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Farm Commodity Policy: Programs and Issues for Congress

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Summary

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

The 109th Congress is facing several issues regarding the farm commodity programs including budget reconciliation (S. 1932), payment limits (S. 385 and H.R. 1590), dairy program extension (H.R. 859, H.R. 1260, S. 273, and S. 307), planting flexibility (H.R. 2045, S. 1038, and S. 194), and resolution of international trade disputes. This report will be updated as events warrant.

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

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

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

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

Commodities Eligible for Support

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

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

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

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

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

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

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

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

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

Table 1. Support Prices for Agricultural Commodities

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

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

Commodities Not Eligible for Support

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

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

Policy Background

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

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

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

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

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

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

Issues in Congress

Even though the 2002 farm bill continues through the 2007 crop year, several issues have raised legislative action. Moreover, Congress is expected to begin hearings about the next farm bill in 2006 (see CRS Report RL33037, *Previewing a 2007 Farm Bill*).

Budget Reconciliation. Recent federal budget deficits have caused concern over the ability or willingness to fund the 2002 farm bill. In February 2005, the Administration proposed deficit reduction measures, including legislative changes to reduce farm program spending by $587 million in FY2006 and $3.4 billion over five years. Regarding the commodity programs, the Administration proposed reducing the quantity eligible for the marketing loan program, tightening payment limits, making an across-the-board cut to all direct payments, extending the Milk Income Loss Contract (MILC), and applying a marketing assessment to sugar.

In Congress, the FY2006 budget resolution, (H.Con.Res. 95, H.Rept. 109-62), contained budget reconciliation instructions that the agriculture authorizing committees find program changes to save $173 million in FY2006 and $3.0 billion over FY2006-FY2010. Many members of the House and Senate agriculture committees said that the farm bill should not be reopened, which required compromise with conservation and food and nutrition interests which are also part of the committees' jurisdiction.

The conference agreement on the Deficit Reduction Act of 2005 (S. 1932, H.Rept. 109-362) includes net reductions of $2.7 billion over five years for USDA mandatory programs, as scored by CBO over a five-year period (FY2006-2010). This includes a $1.7 billion reduction in farm commodity support programs, a $934 million reduction in conservation spending, a $620 million reduction in a mandatory research program, and a $419 million cut in rural development programs. The measure also includes a two-year extension of MILC, at an estimated cost of $998 million. No reductions to food stamp spending were included in the conference agreement. Final action is expected shortly after the 109th Congress returns for its second session.

Most of the reduction in farm programs comes from changing the timing of direct payments without reducing the overall level of payments to farmers. Prior to reconciliation, up to 50% of direct payments were paid in advance of the crop year. The conference agreement reduces the advance payment rate to 40% in the 2006 crop year and to 22% in 2007.[5] Not included in the conference agreement is an across-the board cut in farm commodity payments, which was recommended at different levels in the House- and Senate-passed bills.

Offsetting just over one-half of the $1.7 billion in farm commodity program savings is a provision reauthorizing expired Milk Income Loss Contract (MILC) for two years (until September 30, 2007). Extension is supported by small to moderate-sized dairy farms, which are the primary beneficiaries of this program that makes payments to dairy farmers when market prices fall below a target price.

The agreement also includes the elimination of the upland cotton step-2 program on August 1, 2006, in response to Brazil's successful challenge of the program in the World Trade Organization (WTO). For more on budget reconciliation, see CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation*, by Ralph M. Chite.

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[5] Advanced direct payments for the 2006 crop year were paid in December 2005, while the budget reconciliation bill was being considered. Thus, the savings for FY2006 from reducing advanced payments may not be achieved.

Payment Limits. Payment limits set a maximum amount of farm commodity program payments that a person can receive. Payment limits were created in 1970 and continue in the 2002 farm bill. Federal deficits and public awareness of large payments reaching a small number of large farms have focused congressional attention on the issue.

In the 109th Congress, S. 385 and H.R. 1590 would tighten the limits to a total of $250,000 from the current limit of $360,000, and would count toward the limits the use of commodity certificates and loan forfeiture which are currently unlimited. The Administration also proposed tighter payment limits as part of the FY2006 budget reconciliation. A floor amendment by Senator Grassley to add payment limits to the budget reconciliation bill failed by a procedural vote of 46-53 on November 3, 2005 (SA 2359 to S. 1932). For more information, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Planting Flexibility. Planting flexibility was created in the 1990 farm bill to allow farmers to respond to market signals when choosing crops, but has restrictions to protect fruit and vegetable growers who do not receive direct subsidies. It refers to the ability to receive government payments for a base crop (such as corn), but to grow a different crop on those base acres (such as soybeans).

Two policy issues have arisen regarding planting flexibility. 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 fruits and vegetables for canning and freezing 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, in the U.S.-Brazil cotton dispute, the WTO settlement panel found that the restriction on planting fruits and vegetables made direct and counter-cyclical payments ineligible to be a nondistorting payment (green box) for international trade purposes. If 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. Bills such as those above would remove some, but not all, of these planting restrictions. For more information, see CRS Report RS21615, *Farm Commodity Programs: Base Acreage and Planting Flexibility*.

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

Dairy. The conference agreement on the Deficit Reduction Act of 2005 (S. 1932) extends the MILC program to 2007. Four earlier bills in the 109th Congress had provisions to extend MILC (H.R. 859, H.R. 1260, S. 273, and S. 307). Some of these bills also would raise eligibility limits (H.R. 1260 and S. 273) and the target price (H.R. 1260).