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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.

Several issues of recent legislative interest include extension of the 2002 farm bill (H.R. 4332, H.R. 4775, and S. 2696), resolution of international trade disputes, planting flexibility (H.R. 2045, S. 1038, and S. 194), payment limits (S. 385 and H.R. 1590), and budget reconciliation (P.L. 109-171). 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. 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.[1]

Like most farm bills, the 2002 farm bill (the Farm Security and Rural Investment Act of 2002, P.L. 107-171) temporarily suspends most provisions of the permanent law for five to six years. 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]

[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 summarizes the subsidies available for about 25 agricultural commodities that represent about one-third of gross farm sales. **Table 1** lists the support prices that Congress has set by statute. Other CRS reports and USDA fact sheets provide details.[3]

- 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] See CRS Report RL33271, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans*.

- "Loan commodities" include all of the "covered commodities" plus **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*.

- **Peanut** support is now identical to that for the covered commodities. See CRS Report RL30924, *Peanut Program: Evolution from Supply Management to Market Orientation*.

- **Dairy** prices are supported through 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 Report RL33475, *Dairy Policy Issues*.

- **Sugar** support is indirect through import quotas and domestic marketing allotments. No direct payments are made to growers and processors. See CRS Report RL33541, *Sugar Policy Issues*.

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*).

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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.

Policy Background

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

In recent decades, the face of farming has changed. The United States is now a major exporter of farm commodities, yet we import many specialty or seasonal foods based on consumer preferences. Farmers now comprise less than 2% of the population.

Most agricultural production is concentrated in fewer, larger, and more specialized operations. About 7% of farms account for 76% of sales; these 150,000 farms had average sales over $1 million, yet are often "family farms." 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.

2002 Farm Bill. When Congress wrote the 2002 farm bill, farm groups wanted automatic payments when commodity prices were low. The 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 (MILC) 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. Programs for wool, mohair, and honey were reinstated, after having being dropped in 1996. The peanut program was converted from a quota system to one with direct payments.

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 began field hearings about the next farm bill in February 2006 (see CRS Report RL33037, *Previewing a 2007 Farm Bill*).

Farm Bill Extension. The faltering Doha Round of multilateral trade negotiations in the World Trade Organization (WTO) was expected to converge in 2007 with the end of the 2002 farm bill and Trade Promotion Authority (TPA). The Administration and trade proponents wanted to conclude the Doha Round before the TPA expires to facilitate consideration in Congress. Many policymakers also wanted a Doha agreement so that the next farm bill could be written to be consistent with WTO agreements. Given the current impasse in the Doha Round, several bills (H.R. 4332, H.R. 4775, and S. 2696) propose to extend the commodity supports of the 2002 farm bill by one or more years. See CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*.

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, and has subsequently eliminated the upland cotton step-2 program. Other findings affect programs that the United States had considered WTO-compliant — particularly restrictions on planting flexibility (below) — and thus may influence the development of the next farm bill (see CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*).

Planting Flexibility, Fruits and Vegetables, and the WTO. 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, but not fruits and vegetables).

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 is enforced, it could affect the United States' ability to meet WTO commitments during years when farm commodity payments are particularly high. The bills above would remove some, but not all, of these planting restrictions.

If the restriction on planting fruits and vegetables is lifted, fruit and vegetable growers may seek some type of compensation in return. Some groups want more support for research and trade promotion, while others suggest a more direct type of subsidy (although few want payments like those for the covered commodities). Moreover, the Specialty Crops Competitiveness Act of 2004 (P.L. 108-465) is seen as a marker that fruit and vegetable support will be debated more thoroughly for the next farm bill. For more background, see CRS Report RL32951, *Specialty Crop Issues in the 109th Congress*.

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 in both its FY2006 and FY2007 budget requests. A floor amendment by Senator Grassley to add payment limits to the Deficit Reduction Act of 2005 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*.

Budget Reconciliation. Recent federal budget deficits have caused concern over the ability or willingness to fund the 2002 farm bill. On February 8, 2006, the President signed the Deficit Reduction Act of 2005 (P.L. 109-171) which includes net reductions of $2.7 billion over five years (FY2006-2010) for USDA mandatory programs, as scored by CBO. Farm commodity support payments are cut by $1.7 billion, conservation spending by $934 million, mandatory research programs by $620 million, and rural development programs by $419 million. 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.

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 new law reduces the advance payment rate to 40% in the 2006 crop year and to 22% in 2007.[5] Not included in the conference agreement was an across-the board cut in farm commodity payments, which was recommended at different levels in the House- and Senate-passed bills. The act also eliminates the upland cotton step-2 program in response to Brazil's successful challenge of the program in the World Trade Organization (WTO). For more, see CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation*.

Further budget reconciliation was proposed by the Administration for FY2007, but Congress did not require any reconciliation when adopting the budget. Policymakers are watching whether budget reconciliation will be required next year (in 2007, for budget year FY2008) concurrently when the 2007 farm bill is expected to be written.

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[5] The Deficit Reduction Act of 2005 was enacted on February 8, 2006, after the advanced direct payments for the 2006 crop year were paid in December 2005. Thus, the reduction originally envisioned for the 2006 crop year (and the 2006 fiscal year) will not be achieved. However, the same budgetary savings will accrue all in one year (FY2007) when the advance payment ratio drops from 50% to 22% for the 2007 crop year. (Congressional Budget Office, *Cost Estimate: S. 1932, Deficit Reduction Act of 2005,* January 27, 2006, p. 10.)