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Farm Commodity Programs: Base Acreage and Planting Flexibility

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Summary

Under the 2002 farm bill, farmers were given a one-time opportunity to update their farms' base acreages and program yields, which are used to determine direct and counter-cyclical payments. Previously, yields had been frozen since 1985, and bases since the mid-1990s. USDA data indicate that 78% of farms benefitted from the opportunity, with 37% of farms updating base acreage for all crops, and 41% adding oilseed acreage to their 1996 base acreage. Regional differences were apparent, particularly between western regions, which tended to make fewer changes, and midwestern and eastern regions, which more frequently added oilseeds or updated bases.

Two policy issues have arisen regarding planting flexibility on base acres, particularly restrictions on growing fruits and vegetables as an alternative crop. First, some Midwestern producers felt penalized because their history of growing fruits and vegetables reduced their soybean bases under the 2002 farm bill. H.R. 2045 and S. 1038 would allow certain fruits and vegetables to be grown without penalizing any future recalculation of base, while reducing a farm's subsidy payments for one year. S. 194 would allow chicory to be grown on base acres. Second, a World Trade Organization (WTO) dispute settlement panel found that the restriction on planting fruits and vegetables made direct and counter-cyclical payments ineligible to be a nondistorting payment (green box) for international trade purposes. This report will be updated.

Background

A farm's base acreage and program yield are historical averages of crop production, and are used to calculate certain government payments. The Farm Security and Rural Investment Act of 2002 (the 2002 farm bill) offered farmers a rare opportunity to update their program base acreage and yields (P.L. 107-171, sec. 1101-1102). Previous farm bills had frozen program yields since 1985, and base acreages since 1996. Moreover, even when base acreages could be increased in the 1980s and early 1990s, many farmers did not change their base acreages because they would lose program benefits during the time they established a different planting history. Thus, for the vast majority of farmers who chose to participate every year, bases and yields had not been updated for over a decade.

During the 2002 farm bill's development, most farm interest groups called for updating bases and yields, and the issue received bipartisan support in Congress. Several factors contributed to the widespread desire for the update opportunity: the entry of new farm operators wanting to make their own program participation choices; ownership changes due to retirements or consolidation; trends in crop plantings due to market price or subsidy signals; planting flexibility introduced in the government programs (especially in 1990 and 1996); and changes in agronomic conditions such as rising crop yields.

While the 1996 farm bill had created some uncertainty about whether farm programs would continue after it expired, the 2002 farm bill removed any such doubts. Furthermore, the new farm law added oilseeds and peanuts to the list of program crops with bases, and created a new counter-cyclical program that depends on base acres. Thus, with the continuation and expansion of government farm programs, parameters such as bases and yields were increasingly important for receiving benefits.

How Do Bases and Yields Affect Government Payments?

Participating farms have a unique "base acreage" and "payment yield" recorded with the USDA's Farm Service Agency (FSA) for each of the "covered commodities" and peanuts.[1] These bases and yields are used to calculate government payments such as direct and counter-cyclical payments,[2] but are unrelated to the marketing loan program.

The law gives farmers considerable flexibility to plant nearly any crop (except fruits and vegetables) on base acres and still receive payments. Having an established base for a particular crop entitles farmers to receive direct and counter-cyclical payments for that crop, regardless of whether that crop is actually grown on the farm in the current year.[3]

A farm's base acreage and payment yield depend on its planting history of the crop, and can change only when bases are allowed to be updated. Certain exceptions allow prevented plantings to be counted as planted acres after droughts or floods. Farmers report acreage and yields annually at their local FSA county office.

The formula for both direct and counter-cyclical payments uses a definition of "payment acres" equal to 85% of base acres. This adjustment reduces program costs, and had been used in previous farm bills. The direct payment equals the payment acres multiplied by the payment yield and a fixed payment rate established in the farm bill for each crop. The counter-cyclical payment is similar, but uses a payment rate tied to

[1] The "covered commodities" are wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, and other minor oilseeds (sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed). Soybeans, minor oilseeds, and peanuts became program commodities with base acreages and yields only after enactment of the 2002 farm bill. Thus the updating process was designed to accommodate establishing bases and yields for these latter crops and integrating them with other commodities.

[2] Direct and counter-cyclical payments are legislated in P.L. 107-171, sec. 1103 and 1104, for "covered commodities," and sec. 1303 and 1304 for peanuts.

[3] Planting flexibility is legislated in P.L. 107-171, sec. 1106 for covered commodities and sec. 1306 for peanuts.

season-average market prices.[4] For more information on direct and counter-cyclical payments, see CRS Report, RS21779, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans*.

Updating Under the 2002 Farm Bill

Sections 1101-1102 of the 2002 farm bill provided a one-time opportunity to update bases and yields for the covered commodities. Similar provisions were instituted in sec. 1302 for peanuts. Once updated, these bases and yields are frozen until at least the 2007 crop year, the expiration of the 2002 farm bill. USDA implemented five options based on the statute, most using the production flexibility contract (PFC) base from the 1996 farm bill as a starting point. For updates, the 4-year period 1998-2001 was used to determine "average" plantings and yields for each relevant crop. Peanut base was limited to "historic growers" of peanuts during 1998-2001 when the peanut quota system existed.

USDA tracked the decisions of the 2.1 million eligible farms that had PFC acreage from the 1996 farm bill and/or a planting history of at least one covered commodity between 1998 and 2001. Results indicate that 37% of farms chose to establish new base acreages using only their planting histories from 1998-2001. Three-fourths of this subset (28% of the total) also chose to update their program yields. Another 41% of farms chose to add oilseed acreage to their existing 1996 base acreage. Thus, 78% of farms made some change to their base acres. The remaining 22% of farms chose to make no changes.

Certain regions tended to prefer different options. **Figure 1** shows that a majority of farms in the western Great Plains preferred to keep their 1996 base acreage with no changes. **Figure 2** illustrates that adding oilseeds to 1996 base was preferred by majorities throughout many parts of the Midwest (particularly Iowa), northern Great Plains, Southeast, and west Southwest. **Figure 3** indicates that updating all base acres was the majority choice in parts of central Illinois and the border area of South Dakota and Minnesota.

Policy Issues

Planting Flexibility on Base Acres. Restrictions on growing fruits and vegetables as an alternative crop on base acres remains a policy issue on two fronts. These restrictions were created in the 1990 farm bill when the concept of "planting flexibility" was introduced. Planting flexibility refers to the ability to receive subsidy payments for a base crop (such as corn), but to grow a different crop on those base acres (such as soybeans). It is meant to allow farmers to respond to market signals when choosing crops, but has restrictions to protect fruit and vegetable growers who do not receive government payments. The 2002 farm bill allows limited exceptions to the fruit and vegetable protections only for growers with a history of such planting (P.L. 107-171, Sec. 1106 (c)).

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[4] If market prices are low, the counter-cyclical payment makes up for the difference between the farm bill's "target price" and the lower season-average market price. If market prices are above the target price, then no counter-cyclical payment is made.

Fruits and Vegetables (FAVs) for Processing. Adding soybeans to the list of program crops with base acreage created problems for producers who grow FAVs for processing (canning and freezing). FAVs for processing are a different market from fresh FAVs, and each is grown in a different region of the country. FAVs for processing often were grown on soybean acres in the upper Midwest. But FAVs are not allowed under planting flexibility, and those acres were excluded from planting histories in establishing soybean base. Fewer soybean base acres resulted in smaller government payments.

Some landowners felt penalized for not being able to maximize their soybean base and now discourage FAV planting when negotiating leases with tenants. Processors sometimes are unable to contract new acreage for FAVs. The exceptions to planting flexibility restrictions do not allow new growers to start raising a prohibited crop.

In the 109th Congress, H.R. 2045 and S. 1038 would allow producers to reduce their base acres for one year (and thus their government payments) to plant FAV for processing, without penalizing any future recalculation of base acres.[5] After the FAV is harvested, base acres would return to normal the next year, unless the FAV option was elected again. Another bill, S. 194 was introduced to open planting flexibility to chicory (an herb), which is prohibited as a fruit and vegetable.

Fresh FAVs growers generally oppose such bills because the change would weaken protections that have existed since planting flexibility was created in the 1990 farm bill. Fruit and vegetables are not program crops, and FAV growers maintain that they would face unfair competition if producers of program crops were allowed to plant FAVs on program base acres and still receive government payments.

A non-program crop has been counted in the computation of base acres before. The FY2003 omnibus appropriations law (P.L. 108-7, Division A, Title VII, sec. 767) contained a provision to allow popcorn to be counted as corn acres when calculating base.

World Trade Organization (WTO) Finding. Price support in the United States has become a focus of developing country criticism in multilateral and other trade negotiations. A World Trade Organization (WTO) dispute settlement panel released findings in summer 2004 in a case brought by Brazil against United States cotton subsidies. The United States lost an appeal of the case in March 2005. Some findings affect programs that the United States had considered WTO compliant, and thus may influence the development of the next farm bill.

For example, the WTO settlement panel found that the restriction on planting fruits and vegetables made direct and counter-cyclical payments ineligible to be a nondistorting payment (green box) for international trade purposes. If this finding becomes enforced, it could affect the United States' ability to meet its WTO commitments during years when farm commodity payments are particularly high. For more information on the findings, see CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*.

Bills such as those discussed above would remove some, but not all, of these restrictions by allowing some FAV planting (only FAVs for processing) on base acres.

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[5] No recalculation of base acres is planned or allowed under current law.

Figure 1. Percent of Farms Making No Change to 1996 Base Acres

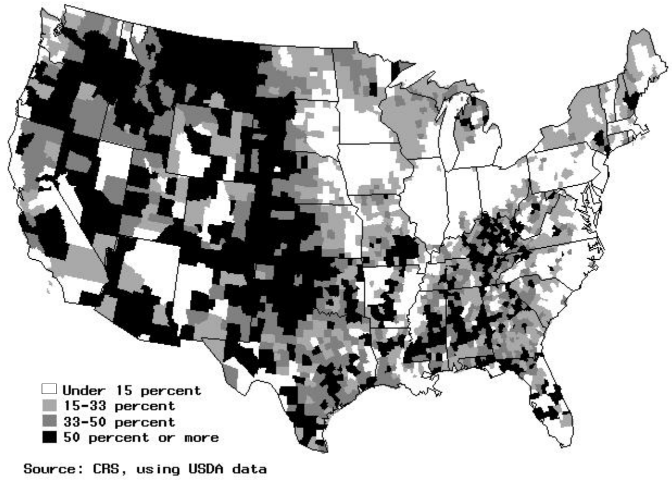

Figure 2. Percent of Farms Adding Oilseeds to 1996 Base Acres

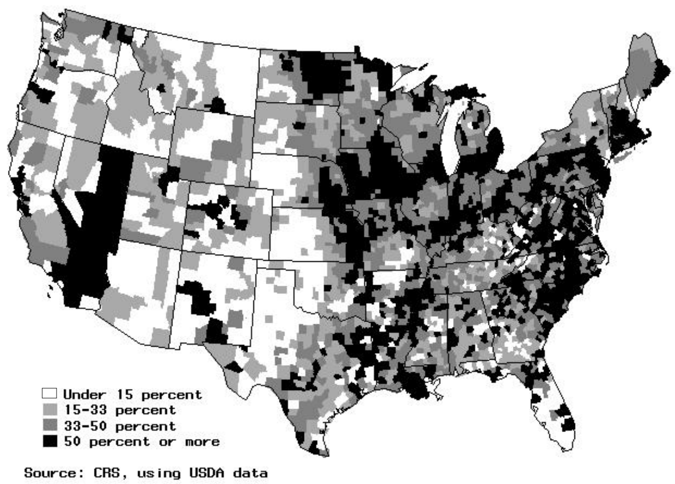

Figure 3. Percent of Farms Updating Using 1998-2001 Planting History for All Program Crops