1996 farm bill. A counter-cyclical payment program also was begun for dairy.

Farmers also sought to expand the number of qualifying commodities. Soybeans and other oilseeds were added to those receiving direct and counter-cyclical payments. Dry peas, lentils, and chickpeas were added to the marketing loan program. The peanut program was converted from a quota system to one with direct payments. Programs for wool, mohair, and honey were reinstated, after having being dropped in 1996.

These changes attracted widespread criticism from those who viewed the new law as reversing the market-oriented course of the 1996 farm bill. They contended that expanded farm subsidies undermined U.S. credibility in world trade negotiations where the United States has called on other countries to reduce trade-distorting subsidies. Supporters of the current farm programs counter that the policy provides needed support for farmers who otherwise would see declining income and land prices.

Commodities Eligible for Support

This report briefly summarizes the mandatory subsidies available for about 25 agricultural commodities. These commodities represent about one-third of gross farm sales. Other CRS reports, listed below, provide details on specific commodity programs[3] and discuss current legislative issues. **Table 1** lists the support prices.

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[3] USDA fact sheets are online at [http://www.fsa.usda.gov/pas/publications/facts/pubfacts.htm].

- The "covered commodities" are the primary crops eligible for support and include *wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, and other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed)*.[4] Producers receive three types of payments: (1) direct payments, (2) counter-cyclical payments, and (3) marketing loans. See CRS Report RS21779, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans*.

- *Peanut* support is now identical to that for the covered commodities, rather than the old system of marketing quotas and price supports. The 2002 farm bill compensated quota owners with a one-time quota buyout of 55¢/lb. See CRS Report RL30924, *Peanut Program Policy Issues*.

- "Loan commodities" are eligible for marketing assistance loans and loan deficiency payments. In addition to the "covered commodities," these include *wool, mohair, honey, dry peas, lentils, and small chickpeas*. See CRS Report RS20896, *Farm Commodity Programs: Wool and Mohair*; and CRS Report RS20759, *Farm Commodity Programs: Honey*.

- *Dairy* price supports continue through the long-standing system of federal purchases of nonfat dry milk, butter, and cheese. In addition, until September 2005, producers also receive a counter-cyclical "milk-income loss contract" (MILC) payment when prices fall below a target price. See CRS Issue Brief IB97011, *Dairy Policy Issues*.

- *Sugar* support differs from most other commodities in that no direct payments are made to growers and processors. The 2002 farm bill indirectly supports prices through import quotas and domestic marketing allotments. See CRS Issue Brief IB95117, *Sugar Policy Issues*.

- *Tobacco* support ends at the end of the 2004 crop year under new quota buyout legislation (Title VI of P.L. 108-357, October 22, 2004). The quota buyout removes constraints on who can grow tobacco, where it can be grown, how much can be sold, and at what price. See CRS Report RL31790, *Tobacco Quota Buyout Proposals in the 108th Congress*.

Commodities Not Eligible for Support

The list of commodities that normally do not receive direct support includes meats, poultry, fruits, vegetables, nuts, hay, and nursery products (about two-thirds of farm sales). Producers of these commodities, however, may be affected by the support programs because intervention in one farm sector can influence production and prices in another. For example, program commodities such as corn are feed inputs for livestock.

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[4] Covered commodities are defined in Title I, Section 1001, of P.L. 107-171 (7 U.S.C. 7901). Crambe and sesame seed were added later in the FY2004 Consolidated Appropriations Act (P.L. 108-7, Division A, Title VIII, Sec. 763).

Congress and the Administration often provide periodic assistance to some non-program commodities. For example, the 2002 farm bill provided $94 million to apple growers for 2000 market losses, and $200 million annually to purchase fruits, vegetables, and specialty crops for food assistance (see CRS Report RS20235, *Farm and Food Support Under USDA's Section 32 Program*; and CRS Report RS21872, *Ranking Agricultural Commodities by Farm Payments and Federal Food Aid Purchases*).

Table 1. Support Prices for Agricultural Commodities

Type of payment	**Direct Payment**	**Counter-cyclical**		**Marketing Loan**	
Payment based on	Historical base acres and yield			Actual production	
Price used in formula	**Payment rate**	**Target price**		**Loan rate (national average)**	
Crop years	2002-2007	2002-03	2004-07	2002-03	2004-07
"Covered commodities"					
Wheat, $/bu	0.52	3.86	3.92	2.80	2.75
Corn, $/bu	0.28	2.60	2.63	1.98	1.95
Sorghum, $/bu	0.35	2.54	2.57	1.98	1.95
Barley, $/bu	0.24	2.21	2.24	1.88	1.85
Oats, $/bu	0.024	1.40	1.44	1.35	1.33
Upland Cotton, $/lb	0.0667	0.724		0.52	
Rice, $/cwt	2.35	10.50		6.50	
Soybeans, $/bu	0.44	5.80		5.00	
Minor Oilseeds, $/lb	0.008	0.098	0.101	0.096	0.093
Other commodities					
Peanuts, $/ton	36	495		355	
ELS cotton, $/lb	*	*		0.7977	
Wool, graded, $/lb	*	*		1.00	
Wool, nongraded, $/lb	*	*		0.40	
Mohair $/lb	*	*		4.20	
Honey, $/lb	*	*		0.60	
Peas, dry, $/cwt	*	*		6.33	6.22
Lentils, $/cwt	*	*		11.94	11.72
Chickpeas, small, $/cwt	*	*		7.56	7.43
Milk, $/cwt	*	16.94		9.90	
Sugar, raw cane, $/lb	*	*		0.18	
Sugar, beet, $/lb	*	*		0.229	

* not applicable.
Source: CRS, compiled from the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), Title I, Sections 1103, 1104, 1202, 1303, 1304, 1307, 1401, 1501, and 1502.

Issues in Congress

The 2002 farm bill is scheduled to continue through the 2007 crop year. However, several issues may prompt earlier legislative or appropriations action.

Budget Reconciliation and Administration's Proposal. Recent federal budget deficits have caused concern over the ability or willingness to fund the 2002 farm bill. The Administration has proposed deficit reduction measures, including legislative changes to reduce farm program spending by $587 million in FY2006 and $3.4 billion over five years. CBO has scored the Administration's proposal much differently: with a cost of $266 million in FY2006, and a net reduction of $6.9 billion over five years. CBO says the payment limits proposal was not specified sufficiently to score. Further action depends on whether the FY2006 budget resolution contains reconciliation instructions for the agriculture committees, and how the committees carry out the instructions.

The pending House budget resolution (H.Con.Res. 95) contains mandatory cuts in agriculture of $797 million in FY2006 and $5.3 billion over five years. The pending Senate budget resolution (S.Con.Res. 18) contains smaller cuts, $171 million in FY2006 and $2.8 billion over five years. The agriculture committees would be able to cut any program in their jurisdiction to meet the goals. Many members have said that the farm bill should not be reopened. **Table 2** summarizes budget savings estimated by the Administration and CBO. The Administration's proposal includes the following.

- **Revise the Marketing Loan Program.** Instead of 100% of actual production being eligible, 85% of the historical program yield multiplied by reported acres would qualify. The reduction would come from the percentage change in the formula, and because program yields are typically less than expected actual yields. Administration officials say 60%-65% of production would remain eligible for program benefits.

- **Tighter Payment Limits.** Reduce the payment limit per person from $360,000 to $250,000; count commodity certificates and forfeiture in the limits; eliminate the three-entity rule; and apply the limits to dairy. Related bill: On February 15, 2005, Senator Grassley introduced S. 385 to reduce payment limits to a total of $250,000, and count commodity certificates and loan forfeiture toward the limits. During committee debate for the FY2006 budget resolution, Senator Grassley added an amendment by a 15-7 vote that savings in agriculture should come primarily from payment limits. (See CRS Report RS21493.)

Table 2. Savings from Farm Commodity Program Proposals

($ million)

Proposed farm program change	Administration's estimate		CBO score of Admin.'s plan		CBO score of plan similar to S. 385	
Fiscal year	**2006**	**2006-10**	**2006**	**2006-10**	**2006**	**2006-10**
Marketing loan formula	432	1,053	100	5,148		
5% payment reduction	383	2,140	146	2,683		
Tighter payment limits	200	845	no score	no score	97	1,234
Dairy price supports	130	360	58	251		
Extend MILC two years	(600)	(1,200)	(570)	(1,307)		
Sugar assessment	42	213	0	168		
Total	**587**	**3,411**	**(266)**	**6,943**	**97**	**1,234**

Source: Compiled by CRS.

- **5% Across-the-Board Reduction.** Reduce all payments to producers (direct, counter-cyclical, marketing loan, dairy). Calculate payments under current law and subtract 5%.

- **Dairy.** Extend the Milk Income Loss Contract (MILC) program for two years (until 2007) at a two-year cost of $1.2 billion. To offset some of this cost, the Administration proposes a change to the dairy price support program, giving USDA more flexibility in adjusting purchase prices. Related bills: Three bills in the 109th Congress would extend the MILC program (H.R. 1260, S. 273, and S. 307). Some also would raise eligibility limits (H.R. 1260 and S. 273) and the target price (H.R. 1260).

- **Sugar.** Apply a 1.2% marketing assessment on processed domestic sugar.

International Trade and the U.S.-Brazil Cotton Dispute. Price support in the United States has become a focus of developing country criticism in multilateral and other trade negotiations. A World Trade Organization (WTO) dispute settlement panel released findings in summer 2004 in a case brought by Brazil against the United States cotton subsidies. The United States lost an appeal of the case in March 2005. Some findings affect programs that the United States had considered WTO compliant. Implications for the cotton program could affect payment mechanisms for other commodities (see CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*).

Planting Flexibility. Planting flexibility was created in the 1990 farm bill to allow farmers to respond to market signals when choosing crops, but has restrictions to protect fruit and vegetable growers who do not receive government payments. It refers to the ability to receive subsidy payments for a base crop (such as corn), but to grow a different crop on those base acres (such as soybeans). The 2002 farm bill allows limited exceptions to the fruit and vegetable protections only for growers with a history of such planting (P.L. 107-171, Sec. 1106 (c)). For more information about base acres, see CRS Report RS21615, *Updating Crop Bases and Yields Under the 2002 Farm Bill*.

In the U.S.-Brazil cotton dispute, the WTO settlement panel found that the restriction on planting fruits and vegetables made direct and counter-cyclical payments ineligible to be a nondistorting payment (green box) for international trade purposes. If enforced, this restriction could affect the United States' ability to meet its WTO commitments during years when farm commodity payments are particularly high.

In January 2005, S. 194 was introduced to open planting flexibility to chicory (an herb), which is prohibited as a fruit and vegetable. In the 108th Congress, H.R. 2181 was introduced to open planting flexibility to fruits and vegetables for processing (with a reduction in payments for the base crop) and to allow them to be deemed as soybeans when calculating base acres. Fruits and vegetables for processing (canning and freezing) often are grown on soybean acres, largely in the upper Midwest. Landlords, wanting to maximize soybean acreage, became reluctant to allow tenants to grow vegetables. Fresh fruit and vegetable growers opposed the bill because it would weaken current protections.