Order Code RS21999
Updated January 17, 2007

CRS Report for Congress

Farm Commodity Policy: Programs and Issues for Congress

Jim Monke
Analyst in Agricultural Policy
Resources, Science, and Industry Division

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. Five crops account for about 90% of government commodity payments to farmers.

The 110th Congress will be making decisions about a new farm bill. A key question will be whether to continue with the current system or adopt different approaches in response to federal spending constraints, economic conditions, legal challenges from international trade agreements, and equity considerations. This report will be updated.

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 these laws through multi-year omnibus farm bills or annual appropriations acts 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] For background on the breadth of a farm bill, see CRS Report RL33037, *Previewing a 2007 Farm Bill*.

Commodities Eligible for Support

This report summarizes the subsidies that are available for about 25 agricultural commodities representing about one-third of gross farm sales. Five crops (corn, cotton, wheat, rice, and soybeans) account for about 90% of government payments. The largest 64,000 farms (3.1% of the total) have sales over $500,000 and produce 45% of the value of production; they receive 27% of government commodity payments. **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***)*. **Peanuts** are supported similarly. Farmers receive constant "direct payments" that are tied to historical production, and "counter-cyclical" and "marketing loan" payments that increase when market prices are low. For background on the types of payments and how they work, 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**.

- **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*). Other food assistance programs such as food stamps and school lunches also promote fruit and vegetable consumption.

---

[3] USDA fact sheets are online at [http://www.fsa.usda.gov].

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. Policymakers 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

Since most provisions of the 2002 farm bill expire in 2007, the 110th Congress will be making decisions about the content of a new farm bill. Congress held field hearings about the farm bill throughout 2006. The Administration also held listening sessions and has published a series of farm bill theme papers.[4] For detailed background on farm bill issues, see CRS Report RL33037, *Previewing a 2007 Farm Bill*.

A key question for the 110th Congress will be whether to follow the lines of the 2002 farm bill or adopt different approaches in response to federal spending constraints, prevailing economic conditions, potential challenges to U.S. farm policies from international trade agreements, and requests from groups not currently receiving support.

Budgetary Considerations. Recent federal deficits have raised concern over the ability or willingness to fund farm programs. In early FY2006, budget reconciliation trimmed $2.7 billion over five years (FY2006-FY2010) from USDA mandatory programs,

---

[4] USDA, *2007 Farm Bill Theme Papers*, available at [http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1UH?navid=FARM_BILL_ANALYSIS].

albeit without significant real cuts in commodity programs. As with all areas of the federal budget, agriculture and other programs in the farm bill face spending constraints imposed by Congress.

In early 2007, the Congressional Budget Office will estimate a multi-year baseline budget (which assumes the current farm bill continues under expected economic conditions). Due to rapid increases in the futures market price of corn and other commodities since the summer of 2006, this baseline of government payments is decreasing. Using these baseline estimates and other political and budgetary considerations, the Budget Committees will allocate a specific, multi-year amount to the Agriculture Committees for the new farm bill. Policymakers may craft changes in farm policy and score budgetary savings or costs to fit the new farm bill within its budget.

Doha Round of World Trade Negotiations. Initially, the 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 Doha's consideration in Congress. Many policymakers also wanted a Doha agreement so that the next farm bill could be written consistent with WTO agreements. But as the Doha Round began to stall over agriculture negotiations in mid- 2006, several bills in the 109th Congress proposed to extend the commodity supports of the 2002 farm bill by one or more years (H.R. 4332, H.R. 4775, and S. 2696). Most policymakers now seek to write a new farm bill, regardless of the status of the Doha Round. See CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*.

WTO Trade Disputes. Price support in the United States has become a focus of developing country criticism in 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. In January 2007, Canada began a WTO complaint against the U.S. corn program. See CRS Report RS22522, *Potential Challenges to U.S. Farm Subsidies in the WTO: A Brief Overview*.

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) and simultaneously grow a different program crop on those base acres (such as soybeans, cotton, or wheat, but *not* fruits and vegetables).

Two policy issues have arisen about 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. In the 109th Congress, H.R. 2045 and S. 1038 would have allowed fruits and vegetables for canning and freezing to be grown in return for giving up subsidies on those acres for one year without penalizing any future recalculation of base. S. 194 would have allowed 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.

If the restriction on planting fruits and vegetables is lifted, fruit and vegetable growers may seek some type of compensation in return. A USDA study concludes that eliminating the planting restriction would not substantially affect the market for fruits and vegetables, but could significantly affect individual producers.[5] Some fruit and vegetable 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 for more thorough debate in the next farm bill. For more background, see CRS Report RL32951, *Specialty Crop Issues in the 109th Congress*.

More Equitable Distribution of Payments. Farm program critics and some in the Administration point out that income and price support benefits are not equitably shared across the sector. Subsidies are directed at a limited number of commodities and are based largely on output, meaning that larger producers fare better than smaller ones. They argue that these imbalances should be addressed. One option could be to further tighten annual payment limits. Some have further suggested that payments be based upon individual need (i.e., means-tested). Defenders of the current policy counter that it is designed to support U.S. agricultural productivity and competitiveness in global markets, not to serve as a welfare program.

Tighter payment limits were part of the Senate-passed 2002 farm bill, but were dropped in conference committee. In the 109th Congress, S. 385 and H.R. 1590 would have tightened limits to a total of \$250,000 from the current limit of \$360,000, and counted 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. The issue is expected to return in the 110th Congress. For more information, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Revenue-Based Support. Some reformers recommend that an expansion of revenue insurance could support U.S. farm incomes better than the current mix of commodity programs that offset low prices and, separately, indemnify production losses from disasters. Several federally subsidized revenue insurance products are currently available and could provide a starting point. Revenue insurance might be more attractive to producers now that commodity price forecasts are high, and to growers of non-program commodities that could be included in potentially whole-farm policies. The National Corn Growers Association, among others, has proposed shifting a portion of current farm subsidies to a revenue-based policy. Agricultural economists and Washington-based think tanks appear to be more enamored of this approach than the broad farm community.

---

[5] USDA-ERS, "Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets Be Affected?" November 2006, [http://www.ers.usda.gov/publications/err30].