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Previewing a 2007 Farm Bill

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Summary

Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. However, many of these laws periodically are evaluated, revised, and renewed through an omnibus, multi-year farm bill. The Farm Security and Rural Investment Act of 2002 (P.L. 107-171) was the most recent omnibus farm bill, and many of its provisions expire in 2007, so reauthorization is expected to be enacted in the 110th Congress.

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 typically include titles on agricultural trade and foreign food aid, conservation and environment, forestry, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and marketing-related programs. Often, such "miscellaneous" provisions as energy, food safety, marketing orders, and animal health and welfare are added. This omnibus nature of the farm bill creates a broad coalition of support among sometimes conflicting interests for policies that, individually, might not survive the legislative process.

The scope and direction of a new farm bill likely will be determined by a number of contributing factors, including financial conditions in the agricultural economy, competition among various interests for federal spending, and international trade negotiations, among others.

Among the thorniest issues will be future farm income and commodity price support. Title I of the 2002 farm bill was designed to provide fixed direct payments to producers of major crops (grains and cotton), while maintaining the flexibility to plant in response to market signals, among other provisions. However, to offset unanticipated low commodity prices, counter-cyclical payments were adopted to preclude the need for emergency farm payments. Questions of equity (e.g., who should get aid and how much), program cost, conformance with WTO trade obligations, effects on U.S. competitiveness in the global marketplace, and the unintended impacts of agricultural activities on the environment are among the considerations in the upcoming farm bill debate.

The economic prosperity of the U.S. farm sector is heavily dependent upon exports, so the provisions of a new bill reauthorizing farm export and foreign food aid programs also will be of keen interest. However, the future of commodity support programs, and trade promotion and food aid programs, could change with the outcome of the ongoing Doha round of multilateral trade negotiations. Moreover, the agricultural credit, research, conservation, domestic nutrition assistance, and rural development titles will bring an array of interests into the debate, and their issues and concerns could prove equally contentious.

This report will be enacted as related developments transpire.

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Introduction

What is the "Farm Bill"?

The 110th Congress is expected to adopt major farm and food legislation in an omnibus multi-year authorizing law, commonly called the "farm bill."

Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. However, many of these laws periodically are evaluated, revised, and renewed through an omnibus, multi-year farm bill. These policies can be, and sometimes are, modified or overhauled as freestanding authorizing legislation, or as part of other laws. However, periodic farm bills have provided Congress, the Administration, and interest groups with an opportunity to reexamine agriculture and food issues more carefully, and address them more comprehensively.

The most recent omnibus farm bill, the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), and many of its provisions expire in 2007.[1] Without new legislation, notably in the area of farm income and commodity price support programs, permanent statutes will take effect. Most of these statutes were enacted decades ago and are no longer compatible with current national economic objectives, global trading rules, and federal budgetary or regulatory policies. (In fact, these largely outdated permanent laws have been kept on the books by Congress in part to compel increasingly urban and suburban future Congresses to pay attention to national agricultural policy.)

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 typically include titles on agricultural trade and foreign food aid, conservation and environment, forestry, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and forestry programs. Often, such "miscellaneous" provisions as farm marketing, energy, food safety, and animal health and welfare are added.

This omnibus nature of the farm bill creates a broad coalition of support among sometimes conflicting interests for policies that, individually, might not survive the legislative process. Among the groups lobbying Congress will be farm and commodity organizations; input suppliers; commodity handlers, processors,

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[1] See Appendix A for a table of contents of the 2002 farm law (P.L. 107-171).

exporters, retailers, foreign customers and competitors; universities and scientific organizations; domestic consumers and food assistance advocates; environmentalists; and rural communities. So, for example, farm state lawmakers look to urban legislators' support for commodity price supports in exchange for their votes on domestic food aid – and vice versa.

Farm bills and the programs they encompass are complex, tightly intertwined, and intensely interactive. Changes to one program often have unintended consequences for others. For example, a legislative change that raises corn prices must be examined for how it might change the planting decisions of those who grow other crops such as soybeans, and, in turn, the cost of the support program for soybeans. Likewise, a change in the corn program can have major implications for producers who feed corn to dairy cows, beef cattle, and other animals; for sugar producers and food manufacturers who can use corn syrup in place of sugar for many products; for consumers, including those on limited food budgets; and for exporters and foreign competitors. The level and type of support provided also can affect farm equipment companies, agricultural investors and rural financial institutions, fertilizer and pesticide suppliers, and farm-dependent rural communities.

Congressional Action

In reality, federal farm policy is an ongoing issue for lawmakers. The 1996 farm bill was intended to guide agricultural support through 2002. But unanticipated economic problems prompted Congress to begin the next "farm bill debate" in 1998, when it considered and passed the first of a series of *ad hoc* emergency assistance measures that pumped $20 billion in supplemental payments into the farm sector over three years (FY1999-2001), and ultimately led to the adoption of counter-cyclical payments in the 2002 farm bill.

Before Congress adopts the next farm bill there likely will be other legislation of importance to the farm sector and even to the design of the farm bill itself. In 2005, the House and Senate Agriculture Committees are tasked by the budget resolution to make changes to mandatory U.S. Department of Agriculture (USDA) programs in order to save $3 billion over five years. Some of the cuts could affect the commodity support programs. Also, lawmakers recently completed energy and transportation legislation that will have consequences for farmers and rural America. Other anticipated legislation includes taxes, trade, government-wide budget resolutions, and various appropriations bills, all of which likely will have implications for agriculture.

In July 2005, Secretary of Agriculture Mike Johanns began a series of "Farm Bill Forums" to be held throughout the country. The public was invited to provide comments on six specific questions based on these policy considerations:[2]

1. How should farm policy be designed to maximize U.S. competitiveness and our country's ability to effectively compete in global markets?

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[2] Information about the Farm Bill Forums is available at [http://www.usda.gov/farmbill]

2. How should farm policy address any unintended consequences and ensure that such consequences do not discourage new farmers and the next generation of farmers from entering production agriculture?
3. How should farm policy be designed to effectively and fairly distribute assistance to producers?
4. How can farm policy best achieve conservation and environmental goals?
5. How can federal rural and farm programs provide effective assistance in rural areas?
6. How should agricultural product development, marketing and research-related issues be addressed in the next farm bill?

House Agriculture Committee Chairman Bob Goodlatte also has indicated the intention of the Committee to initiate, in the Fall of 2005, a nationwide series of meetings on the upcoming farm bill.

Related Policy Considerations

Economic Situation

For the last three years, including the forecast for 2005, crop and livestock prices generally have been strong, and in cases where prices have declined government payments largely made up the difference. Examples include large milk and cotton payments in FY2004, and large corn and cotton payments in FY2005. The result has been record high levels of net farm income and record low levels of farm debt compared to assets.[3] Contributing substantially to the strong domestic farm sector was a rapid rise in the value of agricultural exports from $53.1 billion in 2002 to $61.3 billion in 2004, a record high.[4]

The trade outlook is important to farmers because exports account for about 25% of the value of agricultural production, and about one-third of harvested acreage is exported. Farm income also is affected by other factors, not the least of them government subsidies. USDA forecast data show that 2005 net cash farm income of $78.1 billion includes $24.1 billion in direct government payments. These payments help to undergird the value of agricultural land and other assets, keep farm debt at favorably low levels, and stabilize farm operator incomes. While fuel costs are rising, total production expenses are expected to decline in 2005, largely due to lower feed grain input prices and lower livestock feeder prices.

Changes in farm income have impacts on rural communities and businesses that depend on the agricultural sector. Similarly, rural non-farm employment is important particularly to households of smaller farms and the general rural population. Food stamp program spending largely is related to general employment, and competes with agriculture programs in the allocation of funds available to the Agriculture Committees for the farm bill. Hence, food stamps could be prominent in the next farm bill.

The Agriculture Budget

As with all areas of the federal budget, agriculture and other programs in the farm bill face spending constraints imposed by Congress. These constraints begin to take shape with the start of the annual congressional budget process, when the House and Senate Budget Committees recommend spending levels for broad "functional" categories. Once these limits are approved by Congress via the annual budget resolution, program spending cannot be increased that will breach these limits, unless either: 1) they are offset by increased revenue or cuts in other programs, or 2) Congress and the President declare the extra spending to be an "emergency."[5]

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[3] Economic Research Service, USDA, *Farm Income and Costs: Farm Sector Income*, [http://www.ers.usda.gov/Briefing/FarmIncome/].

[4] Economic Research Service, USDA, *Foreign Agricultural Trade of the United States* [http://www.ers.usda.gov/data/fatus/monthlysummary.htm].

[5] The budget resolution is a congressional blueprint for all federal spending; it does not (continued...)

Farm Bill Budget Categories. Most of the major programs that assist production agriculture, including commodity price and income supports, crop insurance, farm credit, marketing, and agricultural research, fall within function 350, the agriculture function of the federal budget. Some other functional areas of spending administered by USDA include: food stamps (in function 600, income security); conservation programs (function 300, the natural resources and environment category); foreign food aid (function 150, the international affairs category); meat inspection (function 550, health); rural electric and communication loans (function 270, energy); rural community and business grants and loans (function 450, community and regional development); and rural housing loans (function 370, commerce and housing credit). So, although most of these programs are addressed by the Agriculture Committees in an omnibus farm bill, they are scattered throughout the federal budget for scorekeeping purposes. In fact, spending for USDA is not synonymous with spending for farmers, nor with the farm bill or agriculture appropriations bills. In FY2005, USDA spending is estimated to be about $100 billion and **Figure 1** shows how this is divided among the major categories.[6]

Adding further complexity, some programs within each functional category are considered "mandatory" spending, while others are "discretionary." Examples of mandatory spending are the major farm commodity price support programs and the food stamp program. Funding needs for mandatory programs are determined indirectly in the House and Senate Agriculture Committees when they write, directly into the authorizing laws, the eligibility standards and benefit levels for these programs. The Appropriations Committees then generally are expected to provide the necessary year-to-year funding in the annual USDA appropriation to maintain these programs.

Examples of discretionary spending are agricultural research and extension, agricultural credit, farm marketing services, and most rural development programs. While discretionary programs also are designed and authorized in the House and Senate Agriculture Committees, their annual funding levels are not determined until the House and Senate Appropriations Committees decide on them as part of the annual USDA appropriations bill. (Of course, both mandatory and discretionary program authorizations and spending still ultimately must be approved by the full House and Senate after they are reported by the relevant committees.)

Before either the Agriculture Committees or Appropriations Committees make these decisions by drafting the appropriate measure – whether it is a new farm bill, an annual USDA appropriation, or some other measure – the panels must know how much spending room they have been allocated under the congressional budget resolution.

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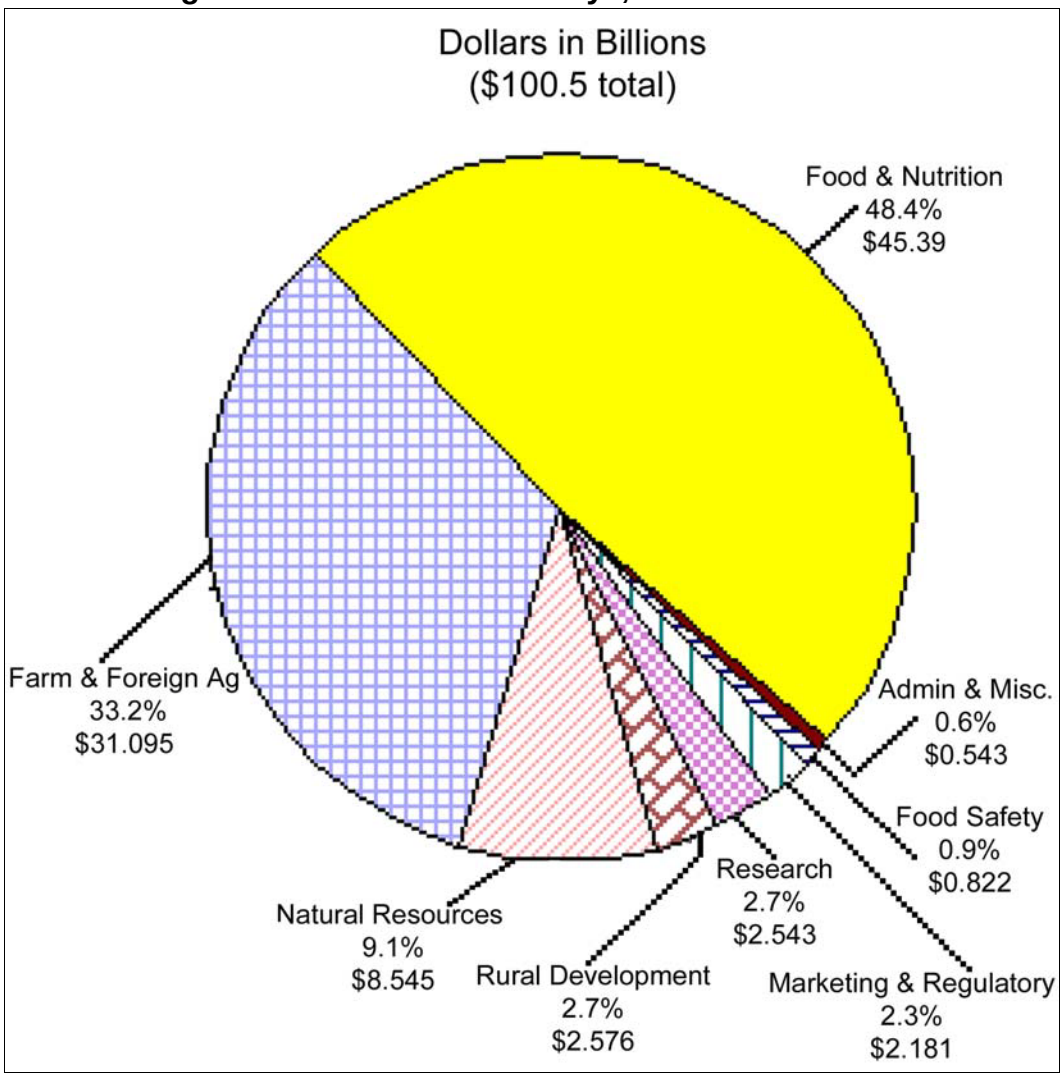
[5] (...continued)
require a presidential signature.

[6] The food stamp program accounts for about $34.2 billion of the $52.2 billion food and nutrition category. Farm and foreign agriculture outlays amount to about $31.1 billion with Commodity Credit Corporation (CCC) spending amounting to $24.1 billion.

Figure 1. USDA Gross Outlays, FY2005 Estimated



The "Baseline". Thus, the opening stages of debate over a new farm and food policy usually occur in the House and Senate Budget Committees. Both the Administration and the Congressional Budget Office (CBO) independently estimate the level of USDA spending in coming years based on "current policy," generally meaning the continuation of existing law, and on additional assumptions about likely economic and market conditions. The debate focuses on whether these estimates – the "baseline" – are appropriate or whether more (or, possibly, less) spending should be "built into" the baseline.

Each year, CBO issues a baseline budget for all federal spending under current law over a 10-year period. Projected spending in the baseline budget represents CBO's estimate at a particular point in time of what federal spending and revenues will likely be under current law if no policy changes were made over the projected period. The CBO baseline serves as a benchmark or starting point for future budget analyses. For example, whenever any new legislation is introduced that affects federal mandatory spending, such as a farm bill, its impact is measured by CBO as a difference from the baseline.

For the price support and related programs, CBO in January 2005 estimated that total spending would average about $15.6 billion annually over the FY2005 through FY2015 period.[7] It will be the CBO baseline published in early 2007, in conjunction with either the FY2008 budget resolution, that likely will serve as the guide for determining the spending authority included in a 2007 farm bill.

(For more on USDA budget and appropriations issues, see CRS Report RL32904, *Agriculture and Related Agencies: FY2006 Appropriations*, and CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation.*)

International Trade Agreements, Negotiations, and Disputes

The World Trade Organization (WTO) provides the principal forum for regulating and negotiating multilateral trade. Because the United States is a member of the WTO, there are three primary avenues of influence likely to shape the direction of future domestic agricultural policy: 1) existing trade commitments, 2) ongoing trade negotiations, and 3) trade dispute settlement outcomes.

Existing Trade Commitments. Under the most recently completed round of WTO trade negotiations — the 1995 Uruguay Round — the United States agreed to abide by a set of disciplines that govern, not only export subsidies and import tariffs and quotas for agricultural products, but also domestic farm program design and spending. (For a detailed discussion of U.S. agricultural policy commitments, see CRS Report RL30612, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture* and CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support*).

Under the WTO, domestic farm support programs are categorized into boxes (amber, blue, or green) according to their relative likelihood to distort trade. Amber box policies (comprised of the most trade-distorting policies) are subject to total annual spending limits. The United States, like virtually all other countries, has been reporting that its amber box spending has been below its allowable annual level of $19.1 billion. Farm bill programs that generally might be included in the amber box include dairy and sugar price supports, crop marketing loans, loan deficiency payments, and other direct payments linked to per-unit levels of production; counter-cyclical payments; storage payments; and crop insurance and loan interest subsidies, among others. In contrast, blue box policies are narrowly defined to include only a specific subset of production-limiting programs, but have no spending limit. (The United States has not used the blue box exemption since 1995.) Finally, green box policies — i.e., the least trade-distorting policies — are exempt from spending limits. Green box programs include conservation and environmental activities, such as the Conservation Reserve Program (CRP) or the Conservation Security Program (CSP); farm disaster relief payments; domestic food aid like food stamps; and income supports not linked to current production or prices, such as the direct payments enacted in the 2002 farm bill. A final WTO agricultural subsidy category that is

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[7] These figures refer to farm spending by the Commodity Credit Corporation (CCC), the USDA entity created specifically to finance operations of the Department's farm price, income support, and related programs.

exempt from spending limits under certain conditions is known as *de minimis* exempted outlays. *De minimis* exemptions encompass domestic support outlays that do not exceed 5% of the value of production, calculated both on a product-specific and non-product specific basis.

Countries report to the WTO on their domestic farm spending by category for each year. (See CRS Report RL30612, *Agriculture in the WTO: Member Spending on Domestic Support*.) The WTO's system of policy categorization has provided latitude to U.S. policymakers in developing domestic support measures that can both provide significant aid to producers but at the same time comply with WTO obligations. For example, on average during 1999-2001, the United States provided $50 billion in green box payments and $16 billion in amber box or restricted spending. During that period, U.S. amber box spending was about 85% of its permitted WTO ceiling. A narrowing gap between the ceiling and spending could limit U.S. flexibility in choosing ways to support farmers as a new farm bill is considered. Furthermore, because U.S. amber box payments are geared to price variations (when prices decline, amber box outlays rise), the United States risks exceeding its $19.1 billion-amber box ceiling. These factors could encourage a policy shift to green box programs, such as conservation, rural development, and/or resource retirement payments, or to payments to producers that are not linked to current production or prices.

Current Agricultural Trade Negotiations. Ongoing WTO trade negotiations — known as the Doha Round — focus on further expansion of market access, substantial reductions in trade-distorting farm subsidies, and ending all forms of export subsidies. As a result, a new WTO trade agreement could produce new agricultural trade rules that might further tighten U.S. commitments to alter farm programs or limit spending. The Doha Round was launched in 2001 and progress has been slow. (See CRS Report RS21905, *Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps*). The Doha Round could be ending just as Congress is considering legislation to replace the 2002 farm bill. The U.S. negotiating position has been that further limits on domestic support or reduced export subsidies depend on a substantial expansion of market access for U.S. agricultural products around the world, including in developing countries. Therefore, farm bill choices depend on outcomes of the Doha Round, which are uncertain.

A Doha Round agreement could be reached in 2006. Congressional authority for expedited consideration of legislation to implement trade agreements expires in 2007, as does the 2002 farm bill. If Congress approves a Doha Round agreement with new limits on commodity support or export programs, a new farm bill would have to reflect those new multilateral commitments.

In July 2004, WTO member countries adopted a "framework" of principles that outlines some preliminary agreements on the three "pillars" of the agriculture negotiations: market access, domestic support, and export competition. Under this framework, agreement was reached to eliminate direct export subsidies by a date certain to be negotiated. This major concession by the European Union principally, which satisfies a long-standing U.S. trade policy objective, is conditioned on parallel reductions in other areas of export competition, such as export credit guarantees and

food aid. (See CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*, for program details.)

The framework agreement on export subsides also means that U.S. programs like the Export Enhancement Program (EEP) or the Dairy Export Incentive Program (DEIP) will be terminated at some point in the future. EEP has been little used since 2000, but DEIP has been implemented to the fullest extent allowable under WTO rules and operates as an integral part of U.S. dairy policy. The July 2004 framework includes an agreement to limit export credit guarantees to no more than 180 days and to eliminate aspects of programs that could be characterized as subsidization, such as fees that do not cover the costs of operating the programs. Under the 2002 farm bill, guarantees can be extended for up to three years (short-term guarantees) or three to ten years (intermediate guarantees).

In the July 2004 framework, WTO member countries agreed to eliminate, by a date to be negotiated, food aid that displaces commercial sales. A number of other food aid issues will be negotiated, including the role of international organizations in relation to both emergency and development bilateral food aid programs, and the question of providing food aid exclusively in grant form. How U.S. food aid programs, which rely heavily on the sale of donated U.S. commodities in local or regional markets to finance development projects, would be affected is as yet unclear.

A major uncertainty in ongoing WTO negotiations is how to treat import-sensitive products, which could have important consequences for the U.S. sugar program (should the United States decide, as seems likely, to classify it as a sensitive product). Sugar support now relies on import quotas and domestic marketing allotments to maintain domestic prices at double or triple world market levels. The granting of free access to Mexican sugar under the North American Free Trade Agreement, though, is likely to bear significantly on what kind of sugar program emerges in a 2007 farm bill. The U.S. dairy sector also could be affected by the Doha Round treatment of sensitive products.

The United States and the European Union are under considerable pressure in the Doha negotiations, especially from developing countries, to reduce substantially their domestic agricultural subsidies. The July 2004 framework agreement calls for WTO member countries to make an overall reduction in trade distorting support as well as separate reductions in the components of trade-distorting support, i.e., amber box, *de minimis*, and blue box spending. Under the 2004 framework, the definition of blue box payments is changed to include direct payments that are not geared to production limits, capped at 5% of a member country's average total value of production, and subject to further reductions to be negotiated. This new blue box definition, sought by the United States, encompasses the 2002 farm bill counter-cyclical payments program, which might otherwise be classified in the amber box and be subject to WTO reduction commitments. Criteria for including payments in the green box likely will be reviewed to ensure that they have no, or at most minimal, trade distorting effects, or effects on production. Doha Round results, which could impose additional constraints on trade-distorting farm subsidies, likely will intensify policymakers' interest in green box programs, like decoupled income support or conservation programs, as vehicles for farm sector support.

Trade Litigation. In addition to trade negotiations, litigation of disputes in the WTO Dispute Settlement Body (DSB) has become a mechanism for achieving trade policy objectives and could intensify if negotiations are not sufficiently satisfying. The U.S.-Brazil cotton dispute, recently litigated in the WTO, illustrates the impact that litigation could have on U.S. farm programs. (For a detailed discussion of the U.S. response to the WTO cotton panel's decision. (See CRS Report RS22187, U*.S. Agricultural Policy Response to WTO Cotton Decision*.)

On March 3, 2005, a WTO Dispute Appeals Panel ruled against the United States in a dispute brought by Brazil against certain aspects of the U.S. cotton program. As a result, USDA announced that it would make a number of administrative changes in the export credit guarantee programs to comply with the WTO ruling, including removal of a 1% cap on fees charged under GSM-102 (short term) export credit guarantee program and termination of GSM-103 (intermediate term) guarantee program. In addition, USDA proposed that Congress repeal the Step 2 cotton program.

Refusal to comply with the WTO DSB decision would entitle Brazil (subject to arbitration) to compensation, which ordinarily would involve an increase in Brazil's tariffs on imports from the United States. Brazil's success in challenging U.S. farm subsidies in WTO litigation could encourage other countries to attempt similar challenges. Uruguay, for example, also has indicated that it might challenge the U.S. rice program in WTO dispute settlement.

Farm Income and Commodity Price Support

The economic argument for federal support of farms, in contrast to nonfarm businesses, is that markets do not efficiently balance commodity supply with demand. Imbalances in agricultural markets develop because consumers do not respond to price changes by buying proportionally smaller or larger quantities (demand is price inelastic) and, similarly, farmers do not respond to price changes by proportionally reducing or increasing production (supply is price inelastic). The imbalances then often result in inadequate or exaggerated resource adjustments by farmers. The imbalances are further exacerbated by the long time lag between crop planting (or livestock breeding) and harvest, during which economic and yield conditions may change.

The objectives of federal commodity programs are to stabilize and support farm incomes by shifting some of the risks of short term market price instability and longer term capacity adjustments to the federal government. The goals are to maintain the economic health of the farm sector so that it can utilize the nation's comparative advantages in natural, infrastructure, and technology resources to be globally competitive.

The law mandates federal support for a specific list of commodities. For most of these commodities, support began during 1930's Depression era efforts to generally raise farm household income when commodity prices were low because of prolonged weak consumer demand. While initially intended to be a temporary effort, the commodity support programs survived, but have been modified away from supply control and commodity stocks management to direct income support payments.

Critics of commodity programs agree on the underlying fundamental economic conditions that make stability more difficult to achieve for agriculture than some other sectors. However, they argue that: 1) current programs are highly distorting of world production and trade, 2) the levels of subsidies are high and have become capitalized into land prices and rents that raise the cost of production and make the United States less competitive in global markets,[8] and 3) the benefits are concentrated among a comparatively small number of commodities produced on a small number of large farms.[9]

Supporters of commodity subsidy programs may not contradict the critics, but do point out that other nations have distorting subsidy programs and/or trade barriers that should be eliminated if the United States is to make reforms. Land owners are concerned about a loss of rents and wealth if land prices drop in response to a reduction in the subsidies. Similarly, rural communities are concerned about any

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[8] Because decoupled payments are certain and known, they are efficiently capitalized into land values and rents. Since nearly 60% of the direct payment acres are rented, the primary beneficiaries are absentee landowners. (Mary E. Burfisher and Jeffrey Hopkins, *Farm Payments*, Amber Waves, Economic Research Service, USDA, February 2003)

[9] James MacDonald, Robert Hoppe, David E. Banker, *Growing Farm Size and the Distribution of Commodity Program Payments*, Amber Waves, Economic Research Service, USDA, February 2005.

large decline in the real estate tax base that supports local schools, roads, and other community services. While large farms do receive most of the production-linked subsidy payments, recipients argue that lower input costs and marketing efficiencies make large farms efficient and small farms uneconomic in the production of bulk commodities. Therefore, targeting subsidies to small farms, recipients say, would encourage inefficient production.

As Congress moves increasingly closer to the 2007 expiration of current farm support programs, policy makers will seek to design a new law that 1) meets the nation's domestic needs, 2) satisfies this country's international trade obligations under the World Trade Organization, and 3) fits within still-to-be determined budgetary constraints.

Program Design and Operation

The mandatory commodity provisions of Title I of the 2002 farm bill require support for 25 farm commodities. Producers of so-called "covered commodities" (food grains, feed grains, oilseeds, and upland cotton)[10] are eligible for fixed "direct payments," "counter-cyclical payments," and nonrecourse "marketing assistance loans" and "loan deficiency payments." (For an explanation of these terms and of program operations, see CRS Report RS21779, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans*.)

Producers of so-called "loan commodities" (including extra long staple (ELS) cotton, dry peas, lentils, small chickpeas, wool, mohair, and honey) are eligible only for nonrecourse marketing assistance loans and loan deficiency payments. The law mandates that raw cane sugar prices and refined beet sugar prices be supported through a combination of limits on domestic output that can be sold and nonrecourse loans for domestic sugar, implemented taking into account U.S. commitments to import sugar under trade agreements. Farm-level milk prices are supported by guaranteed government purchases of nonfat dry milk, cheese, and butter at set prices. Additionally for milk, counter-cyclical payments are made directly to farmers when farm prices fall below specified levels.

The 2002 farm bill is noteworthy for several important changes to previous commodity policy. Counter-cyclical payments were added as a new support tool after several years of congressionally mandated *ad hoc* "emergency" market loss payments were made in response to low market prices. (See CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2005*.) Soybeans, minor oilseeds, and peanuts were brought under the support framework for "covered commodities." Those who lost peanut marketing quotas under this change were compensated with "buyout" payments. The "loan commodities" category was broadened beyond only ELS cotton to include six additional commodities that had not received support under the previous farm bill. Sugar support was modified to include domestic production

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[10] Food grains include wheat and rice, and feed grains include corn, sorghum, barley, and oats. Oilseeds include soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed, and peanuts.

controls, in addition to import quotas, as a price boosting mechanism. For milk, the farm bill added direct income support payments to the already existing practice of purchasing and disposing of surplus stocks through nonmarket channels.

Commodity support programs are paid for through the USDA's Commodity Credit Corporation (CCC). **Table 1** shows spending by commodity and year. The cost of farm price and income support programs over the life of the 2002 farm bill is expected to total about $92 billion, or about $11.5 billion annually. Eighty-four percent of spending is for five crops (corn, 32%; cotton, 20%; wheat, 13%; soybeans, 13%; rice, 6%).

Table 1. Commodity Credit Corporation Support Outlays, by Commodity, FY02-04 (Actual) & FY05-08 (Estimated)

Commodity	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Estimate	FY06 Estimate	FY07 Estimate	FY08 Estimate	Annual Average
	Million $							
Corn & other feed grains	3,296	1,572	2,841	6,900	9,387	5,105	3,659	4,095
Wheat	1,190	1,118	1,173	1,691	3,052	2,177	1,860	1,533
Rice	1,085	1,279	1,130	578	533	567	515	711
Cotton, upland	3,307	2,889	1,372	4,281	3,568	1,819	1,514	2,344
Dairy	622	2,494	295	33	35	113	60	457
Soybeans	3,447	907	595	1,109	960	2,823	1,930	1,471
Peanuts	129	1,562	259	410	340	287	287	409
Sugar	(130)	(84)	61	(89)	0	0	0	(30)
Honey	(3)	1	3	2	25	31	36	12
Wool & mohair	(1)	20	12	8	11	11	11	9
Other commodities	237	1,077	(155)	505	1,151	684	760	532
Total, all commodities	**13,179**	**12,835**	**7,586**	**15,428**	**19,062**	**13,618**	**10,632**	**11,543**

Source: Data are obtained from Farm Service Agency, USDA, Table 35. CCC Net Outlays by Commodity and Function, July 13, 2005; and Output 9, CCC Net Outlays by Commodity & Function, *Commodity Estimates Book for FY 2006 President's Budget* (released Feb 7, 2005). [http://www.fsa.usda.gov/dam/BUD/bud1.htm]. The CCC also funds several mandatory USDA conservation and rural development programs that are not included in the above table.

Two developments have occurred since enactment of the 2002 farm bill that could substantially reshape domestic support policy. These include 1) the WTO's ongoing Doha Round of multilateral trade negotiations, and 2) the WTO dispute settlement ruling against the United States in a case brought by Brazil concerning U.S. cotton subsidies. (See CRS Report RS21905, *Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps* and CRS Report RS22187, *U.S. Agricultural Policy Response to WTO Cotton Decision*).

Preliminary discussions in the ongoing Doha Round suggest that the domestic amber box spending ceiling will be subject to a new 20% initial cut from its current $19.1 billion ceiling with further cuts to follow. In addition, the WTO ruled on March 3, 2005, that certain aspects of U.S. cotton support — Step 2 marketing provisions and export credit guarantees — function as illegal subsidies and must be removed. As a result of these developments, a key question likely to be asked of virtually every new U.S. farm policy proposal is how it will affect U.S. trade commitments to the WTO. Tighter WTO spending limits and strict rules on the acceptability of certain types of policies have the potential to constrain flexibility and policy choices in considering ways to assist domestic agricultural producers. (See CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support*).

The policy trend across member countries engendered by WTO commitments and dispute settlement rulings has been to shift domestic support away from programs that are most market distorting (i.e., amber box programs such as direct farm income and price supports) and toward programs that both cause minimal market distortion and are exempted from WTO spending limits. The most notable of exempted policies — described as green box policies — includes such activities as agricultural research and extension, conservation and the environment, rural development, food security stocks, domestic food aid (e.g., food stamps), farm disaster payments, and structural adjustment programs. Also exempted from amber box limits are "decoupled" payments, i.e., payments that are not linked to current production decisions.

Prospective Issues and Options

Payment Limits. Questions of whether there should be farm-level limits on commodity payments and what those levels should be have been controversial for many years. Some argue that very large farms should not receive subsidies at all, but if they do, there should at least be limits. Others argue that farm commodity programs should not discriminate based on farm size or any other income or wealth consideration because the goal is to stabilize and support the entire sector, not particular households. In fact, limits have been imposed on direct farm payments since the early 1970s when target price deficiency payments were first enacted.[11]

The debate has intensified in recent years because most of the payment money is increasingly going to a comparatively small number of large farms. For example, in 2003, 5.8% of the payment farms (those with sales over $500,000, which includes about 48,000 farms) received 28.6% of the payments ($3.1 billion).[12] This concentration of payments has raised questions of equity as well as whether it contributes to the absorption of smaller farms by the large farms.

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[11] The 2002 farm bill created a Commission on the Application of Payment Limits for Agriculture and its final report is available at [http://www.usda.gov/oce/oce/Document%20Archive/payments/payment-commission.htm].

[12] Data are based upon the Economic Research Service, USDA, Agricultural Resource Management Survey (ARMS) available at [http://www.ers.usda.gov/Briefing/FarmIncome/govtpaybyfarmtype.htm].

Tightening the payment limits also has been proposed as a way to reduce the cost of the commodity programs when there are budget pressures. In the FY2006 budget request to Congress, the USDA included a proposal to save $1.2 billion over 10 years by: tightening payment limits from the current level of $360,000 per person to $250,000; counting commodity forfeitures and certificate gains toward the limits; and applying the limits to dairy payments. Among commodities, rice and cotton – two southern crops – have a greater concentration of payments than do the other payment crops. This has created a largely regional split between Members of Congress on the issue. (For more information, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.)

Supply Controls and Import Quotas. Sugar and milk are the only two commodities that currently are supported by maintaining farm prices above what the market might otherwise dictate. Sugar utilizes nonrecourse loans and a system of import tariff rate quotas and domestic marketing allotments to limit supplies and support prices. Farm milk prices are indirectly supported through USDA purchases of surplus dairy products from dairy processors at specified prices. Also, dairy farms benefit from: direct payments when market prices fall below a mandated target price under the Milk Income Loss Contract (MILC) program; established minimum farm prices for fluid-grade milk under federal milk marketing orders; and dairy export subsidies through the Dairy Export Incentives Program (DEIP). At issue for Congress is whether to continue programs that potentially raise market prices, which critics contend are the most market distorting because they encourage excess production. Periodic efforts in the past to significantly alter or phase out these programs generally have not succeeded. Supporters contend that the support mechanisms are necessary to protect farms from foreign competition, and in the case of milk, to also limit competition from lower cost producers in other regions of the United States.

Some consideration has been given to direct payments as an alternative to supply controls. However, cost is a major deterring factor. Target prices and deficiency payments were added to the milk support framework in the 2002 farm bill with a projected cost estimate of $2 billion for FY2003 through FY2005. However, nothing was done to alter the dairy products acquisition activities of CCC that are used to limit market supplies. Consequently, after its first two years of operation, the MILC program paid out over $2 billion, and CCC dairy acquisitions cost $600-$700 million in FY2002 and FY2003. High milk prices in 2004 and 2005 have kept surplus dairy product purchases to a minimum.

Another policy option, possibly for sugar, is a buyout of the supply control features of price support. The 2002 farm bill included a buyout of peanut marketing quotas, the supply control feature of the peanut price support program. The peanut quota buyout paid about $1.221 billion to about 8,600 farms (averaging $142,000 per farm) as compensation for the loss in value associated with termination of peanut marketing quotas. Peanut producers now receive the benefit of direct payments, counter-cyclical payments, and marketing assistance loans and loan deficiency payments. Tobacco marketing quotas on some 57,000 farms were terminated after the 2004 crop, and $9.6 billion will be paid out over 10 years as buyout compensation (the equivalent of a lump sum payment of $102,000 per farm using a 5% discount rate). In contrast to peanuts, tobacco buyout funds will come from tobacco product

manufacturers, and future tobacco production will not benefit from any support program.

Green Payments. Some contend that commodity support programs should be replaced with incentive payments to protect natural resources such as land, water, air, and/or wildlife; or possibly to enhance scenic, recreational, or open space amenities. This concept has been tagged as a green payments policy in the United States, but in the European Union it is called agri-environmentalism (see CRS Report RL32624, *Green Payments in U.S. and European Union Agricultural Policy*.)

The 2002 farm bill included a new Conservation Security Program (CSP) that was intended to be a comprehensive green payments program because it would encourage integrated whole-farm planning and reward producers who proactively conserve environmental resources across their entire agricultural operation. The eligibility criteria for CSP rewards producers for their historic record of conservation, as well as their willingness to achieve more conservation in the future. Stringent eligibility criteria designed by the USDA to reward only the highest levels of additional conservation, and a comparatively low congressional limit on spending of $41.4 million in FY2004, have constrained participation.

EU farm policy since 1985, however, has included payments to farmers to compensate for costs incurred or income forgone for undertaking agri-environmental measures that meet farm policy and rural development objectives. Such measures include, among other things, reducing use of fertilizer and chemical inputs, adopting organic production methods, maintaining countryside and landscape, or managing land for leisure activities or public access. Successive reforms of the EU's Common Agricultural Policy (CAP) have placed greater emphasis on such green payments — and increased funding for them — as agri-environmental measures have been integrated into a broad rural development policy. In addition to meeting desirable social goals, EU policymakers view shifting funds from commodity support to rural development, including agri-environmental programs, as more compatible with multilateral efforts in the World Trade Organization (WTO) to curb domestic support, while maintaining support that is not, or is at most minimally, trade-distorting.

Buyout of Commodity Programs. The buyout of peanut and tobacco marketing quotas has stimulated thought about a buyout of all commodity support programs. Agricultural economist David Orden launched this discussion at USDA's 2005 Agricultural Outlook Forum. He suggested that a buyout of the 2002 farm programs could focus on direct payments, the counter-cyclical payments, and/or the loan rate price guarantees. His analysis determined that buying out farm support payments would raise substantially short-term budget costs, but reduce expenditures in the long run.[13] Other presenters at the forum noted that a buyout would only be effective if future Congresses did not re-enact support payments, especially during

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[13] David Orden, *Key Issues for the Next Farm Bill: Is a Farm Program Buyout Possible*, USDA Agricultural Outlook Forum, February 24, 2005, [http://www.usda.gov/oce/forum/speeches/Orden.pdf].

the next downturn in the farm economy, when there likely would be pressure for additional assistance.

Devolving Commodity Programs to the States. Shifting farm program funds to states (called devolution) is a concept explored by economists at the USDA's Economic Research Service. The argument is made that the wide diversity of U.S. farms, commodities, land and water resources, and problems argue for state-designed responses that meet local objectives, rather than national programs.

Would devolution undermine national farm policy goals such as income stability for farmers and the economy or food security? The economists at ERS respond "probably not," given the relatively small number of U.S. farmers and the relatively small share of farming in the national economy.

> Stabilization of farmers' incomes can be addressed through Federal programs but also by private means, such as forward pricing, crop yield or revenue insurance, futures, and options. And, in contrast to the 1930s when the programs were initiated, commodity programs have little redistributive effect, as the bulk of payments goes to farm households with incomes above the U.S. nonfarm average. Food security for the U.S. no longer depends exclusively on domestic production, which means that national commodity policies are not the only determinant of whether Americans have enough to eat.[14]

A decision to devolve all or most of the expected $15.6 billion in annual commodity payments to the states would involve difficult choices, such as how to divide it among the states. Further, the states could not be allowed to use the funds in ways that violate international trade agreements. However, devolution could enable the states to change the objectives and mix of programs being delivered to their farmers and rural communities.

The disadvantage to a devolution policy is that the current recipients of farm subsidies likely would lose some or all of benefits of future spending. The expected consequence would be a decline in land values and reduction in land rental rates. To the extent the subsidies have not been decoupled from production, there could be some shifting of production between commodities, and the lower land prices and lower rental rates could result in increased production if the lower costs make U.S. producers more competitive in the global marketplace.

Revenue Insurance. Farmers now benefit from a combination of income support payments to offset low prices and indemnity payments to offset production losses. This suggests an implicit target revenue goal on the part of the federal government. Supporting revenue is reasonable because it is with revenue that farmers pay their expenses. However, the various farm subsidy programs currently are designed and operated independently. Consequently, the programs may fail to

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[14] Susan Offutt, Betsey Kuhn, Mitchell Morehart, *Devolution of Farm Programs Could Broaden States Role in Ag Policy*, Amber Waves, November 2004, [http://www.ers.usda.gov/AmberWaves/november04/features/devolutionofprograms.htm].

effectively support farm revenue. For example, generally poor weather, such as a widespread drought, may drive crop prices up and marketing loan and counter-cyclical payments down. At the same time, yield losses may not be sufficiently catastrophic to trigger crop insurance indemnity payments or to prompt congressional adoption of disaster payments. Similarly, there are years when low prices are offset by high yields so that farm income is adequate to cover expenses, yet on top of that there are substantial price-linked support payments to further boost income.

For about the last decade, several federally subsidized revenue insurance products have been offered to producers as part of the federal crop insurance program. These policies indemnify for diminished revenue, whether from reduced yield or from low market prices. By 2004, revenue insurance was purchased on 126 million acres, 60% of all eligible crop land in the crop insurance program. A possible option for the next farm bill is to expand current pilot programs so that a producer can insure the revenue of the entire farm (possibly including livestock), rather than individual crops. Several years of recent experience with federally subsidized revenue insurance now provide empirical information from which to evaluate universal farm revenue insurance as a farm support alternative. Analysis at Iowa State University indicates that modifications can be made to current revenue insurance products that make them:

> ...ideally suited to hit congressional revenue targets. Either low prices or low yields can trigger a payment. But low prices by themselves will not trigger a payment if yields are high enough to raise revenue above the 90 percent level. And low yields will not trigger a payment if prices are strong enough. In addition, if payments arrive when aggregate market revenue exceeds its target level, then at least the payments would flow to those regions that experienced inadequate revenue because of low yields..... Rationalizing commodity, disaster, and crop insurance programs by replacing them with a single-payment program....would increase program transparency, eliminate program duplication, reduce administrative costs, and largely eliminate over- and under-compensation of farmers.[15]

Current crop and revenue insurance products are classified as amber box (non-product specific) under WTO rules because of their linkage to current prices and current planted acres. Whether modifications could make them comply with current or new international subsidy rules is uncertain.

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[15] Bruce A. Babcock and Chad Hart, Judging the Performance of the 2002 Farm Bill, *Iowa Ag Review*, Spring 2005. [http://www.card.iastate.edu/iowa_ag_review/spring_05/article1.aspx]

Conservation and Environment

A conservation title and conservation provisions in other titles are likely to be included in the next farm bill. They may both amend existing programs and add new options to protect or restore natural resources affected by agricultural activities. The current conservation portfolio includes numerous programs, many of which were enacted in recent farm bills. These programs provide conservation assistance to producers and landowners for many different purposes through a combination of technical assistance and cost-sharing, supported by education and research programs. Participation is voluntary. Starting in 1985, each succeeding farm bill has expanded the range of topics and number of approaches over earlier ones, and the conservation effort under the 2002 farm bill is the largest and most expansive yet. (See CRS Report RL32940, *Agriculture Conservation Programs: A Scorecard* for a tabulation of current programs.)

The 2002 farm bill altered the conservation effort in two especially significant ways: a large increase in authorized funding for many of the conservation programs, and enactment of a new Conservation Security Program (CSP) to reward producers practicing conservation on land in production. The upcoming farm bill debate likely will include at least four topics: funding; green payments; the scale of land retirement; and measuring accomplishments. (See CRS Issue Brief IB96030, *Soil and Water Conservation Issues*, for an overview of implementation activities since 2002.)

Funding

Total funding for conservation has grown rapidly since FY1990, as **Table 2** below shows. The portion of funding going to each of the five broad categories of conservation activities identified in the table has been evolving. Rental and easement payments to retire land from production is the largest category of conservation spending (37% of total). However, it has been a declining portion of the total. The most rapidly growing category, especially in recent years, has been cost-sharing assistance (now 21% of the total).

The Environmental Quality Incentives Program (EQIP), the basic cost sharing program to remedy resource or environmental problems on land that is farmed, was authorized at $200 million per year under the 1996 farm bill. Under the 2002 farm bill, it is designed to grow to $1.3 billion in FY2007. Other programs, especially those funded using the Commodity Credit Corporation, also have had rapid rates of growth.

The demand to participate in conservation programs also continues to grow. A major justification for the large increases in funding in the 2002 farm bill was to reduce or eliminate a large and growing backlog of applications. However, participation and backlogs for some of them remain large. Congress has options for dealing with the backlog by either again increasing funding for these programs, or by reducing participation by setting higher eligibility standards. It also may consider whether the current mix of approaches and programs is appropriate.

Table 2. USDA Funding for Conservation Activities, Selected Years between FY1990 and FY2005

Fiscal Year	Technical Assist., Extension, Admin. a/	Cost Sharing	Public Works, including emergencies	Rental & Easement Payments b/	Data & Research	Combined Total
	Million $					
1990	653.4	353.2	196.8	1,406.0	350.7	2,960.0
1993	859.7	318.2	200.8	1,531.5	274.0	3,310.0
1996	868.8	243.4	99.1	1,783.1	392.9	3,387.3
1999	947.5	363.8	129.8	1,437.8	453.3	3,332.1
2000	929.0	343.3	114.0	1,507.7	451.1	3,345.3
2001	1,046.2	365.9	173.5	1,651.4	464.8	3,705.4
2002	1,114.2	534.8	134.9	1,974.2	483.9	4,242.0
2003	1,269.9	383.3	76.8	2,044.7	508.1	4,282.8
2004	1,393.0	971.4	178.7	2,011.2	528.9	5,083.1
2005 (est.)	1,519.4	1,184.9	261.9	2,098.5	546.3	5,611.0

a/ Activities of the four USDA agencies engaged in supporting conservation: the Natural Resources Conservation Service (NRCS), Farm Service Agency (FSA), Forest Service, and Extension Service.
b/ A large majority of these payments go to farmers through the Conservation Reserve Program.
Source: USDA, Office of Budget and Program Analysis.

Green Payments

The term "green payments" refers to providing financial rewards to producers based on the scope or intensity of their conservation activities. A shift from commodity subsidies to green payments is seen by some as attractive because it could provide a new mechanism to support farm income, forge a stronger link between conservation and farm income objectives, and still comply with WTO obligations if the program is not considered to be production and trade distorting.

The Conservation Security Program (CSP), enacted in the last farm bill, is one model for translating the concept of green payments into a program. This program was enacted as the first true entitlement program for conservation, meaning all producers who meeting eligibility qualifications would receive payments. However, implementation has moved slowly and Congress has tightly limited the funding each year. Congress likely will debate whether the CSP remains the preferred vehicle for providing green payments, based on what has been learned from the limited experience with the CSP, and what other options might be identified.

Several conservation goals that could be included in the design of a green payments program, in addition to topics already addressed in other programs, include:

- reducing atmospheric CO_2 through improved soil and crop management to help alleviate global warming;
- supporting efforts to protect endangered species and their habitat;
- providing better coordination for managing resources in private and adjacent public lands;
- addressing water scarcity and use patterns in the arid west;
- reducing pollution in waterways from agricultural sources, including addressing hypoxia in the Gulf of Mexico and other places; and
- protecting and restoring small forested areas.

Land Retirement

Authorization to enter into new contracts under all the land retirement programs will expire at the end of FY2007, just when a large portion of the current Conservation Reserve Program (CRP) contracts will expire. Hence, reauthorizing these programs and making adjustments to respond to changing needs are likely to be high priorities. There may be a general debate over the appropriate scale of land retirement as an approach to conservation. Some commodity users, especially those who either seek to expand production of ethanol fuel stocks or seek lower prices for feed for livestock, may work to reduce the amount of land that can be retired. This position may be countered by wildlife and other interests who see greater benefits if larger amounts of land in large blocks are retired. Between these two positions is a possible consensus goal emphasizing small acreages or parts of fields that provide larger environmental benefits, such as stream buffers; creating additional site-specific or resource-specific programs; or using land retirement to provide new types of environmental benefits, such as sequestering carbon or providing habitat for endangered species.

Land retirement programs using rental and easement payments have provided significant environmental benefits while helping to raise market prices for commodities by reducing the acreage in production. Currently, about 40 million acres, an area equal to almost 10% of the Nation's cropland, are enrolled in these programs. CRP is the largest such program with almost 35 million acres enrolled. It also will use more than 40% of the conservation budget in FY2005. Other land retirement programs include the Wetland Reserve Program and the Grasslands Reserve Program.

Conservation Accomplishments

As funding for conservation has increased and the conservation mission has expanded to address topics other than commodity production, Congress has grown more interested in learning about the accomplishments of this effort. Questions center on how these programs benefit agriculture and the environment, and how enduring these benefits might be (especially since production agriculture is dynamic

with producers changing crops, equipment, and management practices from year to year).

If the farm bill debate occurs in a setting where conservation proponents must respond to significant budget constraints, any information that can identify large or enduring accomplishments could be critical to protecting those programs from funding reductions. USDA's Economic Research Service and its Natural Resources Conservation Service (NRCS) have initiated major programs to better respond to such questions, but the lengthy study periods may mean that few answers will be available in time to inform this farm bill debate. The largest evaluation effort is the NRCS Conservation Effects Assessment Project (CEAP), which is spending about $8 million annually to document these accomplishments.

Credit

Farm bills often contain a credit title that makes policy changes to the farm loan programs of the USDA's Farm Service Agency (FSA) and/or the co-operatively owned and operated Farm Credit System (FCS). The federal government has a long history of providing low interest credit assistance to farmers by issuing direct loans and guarantees through FSA, and chartering institutions such as FCS to fill gaps in rural lending markets. Credit is an important input, with all lenders holding about $206 billion in outstanding farm loans in 2004. (For more information on credit, see CRS Report RS21977, *Agricultural Credit: Institutions and Issues*, and CRS Report RS21278, *Farm Credit System*.)

Farm Service Agency Loan Programs

FSA is referred to as a lender of last resort because it makes direct loans, in some cases at below-market interest rates, to eligible family-sized farmers who are unable to obtain commercial credit. FSA also guarantees timely payment of principal and interest on some commercial loans. FSA supplies about 3% ($6 billion) of the farm sector's total debt through direct lending, and guarantees loans made by other lenders accounting for another 4 to 5% of the market. FSA loan programs have permanent authority under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 *et seq.*), and unlike the farm commodity programs, do not require periodic reauthorization. However, Congress frequently uses the farm bill to make changes to the terms, conditions, and eligibility requirements of these programs.

Although farm bills authorize levels for FSA loan programs, an appropriation to FSA is required each year to cover the federal cost of making loans. This loan subsidy is directly related to any interest rate subsidy provided by the government, as well as a projection of anticipated loan losses. The amount of lending that can be made, the appropriated loan authority, is several times larger than the appropriation.

2002 Farm Bill Changes. Among other provisions, the 2002 farm bill (Title V):

- authorized funding levels for FSA farm lending programs;
- expanded access to FSA farm credit programs for beginning farmers;
- increased the percentage that FSA may lend for down payments and extended the loan duration;
- created a pilot program to guarantee seller-financed land contracts;
- expanded emergency loan authority to include USDA-imposed animal or plant quarantines; and
- authorized reamortization of delinquent shared appreciation agreements (FSA contracts to forgive part of a real estate loan in return for sharing a future period's price appreciation).

Prospective Issues. Current credit conditions are favorable for agricultural lenders and their farmer borrowers, and debt-to-asset ratios for the sector have been stable over the past decade. Recent strength in farm income generally has given farmers more capacity to repay their loans or borrow new funds. Farm equity

has been rising because increases in debt typically have been offset by larger gains in land values. Economists attribute much of the continued growth in land values to steady government payments. Nonetheless, some farmers continue to experience financial stress due to individual circumstances.

The next farm bill likely will establish new loan authorization levels, although actual funding will continue to be set by annual appropriations acts (**Table 3**).

Table 3. Farm Service Agency Loan Program Levels, FY1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
	Million $							
Appropriated levels								
Loan subsidy	106	90	82	117	188	227	196	157
Loan authority	2,401	2,285	3,083	3,098	3,891	3,937	3,246	3,718
Direct	643	586	628	653	758	735	742	853
Guaranteed	1,653	1,573	2,329	2,318	3,006	3,100	2,402	2,763
Farm bill authorizations	**1996 farm bill (FY1996-2002)**					**2002 farm bill (FY2003-07)**		
Loan authority	3,245	3,325	3,435			3,796		
Direct	585	585	585			770		
Guaranteed	2,660	2,740	2,850			3,026		

Source: CRS, using data from House Appropriations Committee, and from P.L. 104-127, and P.L. 107-171. Direct and guaranteed loan authority amounts do not include Indian tribe, emergency, and boll weevil loans. Loan subsidy is the funding required to cover the cost of making and guaranteeing loans (i.e., interest rate subsidy and loan defaults). Loan authority is the amount of lending that can be made or guaranteed with the available loan subsidy.

Since the 1980s, the program has gradually shifted from direct FSA loans toward FSA guarantees on commercial loans. This lessens farmers' reliance on direct federal lending, and helps leverage federal dollars since guaranteed loans do not require the government to supply the loan principal. In the late 1990s, direct loans were about 27% of USDA's farm loan programs. That ratio dropped to about 19% in FY2002-03, before rising again to about 23% in FY2004-05.

Farm Credit System Lending

FCS is a network of borrower-owned lending institutions operating as a government-sponsored enterprise (GSE). It is not a government agency, nor is its lending guaranteed by the government. However, Congress established the system in 1916 to provide dependable and affordable credit to rural areas when many lenders avoided farm loans. FCS supplies about 31% ($63 billion) of the farm sector's total

debt, and leads the sector in real estate lending with 37%. Current statutory authority for FCS is in the Farm Credit Act of 1971, as amended (12 U.S.C. 2001 *et seq.*), most notably revised by the Agricultural Credit Act of 1987. Statute and oversight determine the scope of FCS activity, and provide benefits such as tax exemptions.

2002 Farm Bill Changes. Among other changes, the 2002 farm bill enabled CoBank (the FCS Bank for Cooperatives) to finance storage and handling facilities in foreign countries that purchase U.S. farm products. It also removed requirements that FCS institutions get prior permission from another FCS lender when participating in certain loans outside the lender's chartered territory.

Prospective Issues. In recent years, FCS has sought to expand its lending authorities beyond traditional farm loans and into rural housing and business loans. FCS also generally desires to update the Farm Credit Act. Commercial banks, which are the primary competitors of FCS, oppose expanding FCS lending authority. Bankers say that commercial credit in rural areas is not constrained, and that the government-sponsored enterprise (GSE) status of FCS gives them an unfair competitive advantage vis-a-vis commercial banks. This controversy was highlighted in 2004 when a private foreign bank tried to purchase an FCS association. The association's board of directors initially voted for the sale, indicating to some observers that FCS may no longer need government sponsorship. The FCS responds to arguments over its GSE status by asserting its statutory mandate to serve agriculture through both good times and bad, unlike commercial lenders without such a mandate. FCS asked Congress to eliminate provisions of the law allowing institutions to leave the System. Commercial bankers say that institutions should be allowed to leave FCS if they want more lending authorities than allowed under the current Farm Credit Act.

Crop Insurance and Disaster Assistance

Agriculture is generally viewed as an inherently risky enterprise. Farm production levels can vary significantly from year to year, primarily because farmers operate at the mercy of nature, and frequently are subjected to weather-related and other natural disasters. Consequently, the federal government plays an active role in helping agricultural producers mitigate this risk and the depressing effects that natural disasters can have on farm income.

One major ongoing policy tool that the government uses is the federal crop insurance program. Federal crop insurance is permanently authorized by the Federal Crop Insurance Act, as amended, and is administered by USDA's Risk Management Agency. Under the current program, a producer who grows an insurable crop selects a level of crop yield and price coverage and pays a premium that increases as the levels of yield and price coverage rise. According to USDA, the federal crop insurance program provided coverage in 2004 to approximately 370 commodities covering over 80% of planted acreage in the country. This coverage was made available through various insurance plans, including revenue insurance (which allows a participating producer to insure a target level of farm revenue rather than just production levels).

Because the program is not subject to periodic reauthorization, major changes to the crop insurance program generally are not addressed in the context of an omnibus farm bill. Over the past 25 years, the program has been subject to three major legislative enhancements (1980, 1994 and 2000) each of which has pumped additional federal dollars into the program in order to enhance farmer participation levels in the hopes of precluding the demand for *ad hoc* disaster payments. Since the last major modification in 2000, the federal subsidy to the crop insurance program has averaged about $3.3 billion per year, up from an annual average of $1.1 billion in the 1990s and about $500 million in the 1980s. Nearly two-thirds of the current federal spending is used to subsidize producer premiums, and the balance primarily covers the government share of program losses and reimburses participating private insurance companies for their administrative and operating expenses.

Although the scope of the program has widened significantly over the past 25 years, the anticipated goal of crop insurance replacing disaster payments has not been achieved. In virtually every crop year since 1988, Congress has provided *ad hoc* disaster payments to farmers with significant weather-related crop losses. These have been made available through emergency supplemental appropriations, regardless of whether a producer had an active crop insurance policy. Since 1988, total disaster payments have amounted to $20 billion, with the most recent authorization being an estimated $2.3 billion in disaster payments for either 2003 or 2004 crop losses.

Administration Proposal

The Administration's budget request for FY2006 contained several crop insurance legislative proposals that it says would encourage farmers to buy higher levels of insurance coverage, save the government $140 million annually, and

preclude the need for *ad hoc* disaster payments. To date, none of these proposals has been acted on in Congress, but they could surface in budget reconciliation debate later this year, or possibly in the next farm bill. These proposals include 1) a requirement that farmers purchase crop insurance as a prerequisite for receiving farm commodity payments; 2) a 2% to 5% reduction in the portion of the premium that is paid by the government, with larger reductions at lower levels of coverage; 3) a requirement that producers pay 25% of the premium (up to $5,000) for catastrophic (CAT) coverage, instead of the current requirement that a producer pay a $100 administrative fee and no premium; and 4) a 2% reduction in the reimbursement rate to private crop insurance companies for administrative and operating expenses.

Premium Reduction Plan

Several other crop insurance issues currently are being monitored in Congress. If these issues are not resolved in this Congress, they possibly could be addressed in the context of the next farm bill. For example, some groups have expressed concern about a Premium Reduction Plan (PRP) currently being offered by USDA. The PRP allows crop insurance companies that can demonstrate cost savings in their delivery of insurance to sell policies to their customers at a discount. To date, the PRP has been approved for only one company, which has reduced its costs by selling its policies directly to customers online. Independent insurance agents, who sell crop insurance on behalf of the crop insurance companies, are concerned that the PRP reduces their total commissions and damages their profitability. Some farm groups contend that the plan encourages cherry-picking of the best customers and might leave smaller farmers uninsured.

Insurable Yields

An issue that was addressed in the 2000 crop insurance enhancement act (P.L. 106-224) but continues to be of interest involves the concerns of farmers with multiple years of significant crop losses. Since the level of insurance coverage is determined by an individual producer's actual production history, producers with multiple years of crop losses tend to have lower average historical crop yields and hence are assigned insurable crop yields that are reduced by these losses. Although P.L. 106-224 placed limits on how low a producer's insurable yield could fall, some producers still maintain that their assigned yields are below their potential production. Some groups also are concerned that a participating producers' historical crop yields underestimate actual yields because of technological advances.

Other Issues

Other issues include the concerns of specialty crop growers (fruits and vegetables) who contend that insurance products for their commodities are developed more slowly than for the more traditional crops. Also of interest to Congress are ongoing efforts within USDA to eliminate waste, fraud and abuse within the crop insurance program, which also was addressed in the 2002 legislation. USDA also has developed pilot livestock insurance products, which potentially could be considered for expansion in the next farm bill. Also, consideration could be given to expansion of whole farm revenue insurance, which is currently available on a

limited basis, but allows producers to insure the revenue of the entire farm (including livestock) rather than on an individual crop basis.

(For more on crop insurance and disaster assistance, see CRS Report RS21212, *Agricultural Disaster Assistance*; CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2005*; and CRS Report RL30739, *Federal Crop Insurance and the Agriculture Risk Protection Act of 2000 (P.L. 106- 224)*.)

Livestock Marketing

Sales of livestock and livestock products (i.e., milk, eggs, wool) have averaged about $109 billion annually or about half of total U.S. farm cash receipts since 2002, according to USDA's Economic Research Service. Also, livestock and livestock products are a substantial part of U.S. agricultural exports. Although not typically written to be major farm bill titles, livestock marketing and related provisions are often included in the omnibus legislation. The animal-related provisions typically have pertained to contracting and other business relationships between producers and meat packers; farm animal health and welfare regulation; and the marketing and safety of meat and poultry.

Packer Concentration

The past several decades have seen rapid changes in the structure and business methods of animal agriculture. Production and marketing have been moving toward fewer and larger operations. Ownership or tight control of multiple production and marketing steps by a single firm (known as vertical integration or coordination) also is more common. Debate revolves around the impacts — negative and positive — of such changes on farm prices, on the traditional system of smaller-sized, independent farms and ranches, and on rural communities. Also at issue are the impacts on consumers, and on trade in the increasingly global economy. Inherent in these questions is what role, if any, the government should play in regulating agricultural markets, and/or in assisting those adversely affected by market structural changes.

In 2001, the Senate Agriculture Committee debated whether to include, for the first time in an omnibus farm bill, a "Competition" title. Proposed by then Committee Chairman Harkin, the title included provisions more tightly regulating the contracts between producers and the firms that buy their products, and requiring country of origin labeling (COOL) for retail sales of red meats, among other agricultural commodities. Supporters of the title cited statistics about the growing proportion of cattle and hogs being slaughtered and processed by the top four firms (which they believe limit their opportunities for selling animals), and expressed concerns about increasing livestock and meat imports. Opponents, who argued that the title would stifle U.S. competitiveness and undermine the business relationships that producers willingly enter, won deletion of the title during committee mark-up on November 13, 2001. (COOL was included in the final bill; see below.)

However, several "competition" provisions were adopted in the final 2002 bill. A "livestock" subtitle of Title X (Subtitle F) contains, among other sections, new authority for USDA's Packers and Stockyards Administration to oversee swine production contracts, and explicit permission for livestock and poultry producers to discuss, with specified business associates, regulators, and families, the terms of contracts they have with processors. Variations of these provisions had been approved by the Senate during its floor debate on the farm bill. Another amendment, which the full Senate adopted in late 2001, would have prohibited meat packers from owning or controlling livestock for more than 14 days before slaughter. This

amendment was removed by conferees prior to passage of the final bill in 2002, but interest in the proposal continues.

In the 109th Congress, S. 818 and S. 960 would ban packer ownership of animals for more than seven days before slaughter; S. 960 contains additional restrictions on forward contracts for livestock. Future legislative actions, if any, on this issue could be informed by a $4.4 million study of livestock and meat marketing practices now being completed for USDA,

Livestock Market Price Reporting

Livestock Mandatory Price Reporting (LMPR) was first passed in 1999 to address some producers' concerns at the time about low livestock prices, increasing industry concentration, and the lack of availability of pricing information. LMPR expires on September 30, 2005. Currently at issue is whether to reauthorize LMPR, and what if any changes are needed in the program. If the 109th Congress opts not to adopt a long-term renewal of LMPR, it is conceivable that the matter could be a topic for a 2007 farm bill debate, possibly along with several other so-called competition issues. (See also CRS Report RS21994, *Livestock Price Reporting: Background*.)

Country of Origin Labeling

A provision in Title X of the 2002 farm bill, which remains highly contentious, is a requirement that retailers provide country-of-origin labeling (COOL) for fresh beef, pork, and lamb (Sec. 10816 of Subtitle I).[16] First adopted on the Senate floor in late 2001, mandatory meat COOL was to take effect on September 30, 2004, but language in the FY2004 consolidated appropriations act (P.L. 108-199) delayed implementation for meats, produce and peanuts, but not seafood, for two years until September 30, 2006.

Debate over COOL's merits has carried into the 109th Congress. Some contend that mandatory COOL will provide U.S. products with a competitive advantage over foreign products because U.S. consumers, if offered a clear choice, would choose fresh foods of domestic origin, strengthening demand and prices for them. In the 109th Congress, several measures (e.g., S. 135, S. 1331) would expand COOL and/or accelerate its current implementation date.

Others counter that studies do not provide evidence that consumers want such labeling, and rather, that it will be costly and not beneficial to the industry. They argue that COOL is a marketing, not an animal or human health, concern and should be voluntary. Measures in the 109th Congress to make COOL voluntary for meats include H.R. 2068, S. 1300, and S. 1333. Also, the House-passed version of the FY2006 agriculture appropriations bill (H.R. 2744) includes a provision (Sec. 759) prohibiting use of funds to implement COOL for meat and meat products. (See CRS Report 97-508 ENR, *Country-of-Origin Labeling for Foods*.)

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[16] The mandatory COOL provision also covers seafood, fruits and vegetables, and peanuts.

Animal Identification for Disease Control

The recent discoveries of bovine spongiform encephalopathy (BSE or "mad cow disease") in North America (in four Canadian-born and one U.S.-born cattle) have generated more public and congressional interest in animal health issues. However, such issues have been discussed in past farm bill deliberations, sometimes extensively. For example, Congress included the comprehensive Animal Health Protection Act in the 2002 farm bill (Subtitle E of Title X), to update and consolidate a number of longstanding statutes USDA had used to monitor, control, and eradicate animal diseases.

The BSE cases also provided a reminder that the United States does not have a comprehensive U.S. animal identification (ID) system in place. Most meat and livestock industry officials, and USDA analysts, generally agree that such a system is a useful tool in tracking and containing animal diseases which threaten the health of commercial herds and flocks, cause trade disruptions, and, in some cases, pose public health risks. Producers, state animal health agencies, and USDA have been working to institute a universal system for several years, but some believe that the effort should be mandated, and accelerated possibly with more federal funding.

A number of bills to establish national animal ID programs have been offered in recent years, including H.R. 1254, H.R. 1256, and H.R. 3170 in the 109th Congress; and S. 1202/H.R. 3546, S. 2007/H.R. 3714, S. 2008, H.R. 3787, H.R. 3822, and S. 2070/H.R. 3961 in the 108th Congress. If animal ID legislation is not passed or the current USDA-led effort to establish a program is not viewed as sufficient, the issue could be a topic for the next farm bill. (See CRS Report RL32012, *Animal Identification and Meat Traceability*.)

Animal Welfare[17]

Animal protection activists have long sought legislation to modify or curtail some practices widely used in livestock production and marketing that are considered to be both acceptable and necessary to animal health by the industry. Some Members of Congress have offered various bills that would affect animal care on the farm, during transport, or at slaughter, and the farm bill has, on occasion, been viewed as a possible vehicle for animal welfare amendments. The House and Senate Agriculture Committees from time to time have held hearings on farm animal welfare issues, but their members generally express a preference for voluntary rather than regulatory approaches to humane methods of care; they also have pushed for more enforcement of current laws rather than supported new authorities in this area. For example, Title X of the 2002 law calls on USDA to fully enforce the Humane Methods of Slaughter Act (in Sec. 10305 of Subtitle D), and requires USDA to report on the humane treatment of nonambulatory livestock (in Sec. 10815 of Subtitle I).

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[17] Recent farm bills also have altered or added to provisions of the Animal Welfare Act (7 USC 2131*et seq.*). Although administered by USDA, this act generally applies to the treatment of companion animals (pets) by dealers and those used in research, entertainment, and exhibitions, not to animals raised in agriculture. See CRS Report 21978, *Humane Treatment of Farm Animals: Overview and Issues*.

Agricultural Research, Extension, and Education

The public agricultural research, education, and extension system is comprised of a nationwide network of federal and state agricultural research laboratories and agencies, the land grant Colleges of Agriculture, and the continuing education programs of the Cooperative Extension System.

The federal portion of this network includes the Agricultural Research Service (ARS), USDA's intramural science agency; the Economic Research Service (ERS), which conducts economic analyses of USDA programs and policies; the National Agricultural Statistics Service (NASS), which has employees in state offices as well as at USDA headquarters to collect and analyze data; and the Cooperative State Research, Education, and Extension Service (CSREES), which is the agency that channels USDA funds to the state partners under a variety of programs.

The state partners are the state agricultural experiment stations and Cooperative Extension Service in 50 states and 8 U.S. territories. The experiment stations in each state are associated with the College of Agriculture and schools of forestry and veterinary medicine at each state's designated land grant university. There also are 18 historically black land grant Colleges of Agriculture (the 1890 institutions) and 31Native American colleges that gained land grant status in 1994 (referred to as the tribal colleges).

USDA currently spends $2.4 billion in its Research, Education, and Economics (REE) mission area, which represents 3.1% of the total USDA budget and about 2% of all federal research and development (R&D) funding. The Department distributes annual appropriated funds directly to the intramural agencies (ARS, ERS, NASS). CSREES distributes the federal appropriation for state research, education, and extension in the form of block grants (divided among states according to formulas in authorizing legislation); competitive grants (awarded by peer review panels); and in accordance with congressional earmarks. A portion of ARS's annual funding also is earmarked for specific research locations and projects in the appropriations process.

Background to 2007 Farm Bill Research Issues

Congress last undertook a thorough review and modification of the statutes underlying USDA's REE mission area in the 1996 farm bill, as well as in free-standing legislation that was enacted in 1998 (the Agricultural Research, Extension, and Education Reform Act; P.L. 105-185). The 2002 farm bill reauthorized the provisions of the two earlier laws through FY2007, and contained some further revisions. The focus of legislative reform has been mainly on two policy areas: accountability and funding. Concerning accountability, the laws require both ARS and the state research cooperators, among other things, to obtain greater stakeholder input into their priority-setting processes, and to put all proposed research projects through a peer or merit review process.

Concerning funding, the 1998 act and the 2002 farm bill included a number of provisions to increase the money available overall by requiring states to match a

higher percentage of federal funds than previously. The most significant and controversial provision of the 1998 act was the authorization of a 5-year, $600 million Initiative for Future Food and Agriculture Systems (IFAFS), a competitive grants program intended to promote cutting-edge, basic research in the areas of genomics, biotechnology, and food safety, among others. The 1998 act authorized funding for the program ($120 million annually) to come directly from savings in USDA mandatory spending made available by the 1997 reform of the food stamp program. In the 2002 farm bill, Congress reauthorized IFAFS through FY2007, and gradually increased the mandatory funds available to $200 million annually by FY2006 and FY2007.

Appropriators prohibited funding for the Initiative in FY1999 and in every year since FY2002. However in FY1999 through FY2001, and again in FY2004 and FY2005, conference committees on USDA appropriations directed more money to the existing REE programs than either the House- or Senate-passed appropriations bills contained. Nonetheless, funding for the entire REE mission area will be a primary issue underlying the debate on a 2007 farm bill research title.

History of appropriations for agricultural research. **Figure 2** below shows that, when adjusted for inflation, funding for research has not increased significantly since the 1970s. Scientists also point out that, similar to medical science, the cost of new, high-tech equipment for cutting-edge agricultural research traditionally exceeds the inflation rate by a significant percentage, meaning that incremental increases often result in only level, or even negative, funding rates.

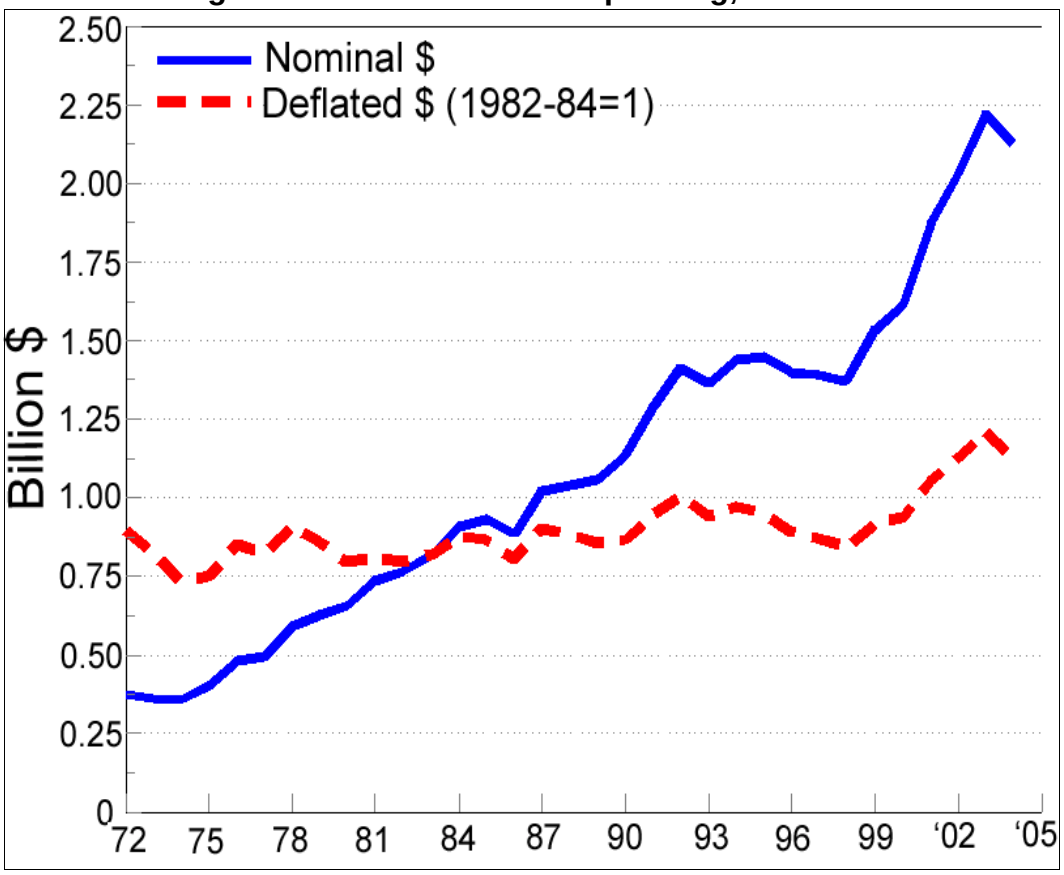
The marked rise in nominal dollars, particularly from 1996 through 2001, is largely due to less overall pressure on the federal budget: all non-defense research and development spending grew during that period.[18] In addition, in FY2000 and FY2001, USDA was able to spend $120 million in mandatory funds on a research program (Initiative for Future Agriculture and Food Systems) that had been created by the 1998 free-standing research law (P.L. 105-185). One-time, supplemental funds appropriated specifically for anti-terrorism activities, not basic programs, are a significant factor in the increases in the FY2001-2003 period.

Allocation of research funds. Closely allied with the issue of funding is the issue of how federal agricultural research dollars are distributed among research performers. USDA differs from other federal research agencies in allocating the majority of its annual research appropriation to intramural research, to projects designated by individual Members, and to block grants to the state land grant universities for their distribution among research areas. In contrast, the National Institutes of Health and the National Science Foundation distribute the majority of their annual funding through competitive grants. Despite criticisms that the task of writing applications for competitive grants is a costly use of researchers' time, the scientific community has used this method for decades, and maintains that peer-

[18] American Association for the Advancement of Science (AAAS) R&D Budget and Policy Program. Historical tables are available at [http://www.aaas.org/spp/rd/].

reviewed, competitive grants have proven to be the best means of eliciting the most qualified proposals and supporting the best research.[19]

Figure 2. USDA Research Spending, FY1972-FY2004



Source: Compiled and calculated by CRS from the Budget of the U.S. Government, FY1974-2006. Data used for generating the graph includes annual appropriations for: 1) ARS salaries, expenses, buildings and facilities; 2) CSREES research and education programs, and integrated programs (beginning in FY2000); and 3) Forest Service research.

Not unexpectedly, the issue of distributing a greater portion of USDA research appropriations competitively is a sensitive point for both federal and state scientists. Given the historically flat budget for research, scientists and administrators currently receiving funds perceive any proposed changes in funding mechanisms as a threat to their respective institutions, although they generally frame their arguments in terms of the benefits to research quality, and to the needs of agriculture, of the way their work is supported. Both the issue of the level of funding

[19] Since 1989, the Board on Agriculture and Natural Resources of the National Academy of Sciences (NAS) has issued three reports containing recommendations for reforms to the federal-state agricultural research system, including a doubling in the percentage of funds disbursed through competitive grants. See [http://dels.nas.edu/dels/banr.shtml] for access to NAS publications on this subject.

for traditional research, and the issue of how research funds are allocated, are combining to shape the nature of congressional debate on a 2007 farm bill research title.

Creating a National Institute for Food and Agriculture

In the 2002 farm bill, Congress required USDA to create a task force to evaluate "the merits of establishing National Institutes focused on disciplines important to the progress of food and agriculture sciences" (H.Rept. 107-424). Congress is considering the idea of a national institute, in part as a way to avoid the controversy over the possible reform of funding distribution methods within the current system, and also as a way to separate the funding needs of the traditional research programs from those of an institute having the same structure, standing, and purpose as the National Institutes of Health. The task force's report, which was delivered to the Secretary of Agriculture in July 2004, recommended the creation of a National Institute for Food and Agriculture (NIFA) as a separate and independent entity within USDA.[20] [21] The task force indicated that NIFA's annual budget should build to $1 billion over a 5-year period, and emphasized that the Institute's mission "should supplement and enhance, not replace, the existing research programs of USDA."

In January 2005, just prior to the release of the Administration's FY2006 budget, a coalition of three major agriculture research interest groups sent a letter to the President requesting that the upcoming budget request reflect movement toward creating a National Institute for Food and Agriculture.[22] The FY2006 budget request did in fact reflect a major departure from previous ones. The Administration proposed cutting formula funds for state experiment station research (under the Hatch Act) by 50% (from $178.7 million to $89.4 million), and providing a new pool of $75 million for distribution through competitively awarded grants, plus an additional $70 million ($250 million total) for USDA's existing competitive grants program, the National Research Initiative (NRI). The budget did not propose any corresponding changes in ARS funding.

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[20] *National Institute for Food and Agriculture: A Proposal*. Report of the Research, Education, and Economics Task Force of the U.S. Department of Agriculture. July 2004. Available at [http://www.ars.usda.gov/SP2UserFiles/Place/00000000/national.doc].

[21] Some Members of Congress have introduced legislation in the 109th Congress proposing an alternative to the proposed National Institute for Food and Agriculture within USDA. H.R. 1563/S. 767, the National Food and Agricultural Science Act of 2005, would establish a Division of Food and Agricultural Science within the National Science Foundation. The Director of the Division would coordinate its research agenda after consultation with the Secretary of Agriculture. All funds would be distributed through competitive grants.

[22] Council for Agricultural Research, Extension, and Teaching (in cooperation with the National Association of State Universities and Land-Grant Colleges and the National Coalition for Food and Agricultural Research). Letter to President George W. Bush. January 5, 2005. Available online at [http://www.nasulgc.org/CFERR/board_on_agric /CARET.htm].

The Administration also proposed to shift half of the formula funds for cooperative state forestry research to competitive grants, and to eliminate formula funds to the states for veterinary research, also with the stated aim of supporting such research in the future with competitive grants. As of this writing, neither the House nor Senate versions of the FY2006 agriculture spending bill reflects these proposals.

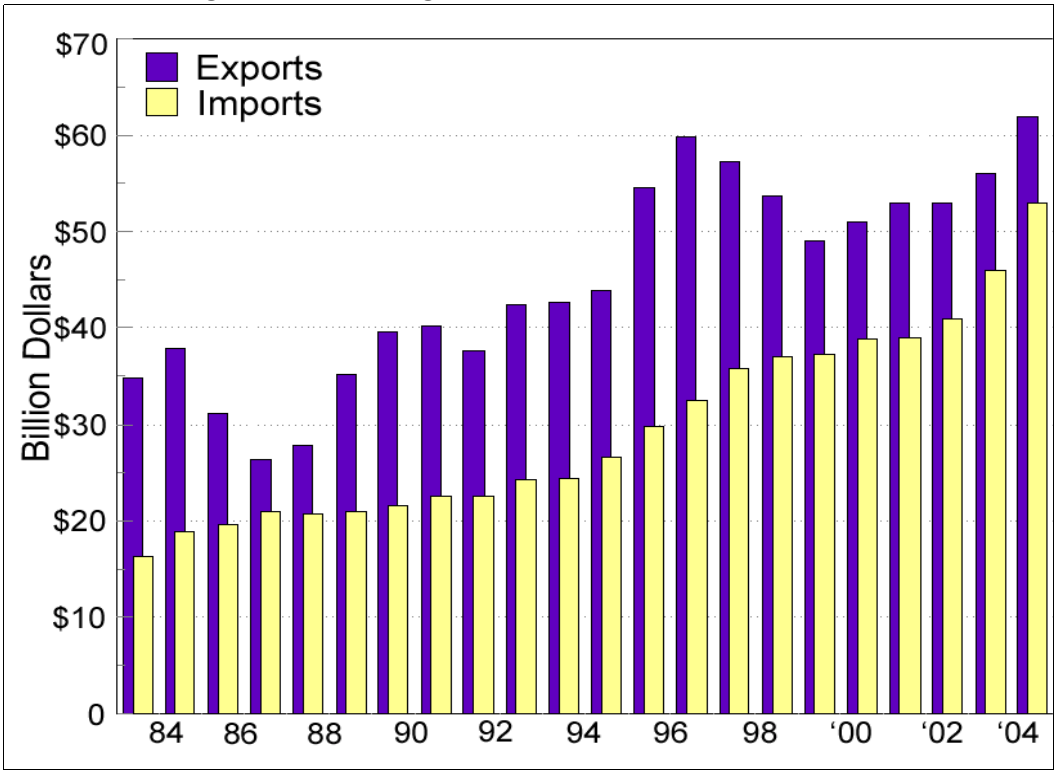
Proponents of competitive distribution of USDA research funds argue that the traditional structure and operation of the mission area, which evolved in the late 19th century, do not properly support its ability to perform advanced, high-tech research. They suggest that the food and agricultural sciences should be considered biological disciplines more closely related to medical science than they once were. Competitive funding, they maintain, is essential if agricultural research is going to contribute to the next improvements in human health, the prevention and mitigation of bioterrorism, human welfare and social stability in developing countries, and environmental protection. Some administrators and policymakers may argue, on the other hand, that in the current fiscal climate, a separate grant-awarding entity would negatively affect the longstanding effectiveness of the existing structure and funding of agricultural research.

Export Promotion and Food Aid

The United States is the world's largest exporter of agricultural products, with the European Union (EU) a close second (**Figure 3** displays the growth of exports and imports over time). About 20% of U.S. agricultural production is exported, including production from one-third of harvested U.S. acreage. Agricultural exports account for 20% to 30% of total farm income. Thus, the dependence of the U.S. farm sector on exports for much of its economic prosperity makes agricultural trade an important congressional issue. Exports of horticultural products have grown rapidly as have exports of pork and poultry-meat. Beef products were among the fastest growing components of U.S. agricultural exports until most foreign markets banned imports of U.S. beef following the 2003 discovery in the United States of a cow with bovine spongiform encephalopathy (BSE, or "mad-cow disease").

U.S. agricultural trade is influenced by a number of factors, especially global income growth and changes in population. Other important factors affecting agricultural trade are global supplies and commodity prices, exchange rates, government support policies, trade policies, and trade agreements. While many of these factors are often beyond the scope of congressional action, agricultural trade policy, commercial export promotion, and food aid to meet food needs of developing countries typically have been dealt with in the trade title of the omnibus farm bill. While imports are a growing share of U.S. consumption of agricultural products, farm bill trade titles generally have not addressed import issues.

Figure 3. U.S. Agricultural Trade, FY1983-2004



A new round of multilateral trade negotiations has been under way since November 2001 in the World Trade Organization (WTO). This round, launched in Doha, Qatar, is known as the Doha Development Agenda (DDA) because of its overarching goal to bring developing countries more fully into the global trading system. For agriculture, the DDA aims to strengthen the existing multilateral rules and disciplines for agricultural trade, by making further reforms in rules for market access, export subsidies, and domestic farm support. Most U.S. agricultural groups support these negotiations because of the potential to open new markets for their products and reduce what they view as the much more trade-distorting domestic farm and export subsidy programs of some foreign competitors, particularly the EU. Other agricultural groups express concerns about competition from imports if U.S. import barriers are lowered.

Regional and bilateral trade negotiations also will affect conditions of competition for U.S. agricultural products. Bilateral agreements have been signed with Chile, Jordan, Morocco, Singapore and Australia, among others. Congress recently passed a regional trade agreement with the Dominican Republic and five Central American countries (DR-CAFTA). Other bilateral trade agreements are being negotiated, and a broader Free Trade Area of the Americas (FTAA) is high on the Administration's trade agenda. (For more information, see RL32110, *Agriculture in the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA)*, and RL30935, *Agricultural Trade in the Free Trade Area of the Americas*.)

Export Promotion

2002 Farm Bill Changes. The 2002 farm bill extended to FY2007, at previously authorized funding levels, export credit guarantees for agricultural sales (the so-called GSM programs). It also extended an export subsidy program, the Export Enhancement Program (EEP). The Dairy Export Incentive Program (DEIP), another export subsidy, was reauthorized as part of the commodity title of the 2002 farm bill. Also reauthorized were the Market Access Program (MAP) and the Foreign Market Development Program (FMDP), both of which assist agricultural trade organizations and other groups to promote U.S. farm products in overseas markets. In addition, Title III called for the Secretary of Agriculture to develop a global strategy for marketing U.S. agricultural exports, authorized a program to promote exports of bio-engineered agricultural commodities, and enumerated agricultural negotiating objectives for bilateral, regional and multilateral trade negotiations.

Prospective Issues. In renewing the export promotion programs, Congress will again be confronted with questions of program direction and funding. Decisions about export subsidies and export credit programs will depend on outcomes of the Doha Round agriculture negotiations. Levels of spending and volumes of product subsidized under EEP and the Dairy Export Incentive Program (DEIP) already are subject to limitations under the existing Uruguay Round Agreement on Agriculture (URAA). In practice, EEP has been used very little in recent years, while DEIP has been used up to the maximum allowed by the URAA. Market promotion programs such as MAP and FMDP are not considered to be trade distorting under the URAA, and therefore are not subject to spending disciplines.

Neither are these programs known to be targets for cuts or elimination in the Doha Round agriculture negotiations. If multilateral negotiations do result in new curbs on export subsidies and export credits, the market promotion programs might become more attractive to Congress as vehicles for funding export promotion. (**Table 4** shows spending levels for the promotion programs.)

Maintaining export credit guarantees as a viable tool for promoting exports may be particularly challenging if Doha negotiations result in limiting or eliminating the subsidy elements of this kind of export financing. Such programs have financed an average of $3.3 billion per year of U.S. agricultural exports since 1999 – mainly grains, oilseeds and products, and cotton. Critics maintain (and a WTO dispute panel ruled) that such programs are prohibited export subsidies because they do not fully cover their operating costs. Supporters of guarantees nevertheless are concerned that changes under consideration in the Doha Round may make the credit programs less attractive to foreign buyers of U.S. products. (See CRS Report RS21905, *Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps;* CRS Report RL30612, *Agriculture in the WTO: Member Spending on Domestic Support*; CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support*; and CRS Report RS22187, *U.S. Agricultural Policy Response to the WTO Cotton Decision,* and CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*).

Foreign Food Aid

2002 Farm Bill Changes. Title III of the 2002 law extended and amended the major U.S. foreign food aid through 2007. It reauthorized Titles I, II, and III of P.L. 480, the Food for Peace program, which, respectively provide long-term, low-interest loans to developing and transition countries to purchase U.S. agricultural products; commodity donations for humanitarian and development activities; and bilateral development grants of food. Changes in the law reinforced both the market development and economic development components of the programs. The 2002 law also reauthorized the Food for Progress program, which provides commodities to countries committed to a market economy in agriculture. Also reauthorized was the Bill Emerson Humanitarian Trust (BEHT) (the successor to the Food Security Commodity Reserve in the 1996 farm bill), which provides commodities and cash primarily to meet unanticipated emergency food aid needs. The 2002 farm bill authorized a new food aid program, the McGovern-Dole International School Feeding and Child Nutrition Program, which provides commodities, finance and technical assistance mainly for school lunch programs in poor countries. One other important food aid program, donations of surplus commodities under Section 416(b), is not authorized in farm bills as it is permanently authorized in the Agricultural Act of 1949. (See **Table 4** for program spending levels.)

Prospective Issues. Issues with respect to U.S. food aid programs raised in FY2006 appropriations debates may be considered during a farm bill debate. As part of its budget submission to Congress in FY2006, the President proposed transferring $300 million from P.L. 480 to a famine account for use in purchasing non-U.S. commodities for use in emergency food aid programs. Farmers, agribusinesses, and private organizations that use food aid to finance development projects opposed the proposal that was subsequently rejected by both House and Senate appropriators. The issue of substituting cash for commodities could re-

emerge in the context of conforming U.S. food aid programs to possible new WTO rules.

Another issue that frequently arises during appropriations debates concerns the allocation of food aid commodities between humanitarian emergencies and development projects. Although the 2002 farm bill mandates that three-fourths of commodity donations be allocated to development projects (unless waived by the President), rarely has that level been met as demand for emergency food aid has burgeoned. As a result, more commodities have been allocated to emergencies than to development activities in recent years. Organizations that use food aid and their supporters in Congress may seek ways to make food aid a more reliable and dependable source of finance for development activities. The Bill Emerson Humanitarian Trust could become the subject of renewed interest as a vehicle for providing emergency food assistance. Reports accompanying appropriations legislation in FY2004 and FY2005 emphasized that P.L. 480 Title II was intended primarily to support development activities and stressed the role of the BEHT as a source of emergency food assistance.

Critics complain that food aid is primarily a convenient outlet for U.S. farm surpluses, and a source of aid that tends to diminish when these surpluses decline. These critics could be seeking some reassurance of more stability in U.S. food aid levels (even though, they agree, the United States has been the leading provider of food aid worldwide). Questions regarding the effects of food aid on commercial sales and the farm economies of developing countries also arise even outside the context of multilateral negotiations. Critics question the effectiveness of mechanisms in the farm bill as well as the existing international machinery designed to monitor commercial displacement and incentive effects. Research into these questions so far has produced mixed results, suggesting among other things the possible need to examine food aid impacts more closely, on a case-by-case basis (see CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*.)

Table 4. Agricultural Export and Food Aid Program Levels, FY1999-FY2004

Program		FY99	FY00	FY01	FY02	FY03	FY04
		Million $					
Export Promotion Programs							
	Export Enhancement Program	1	2	7	0	0	0
	Dairy Export Incentive Program	145	78	8	55	32	3
	Market Access Program	99	90	90	100	110	125
	Foreign Market Development Program	28	28	28	34	34	34
	CCC Export Credit Guarantees	3,045	3,082	3,227	3,388	3,223	3,716
Food Aid and Economic Development Programs							
	P.L. 480 Food Aid	1,808	1,293	1,086	1,270	1,960	1,809
	Section 416(b)	1,297	1,130	1,103	773	213	173
	Food for Progress	101	108	104	126	137	138
Foreign Agricultural Service		178	183	201	198	195	197
Total		6,702	5,994	5,854	5,944	5,904	6,195

Source: USDA, *Annual Budget Summaries* and *Outlook for U.S. Agricultural Exports*, various issues.

Rural Development

When agricultural production and related businesses dominated rural economies, policies that strengthened and improved agriculture tended to strengthen and improve the well-being of most of America's small communities and rural residents. As the power of this linkage declined over the past century, many have felt that rural policy has been left largely fragmented and unfocused, comprising a patchwork of programs and initiatives rather than a coherent policy. Yet agriculture remains the primary policy framework for Congress's consideration of rural issues. Questions have been raised about whether current rural policies and programs are helping to create new economic capacity in rural America that will generate future competitive advantages.[23]

Conditions in rural America today are quite mixed. Some rural areas, such as those within commuting distances of metropolitan areas or with environmental amenities and/or affluent retirees, are thriving. Other rural areas with sparse populations and declining economies continue to face significant challenges. The less diversified the local economy, the more vulnerable it is to economic downturns and the more difficult it may be to create new competitive force in these areas during periods of recovery.

More than 88 programs administered by 16 different federal agencies target rural economic development. USDA administers the greatest number of rural development programs and has the highest average of program funds going directly to rural counties (approximately 50%). The Rural Development Policy Act of 1980 designated USDA as the lead federal agency for rural development. By authority of the 1994 USDA reorganization act (P.L.103-354), three agencies are responsible for USDA's rural development mission area: the Rural Housing Service (RHS), the Rural Business-Cooperative Service (RBS), and the Rural Utilities Service (RUS).[24]

The portfolio of loan and grant programs administered by RUS, RHS, and RBS provides much of the support for rural infrastructure, housing, and business expansion and retention. An Office of Community Development provides further community development support through USDA Rural Development's state offices. The mission area also administers the rural portion of the Empowerment Zones/Enterprise Communities Initiative and the National Rural Development Partnership. Most rural development programs are funded through annual appropriations. (See CRS Report RL31837, *An Overview of USDA Rural Development Programs*.)

Periodic rural development legislation generally amends three major authorizing statutes: 1) the Consolidated Farm and Rural Development Act of 1972 (P.L. 92–419, the Con Act), 2) the Food, Agriculture, Conservation, and Trade Act

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[23] Drabenstott, Mark. "Do farm payments promote economic growth?" *The Main Street Economist*, March, 2005. [http://www.kc.frb.org/RuralCenter/mainstreet/MSE_0305.pdf]

[24] While the 1994 Act reorganized the administering agencies, the programs themselves predate the reorganization.

of 1990 (P.L.101-624, the 1990 farm bill), and, 3) the Rural Electrification Act of 1936. The 2002 farm bill (P.L.107-171) reauthorized long-standing loan and grant programs through 2007.

2002 Farm Bill Changes

Although rural development programs historically have been funded through annual appropriations, the 1996 farm bill (P.L.104-127) created the Fund for Rural America as one of the first mandatory rural development programs. The 2002 farm bill established several new mandatory rural development programs to support innovative and alternative agricultural development, enhanced telecommunications access, and new financial mechanisms for rural capital development. These initiatives and their authorized funding levels include:

- The Rural Strategic Investment Fund – $100 million in planning grants to certified Regional Investment Boards;
- The Rural Business Investment Program – $100 million in grants and loan subsidies to form Rural Business Investment corporations that will make equity investments in small rural firms.
- Enhanced Access to Broadband Service to Rural Areas – $100 million in grants and loans;
- Renewable Energy Systems – $23 million for alternative energy systems;
- Value-added Agriculture Market Development Grants – $40 million to independent producers and producer-owned enterprises with a 5% set-aside for organic production. $15 million of this funding is earmarked for 10 new Agriculture Innovation Centers. These centers were funded in FY2003;
- Rural Firefighters and Emergency Personnel Grant Program – $100 million to train emergency personnel.

Mandatory funding for most the programs listed above, however, has been blocked by appropriators. Only a few of these programs have been partially funded in FY2004-2005 from annual appropriations, e.g., Value-Added Products grants and Renewable Energy Systems grants.

Proposed Rural Legislation in the 109th Congress

Legislation has been introduced in the 109th Congress directed at strengthening the rural workforce, providing a new telecommunications infrastructure, creating a new regional authority, and stemming rural population loss:

- Rural Renaissance Act (S. 502) would create the Rural Renaissance Corporation to issue rural renaissance bonds for financing rural projects;
- The New Homestead Act of 2003 (S. 675) would renew rural areas suffering significant population out-migration by attracting new businesses and residents. The bill provides 1) student loan forgiveness to recent college graduates who stay and work in

qualifying counties; 2) tax credits for home buyers; 3) Homestead Accounts to help build savings and increase access to credit; 4) an investment tax credit for rural businesses; and 5) a Venture Capital Fund;

- The Rural America Job Assistance and Creation Act (H.R. 143) would provide grants for small businesses to improve job skills in their respective industries;
- The Southeast Crescent Authority Act of 2003 (H.R. 20) would create a new regional authority to promote economic development in the regions of seven Southeast coastal states (from Virginia to Mississippi) that are not served by an existing authority or commission;
- The Rural America Digital Accessibility Act (H.R. 144) would provide grants to under-served rural areas for broad-band telecommunications development.

Prospective Issues

While commodity policy dominates much of the debate and most of the funding, production agriculture is a comparatively small and shrinking part of rural America. There is growing recognition that farmers depend more on a healthy rural economy than the rural economy is dependent on farmers for its vitality. The need to strengthen the capacity of rural areas more generally to compete in a global economy is becoming more widely appreciated as the limitations of commodity subsidies, peripheral manufacturing, and physical infrastructure as mainstays of rural development policy become more obvious.

Emerging policy issues surround the question of whether current farm policies, which rely heavily on commodity support payments and subsidies to a few commodity production sectors, help, hinder, or have little impact on the future development of economically viable rural communities. Rural manufacturing, which tends to be lower-skilled and lower-waged, is also undergoing restructuring with the loss of manufacturing to foreign competition. While transformation to a service economy continues in rural America, service employment in many rural areas tends to be in lower-wage personal services rather than business and producer services. Continuing population and economic decline in many farming and rural areas is compelling policymakers and rural areas to create new sources of competitive advantage, innovative ways of providing public services to sparse populations, and new ways of integrating agriculture into changing rural economies.

More recently, economic development efforts in some areas have targeted various entrepreneurial strategies. These approaches attempt to capitalize on a particular area's unique social, economic, and environmental assets and advantages to build endogenously on existing strengths. Developing a local entrepreneurial culture seems to be an important approach in these efforts' successes. Linking public and private sources to build "business incubators" is a common strategy, as is developing ties with area colleges and universities. Communities also are applying such entrepreneurial energy to making their local governments, schools, and hospitals more efficient through, for example, telecommunication innovations.

The trends noted above suggest a range of issues potentially affecting the rural development title of a 2007 farm bill that may include:

- Conservation and environmental restoration as rural employment opportunities;
- Creating new sources of economic growth and development for rural areas;
- Stemming rural population out-migration;
- Vertical integration and coordination of agriculture into agri-food value chains and their implication for rural areas;
- Developing rural entrepreneurial capacity;
- Rebuilding an aging rural physical infrastructure;
- Public service delivery innovations in sparsely populated areas;
- Increasing suburbanization and the conflicts between agriculture and suburban development;
- Human capital deficiencies in rural areas;
- Regional-based efforts for economic development;
- Connecting businesses and rural communities with broad-band telecommunications infrastructure.

While the list of rural development issues is long, legislation has and likely will continue to be constrained by the budget. In the past, the Agriculture Committees have attempted to expand rural development spending by creating mandatory programs. Almost uniformly, the Appropriations Committees have invoked their traditional control over rural development by blocking the mandatory programs.

Forestry

Two of the past three farm bills have contained separate forestry titles. Traditionally, farm bills addressed forestry *assistance* programs, but federal forest *management and protection*, particularly for the national forests, also is within the Agriculture Committees' jurisdiction. The next farm bill seems likely to include a forestry title to modify existing programs and possibly establish new options for forest land management and protection. (See CRS Report RL31065, *Forestry Assistance Programs*, for a description of current programs.)

Forestry assistance programs are managed primarily by the State and Private Forestry (S&PF) branch of the USDA Forest Service (FS). Funding is enacted in the annual Interior and Related Agencies appropriations acts. There are three groups of forestry assistance programs. *Forest health management* includes programs to survey and control forest pests and pathogens (including invasive species) on federal and nonfederal (cooperative) lands. *Cooperative fire protection* includes equipment, financial, and technical assistance to states and volunteer fire departments. *Cooperative forestry* includes a diverse collection of forestry assistance programs that include:

- forest stewardship — financial and technical assistance to states for forestry programs;
- forest legacy — federal or state acquisition of lands or easements on lands threatened with conversion to non-forestry uses;
- urban and community forestry — financial and technical assistance for forestry activities in urban and community settings;
- economic assistance — financial and technical assistance for diversifying forest-dependent rural communities (Economic Action Program and Pacific Northwest Assistance); and
- private landowner assistance — cost-share assistance for forestry practices on private forests (Forest Land Enhancement Program (FLEP) enacted in the 2002 farm bill to replace the Forestry Incentives Program (FIP) and Stewardship Incentives Program (SIP)).

Funding Levels

Appropriations for many forestry assistance programs rose in FY2001 in response to the National Forest Plan. This plan was prepared in September 2000 at President Clinton's request for a response to the severe fire season in the summer of 2000. Funding for forest health management and cooperative fire assistance have persisted at relatively high levels compared to pre-FY2001 levels. Also, funding for forest legacy has grown substantially, from less than $3 million annually for most of the 1990s to an average of more than $60 million annually over the past five years. In contrast to these programs, technical and financial aid to rural, forest-dependent communities — to help businesses and workers adjust to a more diverse, less extraction-oriented local economy — has declined. The Bush Administration proposed terminating funds for economic assistance in each of the past three budget requests; appropriations have declined from the FY2001 peak of $63.6 million to

$19.0 million in FY2005. Such assistance has been popular locally, and is seen in part as a way to help use the excess biomass fuels that need to be removed from forests to reduce the risk from wildfires. Consequently, approaches to expand and fund FS economic assistance programs might be examined in the next farm bill.

Funding for the Forest Land Enhancement Program may attract substantial attention in the next farm bill. FLEP was enacted in the 2002 farm bill with mandatory funding of $100 million through FY2007. However, actual funding has totaled $35 million, and Congress, at the request of the Administration, has cancelled the remaining $65 million. This perceived "failure" to fulfill the "promised" funding is likely to be a major part of the forestry debate in the next farm bill.

Funding for forestry assistance programs is shown below, in **Table 6**.

Wildfire Protection

The threat of wildfires to forests and to communities and homes in the wildland-urban interface seems to have grown. The 2002 farm bill authorized a new community wildfire protection program, but the program has been funded only as part of state fire assistance, with no separate funds for community protection. As the threat from wildfire persists, wildfire protection options seem likely to be considered in the next farm bill.

Invasive Species

Invasive species, typically exotic plants and animals, are increasingly displacing or harming native plants and animals in the United States and worldwide. FS Chief Dale Bosworth described the invasive species as one of the four major threats to the nation's forests and rangelands.[25] Options and opportunities to prevent and control the spread of invasive species, especially forest pests and especially on private forestlands, may be a farm bill issue.

[25] Speech before the Idaho Environmental Forum on Jan. 16, 2004. See the FS website, visited Aug. 1, 2005, at [http://www.fs.fed.us/projects/four-threats/].

Table 6. Forestry Assistance Funding, FY1999-FY2006

Program	FY99 Actual	FY00 Actual	FY01 Actual	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Enacted	FY06 Enacted
	Million $							
Forest Health Mgmt.	56.7	62.1	100.2	80.3	97.7	123.3	128.6	126.9
Coop. Fire Assistance	22.9	27.2	123.5	95.0	104.9	122.5	106.9	93.8
Cooperative Forestry	109.3	124.1	198.2	201.6	187.6	161.5	177.4	135.3
Forest Stewardship	*29.4*	*29.8*	*32.8*	*33.2*	*32.0*	*31.9*	*42.3*	*34.7*
Forest Legacy	*7.0*	*29.9*	*59.9*	*65.0*	*68.4*	*64.1*	*57.1*	*57.4*
Urban & Comm.	*30.2*	*30.9*	*35.6*	*36.0*	*36.0*	*34.9*	*49.0*	*28.9*
Economic Asst.	*26.3*	*28.1*	*63.6*	*57.6*	*31.2*	*25.6*	*19.0*	*9.7*
Forest Land Enhancement	*16.3*	*5.4*	*6.3*	*9.8*	*20.0*	*5.0*	*10.0*	*0.0*
International Forestry	3.5	3.5	5.0	5.3	5.7	5.9	6.4	7.0
Forest Inventory	0.0	0.0	5.0	5.0	5.0	4.9	5.0	4.7
Total	192.4	216.8	466.4	387.1	400.9	418.1	424.3	363.0

Source: USDA Forest Service, *Budget Justifications for Committees on Appropriations*, annual series. Amounts may differ from those shown in other documents because of the inclusion of State and Private Forestry funds, Wildfire Management funds, and supplemental and emergency appropriations. Through FY02, Forest Land Enhancement included the Stewardship Incentives Program and the Forestry Incentives Program.

Private Forestland Preservation

The environmental losses associated with conversion of forestlands to other, non-forest uses (e.g., agriculture and residential development) have generated concern. The substantial expansion of the forest legacy program reflects this growing concern. However, some interests have suggested other opportunities to sustain the non-market services from private forestlands (water quality, open space, carbon storage, wildlife habitat, biological diversity, etc.). The idea of federal support for developing markets for these traditionally non-market services has generated broad interest, and may be discussed as a possible forestry program in the next farm bill.

Domestic Nutrition Assistance

The farm bill traditionally reauthorizes expiring authorities and appropriations for several domestic nutrition assistance initiatives.[26] It also is the major vehicle for revising rules that govern how programs operate and how much they will cost. They include:

- the Food Stamp program in the 50 states, the District of Columbia, Guam, and the Virgin Islands;
- programs operating in lieu of the regular Food Stamp program – nutrition assistance block grants for Puerto Rico, American Samoa, and the Northern Mariana Islands, along with the Food Distribution Program on Indian Reservations (FDPIR);
- The Emergency Food Assistance Program (TEFAP);
- the Commodity Supplemental Food Program (CSFP); and
- Community Food Projects.

In addition, the 2002 farm bill incorporated changes affecting commodity purchases for the School Lunch program, provided statutory authority and funding ($15 million a year through FY2007) for a new Seniors Farmers' Nutrition Market Program (SFMNP), and established a pilot program to distribute free fresh fruits and vegetables in schools (later expanded and made permanent in the 2004 child nutrition reauthorization law). These initiatives will likely be up for review in the next farm bill.

All farm bill domestic nutrition assistance programs, except for the CSFP and the administrative/distribution-cost component of TEFAP, are treated as *mandatory entitlements* for budget purposes. Taken together they form a large proportion of the USDA budget, estimated at about $34 billion for FY2005.

The 2002 farm bill made extensive changes to Food Stamp program rules and relatively minor revisions to those for the other programs (see below). Using its March 2002 "baseline," the Congressional Budget Office estimated that the total additional cost of the provisions in the nutrition assistance title of the 2002 farm bill would be about $3 billion over the 6-year life of the bill.

Issues to be considered for a 2007 farm bill likely will depend on experience with the revisions made by the 2002 farm bill, cost and participation trends for the covered programs, decisions taken to meet budget reconciliation targets over the next few years, and whether any new funding will be available.

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[26] The farm bill typically does *not* include provisions affecting child nutrition programs or the Special Supplemental Food Program for Women, Infants, and Children (the WIC program), except where commodity assistance is involved. These are dealt with through periodic child nutrition reauthorization laws; the most recent child nutrition reauthorization measure was enacted in 2004, and the next reauthorization is scheduled for 2009.

Food Stamps

The largest of the nutrition assistance programs in the farm bill is the Food Stamp program. The level of food stamp spending varies with participation, which is closely linked to economic conditions and eligibility rules, and benefit levels, which are indexed to food costs and also reflect recipients' income. Since the 2002 farm bill, participation has increased substantially, from some 19 million persons per month in FY2002 to 25.4 million (May 2005), and the average monthly benefit level has jumped from $80 a person in FY2002 to $92 in May 2005. Costs have grown from $20.6 billion in FY2002 to in excess of an estimated $32 billion for FY2005. The degree to which increased food stamp enrollment and cost has been due to 2002 farm bill provisions (to open access to the program and increase benefits (noted below), as opposed to economic conditions) is unclear, and probably will not be known until USDA completes participation studies.

The regular Food Stamp program provides inflation-indexed monthly benefits to low-income households that supplement their own spending on food. Program costs are shared with the states. The federal government pays the cost of benefits and about half the cost of administration and operating work/training programs for recipients. States, and in some cases localities, pay the remainder.

The Food Stamp program has a "quality control" system that measures the degree to which eligibility and benefit decisions are erroneously made. The most recent national quality control statistics show historically low error rates – 4.5% of benefits over-issued and just under 1.5% under-issued. States with persistently high error rates can be assessed financial sanctions; those with very low error rates can receive bonus payments.

In addition to supporting food stamp benefits and costs associated with administration and work/training efforts for recipients, the Food Stamp program provides matching funding for nutrition education and outreach activities by states – over $200 million in FY2004.

The 2002 farm bill reauthorized expiring Food Stamp program authorities and appropriations through FY2007. It also expanded eligibility for noncitizens (most notably noncitizen children and those who meet a five-year legal residence requirement), raised benefits modestly for larger households (by counting less of their income), allowed states to provide "transitional" food stamps for families leaving the Temporary Assistance for Needy Families (TANF) program, set up a number of state options to ease access to the program and administrative burdens on applicants/recipients and program operators (e.g., allowing states to reduce recipient reporting requirements, simplify benefit calculations, conform some food stamp rules to those used in the TANF and Medicaid programs), and revamped the quality control system to reduce the number of states subject to financial sanctions and grant bonus payments to states demonstrating exemplary administrative performance.

Programs in Lieu of Food Stamps

Four programs authorized under the Food Stamp Act operate in lieu of food stamp assistance. The 2002 farm bill extended expiring authorities for all the programs in lieu of food stamps through FY2007 and instituted inflation indexing for the annual nutrition assistance grants for Puerto Rico and American Samoa. In addition, recent appropriations laws have required that bison meat be purchased from Indian cooperatives for the FDPIR.

- Puerto Rico receives an inflation-indexed annual block grant ($1.5 billion in FY2005, serving about 1 million persons per month) to operate a nutrition assistance program that works much like the regular Food Stamp program – including delivery of benefits through Electronic Benefit (EBT) cards. The major feature distinguishing Puerto Rico's program from the regular Food Stamp program (other than more restrictive financial eligibility tests and lower benefit levels) is that 75% of a household's benefit must be used for food purchases, as opposed to 100% in the regular Food Stamp program.
- American Samoa receives an inflation-indexed annual nutrition assistance grant ($6 million in FY2005) and has designed a program that serves low-income elderly and disabled persons.
- The Commonwealth of the Northern Mariana Islands gets an annual grant (negotiated with the USDA, with an estimated $8.4 million available for FY2005) to operate a food-stamp-like program with some benefits earmarked for locally produced food items.
- Indian tribal organizations may choose to operate the Food Distribution Program on Indian Reservations (FDPIR), instead of offering regular food stamp benefits; the full cost of benefits and administration is covered by the federal government. This option operates on nearly 250 Indian reservations in 22 states. The program offers monthly food packages of USDA-provided commodities to those meeting eligibility rules close to those used for food stamps. In FY2004, it served just over 100,000 persons per month at a cost of $81 million; the monthly value of the food packages averaged $39 a person.

The Emergency Food Assistance Program (TEFAP)

The 2002 farm bill extended expiring TEFAP authorities through FY2007 and raised mandatory commodity support for TEFAP from $100 million to $140 million a year. TEFAP is governed by provisions of law in both the Food Stamp Act (mandating the provision of commodities) and the Emergency Food Assistance Act (authorizing administrative/distribution cost grants and setting up the rules governing the program). Under TEFAP, the federal government provides food commodities to states along with grants for administrative and distribution costs. This assistance supplements other sources of food aid for needy persons and often is provided in concert with food bank and homeless shelter projects. Eligibility decisions for TEFAP assistance are made by states. They may direct their TEFAP commodities

directly to (state-defined) needy households and meals served to (state-defined) needy persons at congregate meal sites. Local TEFAP administering agencies also are chosen by states.

In addition to state allocations of the $140 million in commodities, each state receives a share of the $50 million appropriated as discretionary money to fund expenses associated with administration and distribution (storage, transportation) of the commodities. Moreover, state entitlement to TEFAP commodities is supplemented with "bonus" commodities (over $200 million in FY2004) that the USDA has acquired in its agriculture support programs.

Commodity Supplemental Food Program (CSFP)

The 2002 farm bill extended the authorization for the CSFP through FY2007 and increased the proportion of appropriations to be earmarked for administrative costs. The program is authorized by Section 4(a) of the Agriculture and Consumer Protection Act of 1973. The CSFP is a discretionary program dependent on annual appropriations, and is not nationwide (or statewide in participating states). It operates at about 140 sites in over 30 states.

CSFP projects receive USDA commodities, and funds for administrative costs, for food packages provided to low-income elderly persons (over 85% of participants) and women, infants and children. Commodities and administrative funding generally are apportioned by the number of persons served in the prior year, to the extent that funds are made available. In FY2004, $108 million was available, and some 500,000 persons were served food packages worth about $17 per month.

Community Food Projects

The Food Stamp Act provides $5 million per year, extended through FY2007 by the 2002 farm bill, for a Community Food Projects competitive grant program administered through the USDA's Cooperative State Research, Education, and Extension Service.

Community project grants provide one-time infusions of federal dollars for local projects designed to increase the food self-reliance of communities; promote comprehensive responses to local food, farm, and nutrition issues; develop innovative linkages among the public, for-profit, and nonprofit food sectors; encourage long-term planning and multi-agency approaches; or improve the availability of locally or regionally produced foods to low-income people.

Appendix A. Titles & Subtitles of the 2002 Farm Bill (Farm Security and Rural Investment Act of 2002, P.L. 107-171)

- I. Commodity Programs
  - A. Direct Payments and Counter-Cyclical Payments
  - B. Marketing Assistance Loans and Loan Deficiency Payments
  - C. Peanuts
  - D. Sugar
  - E. Dairy
  - F. Administration
- II. Conservation
  - A. Conservation Security
  - B. Conservation Reserve
  - C. Wetlands Reserve Program
  - D. Environmental Quality Incentives
  - E. Grassland Reserve
  - F. Other Conservation Programs
  - G. Conservation Corridor Demonstration Program
  - H. Funding and Administration
- III. Trade
  - A. Agricultural Trade Development and Assistance Act of 1954 and Related Statutes
  - B. Agricultural Trade Act of 1978
  - C. Miscellaneous
- IV. Nutrition Programs
  - A. Food Stamp Program
  - B. Commodity Distribution
  - C. Child Nutrition and Related Programs
  - D. Miscellaneous
- V. Credit
  - A. Farm Ownership Loans
  - B. Operating Loans
  - C. Emergency Loans
  - D. Administrative Provisions
  - E. Farm Credit
  - F. General Provisions
- VI. Rural Development
  - A. Consolidated Farm and Rural Development Act
  - B. Rural Electrification Act of 1936
  - C. Food, Agriculture, Conservation, and Trade Act of 1990
  - D. SEARCH Grants for Small Communities
  - E. Miscellaneous
- VII. Research and Related Matters
  - A. Extensions
  - B. Modifications
  - C. Repeal of Certain Activities and Authorities
  - D. New Authorities
  - E. Miscellaneous
- VIII. Forestry
  - A. Cooperative Forestry Assistance Act of 1978
  - B. Amendments to Other Laws
  - C. Miscellaneous Provisions
- IX. Energy
- X. Miscellaneous
  - A. Crop Insurance
  - B. Disaster Assistance
  - C. Tree Assistance Program
  - D. Animal Welfare
  - E. Animal Health Protection
  - F. Livestock
  - G. Specialty Crops
  - H. Administration
  - I. General Provisions
  - J. Miscellaneous Studies and Reports