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CRS Report for Congress

Farm Commodity Programs and the 2007 Farm Bill

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Summary

The farm commodity programs are the most visible part of the farm bill. Five crops (corn, wheat, cotton, rice, and soybeans) account for over 90% of government commodity payments to farmers. A new farm bill is necessary because the 2002 farm bill expires with the 2007 crop year and, without an update, an undesirable reversion to permanent laws would occur. The debate is whether to continue with the current system, or reduce subsidies in response to equity considerations, legal challenges from international trade agreements, federal spending constraints, and economic conditions.

The Senate passed its version of the farm bill on December 14, 2007 (Senate amendment to H.R. 2419); the House passed its version, H.R. 2419, on July 27, 2007. Both bills generally continue the current commodity support framework, add an optional revenue counter-cyclical payment (the Senate revenue option goes a step further to supplant direct payments and marketing loans under that option), tighten the AGI limit, eliminate payment limits on marketing loans, and modify some target prices and loan rates. Two amendments to tighten payment limits failed on the Senate floor.

The key issues for conferees in the commodity title are the approach and details for the revenue counter-cyclical option, and changes to the AGI limit. More could become at stake if prospects of a veto materialize over tax provisions or insufficient commodity reform. Although the Consolidated Appropriations Act for FY2008 extends certain farm bill programs to March 15, 2008, it does not extend the commodity programs for the 2008 crop year since a new farm bill is still expected. This report will be updated.

Authority for the farm commodity programs rests in three permanent laws dating back to at least 1949. Congress typically alters these laws through multi-year omnibus farm bills to address current market conditions, budget constraints, or other concerns. Since reverting to permanent law is incompatible with current national economic objectives, global trading rules, and federal budgetary policies, pressure builds at the end of one farm bill to enact another. For more background on farm bill expiration and permanent law, see CRS Report RS22695, *Possible Expiration of the 2002 Farm Bill*.

Commodities Eligible for Support

Subsidies exist for about 25 farm commodities representing nearly one-third of gross farm sales. Five crops (corn, cotton, wheat, rice, and soybeans) account for about 90% of these payments. About 66% of the payments go to 10% of recipients.

- The "covered commodities" are the primary crops eligible for support: **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. 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**. These commodities are eligible for the marketing loan program only.

- **Dairy** prices are supported through federal purchases of nonfat dry milk, butter, and cheese. Producers also receive a counter-cyclical "milk income loss contract" (MILC) payment when prices fall below a target price. See CRS Report RL34036, *Dairy Policy and the 2007 Farm Bill*.

- **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*.

Not Eligible for Support. Meats, poultry, fruits, vegetables, nuts, hay, and nursery products (about two-thirds of farm sales) do not receive direct support.

2007 Farm Bill Issues

The Senate passed its version of the farm bill on December 14, 2007 (Senate amendment to H.R. 2419). The House passed its version, H.R. 2419, on July 27, 2007. Both bills generally continue the framework of the 2002 farm bill through the 2012 crop year, modify some target prices and loan rates, offer a one-time choice for a revenue counter-cyclical payment, and revise payment limitations. The Administration has threatened a veto primarily over concerns about tax provisions financing the entire bill, and also about insufficient reform in payment limits and other commodity programs.

The revised CBO estimate of the House bill's Title I programs is a reduction of \$1.123 billion over 5 years (-3.1% compared to baseline), and \$834 million over 10 years. For the Senate bill, the revised CBO score for the comparable commodity provisions (excluding crop insurance and specialty crops) is a reduction of \$3.976 billion over five years and a cost of \$30 million over 10 years (**Table 1**). The Senate bill has a larger difference between the 5- and 10-year scores because of the delayed implementation of the "average crop revenue" (ACR) program and the relatively sooner reduction in direct payments for ACR participants compared with outlays in the ACR program. In the House, most of the commodity program budget savings are achieved by delaying direct payments to farmers, which affects fiscal year budgeting but not ultimate payments. If the $1.131 billion of timing changes are not counted, commodity provisions in the House bill would add costs over 5 years and 10 years rather than scoring savings. In the Senate bill, most of the reductions (particularly in the 5-year window) are achieved by reducing direct payments to participants in the new revenue counter-cyclical program before comparable outlays for the ACR program begin.

Table 1. Summary of CBO Scores of Commodity Provisions
(in millions of dollars, as compared to March 2007 baseline)

2007 farm bill (H.R. 2419)	5-year score		10-year score	
	House	Senate	House	Senate
Direct payments	-1,131	-8,195	-1,131	-25,810
Counter-cyclical, ACR	-754	3,995	-1,214	28,542
Marketing loan	564	-462	1,368	-3,350
Sugar	84	-28	167	2
Dairy	0	441	0	456
Payment limits	-227	-191	-550	-456
Other *	341	464	526	646
Subtotal	**-1,123**	**-3,976**	**-834**	**30**

* Includes cotton user payments (both bills), ending cotton storage (House), base acreage reduction for non-agricultural use (Senate), and other miscellaneous provisions (Senate).
Source: CRS, based on January 2008 CBO scores of House and Senate-passed farm bills (H.R. 2419).

Payment Limits. Both the Senate and the House bills make several changes to payment limits, some tightening the limits and others relaxing them (**Table 2**). Limits are tightened in both bills by (1) reducing the AGI limit, (2) eliminating the "3-entity rule," which allows individuals to double their payments by having multiple ownership interests (doubling by having a spouse would continue), and (3) requiring "direct attribution" of payments to a natural person instead of to a corporation, general partnership, etc. Payment limits are relaxed in both bills by eliminating the $75,000 limit on the marketing loan program. The latter change is in response to perceived abuse of commodity certificates, which were the only unlimited payment. The House bill also relaxes the limit on direct payments from $40,000 to $60,000. The Senate bill tightens the counter-cyclical limit from $65,000 to $60,000. The Senate bill preserves a separate limit for peanuts; the House bill combines support for peanuts with other commodities.

Regarding the AGI limit, the House bill lowers the AGI limit to $1 million with no exceptions, and to $500,000 for individuals who do not earn more than 67% of their income from farming. The Senate bill makes smaller and slower changes, and does not have a firm cap like the House bill. In 2009, the Senate bill lowers the AGI limit to $1 million for individuals who do not earn more than 67% of their income from farming. For 2010-2012 the Senate bill has a $750,000 AGI cap for the same individuals. CBO scores the payment limit changes in the House bill to save $227 million over five years; for the Senate bill, the score is a savings of $191 million over five years.

Two Senate floor amendments on payment limits failed to get 60 votes to avoid a filibuster and thus were not adopted. An amendment by Senators Grassley and Dorgan (S.Amdt. 3695) to lower the limit on payments from $360,000 to $250,000 and apply the limits to all marketing loan options received a 56-43 vote. An amendment by Senator Klobuchar (S.Amdt. 3810) to tighten the AGI limit to $250,000 unless more than 67% of AGI is farm income, and $750,000 with no exceptions, received a 48-47 vote.

Table 2. Payment Limits Provisions

Type of Limit	Current law	2007 Farm Bill	
	2002 Farm Bill	**House H.R. 2419**	**Senate H.R. 2419**
Adjusted Gross Income (AGI) Limitation			
Ineligible for payments if AGI exceeds...	$2.5 million, unless 75% from farming	$500,000, unless 67% farming $1 million, firm	2008: $2.5 m * 2009: $1.0 m * 2010: $750,000 * *unless 67% farm
Direct and Counter-Cyclical Payments			
(a) Direct Payments	$40,000	$60,000	$40,000
(b) Counter-Cyclical Payments	$65,000	$65,000	$60,000
Doubling allowance	spouse, 3-entity	spouse	spouse
Subtotal, after doubling	*$210,000*	*$250,000*	*$200,000*
Marketing Loan Payments			
(c1) Marketing Loan Gains (c2) Loan Deficiency Payments	$75,000	Unlimited	Unlimited
(c3) Commodity Certificates (c4) Loan Forfeiture Gains	Unlimited		
Subtotal of (c1) and (c2), after doubling	*$150,000*		
Subtotal including (c3) and (c4)	*Unlimited*		
Sum of Direct, Counter-Cyclical, and Marketing Loan Payments			
Total of limited payments	***$360,000***	***$250,000***	***$200,000***
Total including all mkt. loan options	***Unlimited***	***Unlimited***	***Unlimited***

Source: CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Direct Payments. Direct payments are fixed annual payments based on historical production. Recent high commodity prices and high farm incomes have made it difficult for some to justify the annual $5 billion in direct payments. Thus, direct payments are receiving increased scrutiny. Both the Senate and House bills would extend direct payments through the 2012 crop year without making any changes to the payment rates. However, to score savings, both bills would eliminate the advanced installment of direct payments in the last year of the farm bill (2012). According to CBO, this would shift about $1.131 billion of payments into a later fiscal year without reducing total payments to farmers. In the Senate bill, participants in the average crop revenue program would not receive the traditional direct payment, saving $3.5 billion per year in direct payments after 2010 (a 67% reduction in direct payments from baseline), some of which would be offset by the "fixed" $15 payment component of the ACR. In total, the Senate bill reduces direct payments $8.2 billion over 5 years and $25.8 billion over 10 years.

Table 3. Support Prices for Farm Commodities

Type of payment	Direct payment rate			Counter-cyclical target price			Marketing loan rate		
Law or proposal	2002 farm bill	Change in 2007 farm bill: House	Change in 2007 farm bill: Senate	2002 farm bill	Change in 2007 farm bill: House	Change in 2007 farm bill: Senate	2002 farm bill	Change in 2007 farm bill: House	Change in 2007 farm bill: Senate
Wheat, $/bu	0.52	+0	+0	3.92	+0.23	+0.28	2.75	+0.19	+0.19
Corn, $/bu	0.28	+0	+0	2.63	+0	+0	1.95	+0	+0
Sorghum, $/bu	0.35	+0	+0	2.57	+0	+0.06	1.95	+0	+0
Barley (malt), $/bu	0.24	+0	+0	2.24	+0.49	+0.39	1.85	+0.65	+0.10
Barley (feed), $/bu								+0.05	
Oats, $/bu	0.024	+0	+0	1.44	+0.06	+0.39	1.33	+0.13	+0.06
Upland Cotton, $/lb	0.0667	+0	+0	0.724	-0.024	-.0015	0.52	+0	+0
Rice (long), $/cwt	2.35	+0	+0	10.50	+0	+0	6.50	+0	+0
Rice (med., short)								+0	+0
Soybeans, $/bu	0.44	+0	+0	5.80	+0.30	+0.20	5.00	+0	+0
Minor oilseeds, $/lb	0.008	+0	+0	0.101	+0.014	+.0264	0.093	+0.014	+0.0079
Peanuts, $/ton	36	+0	+0	495	+0	+0	355	+0	+0
ELS cotton, $/lb	not applicable						0.7977	+0	+0
Wool, graded, $/lb							1.00	+0.10	+0.20
Wool, nongraded							0.40	+0	+0
Mohair $/lb							4.20	+0	+0
Honey, $/lb							0.60	+0	+0.12
Peas, dry, $/cwt						8.33	6.22	-0.82	-0.82
Lentils, $/cwt						12.82	11.72	-0.44	-0.44
Sm. chickpeas, $/cwt						10.36	7.43	+1.11	+0
Lg. chickpeas, $/cwt						12.82	not applicable		11.28
Sugar, raw cane, $/lb							0.18	+0.005	+¼¢/yr.
Sugar, beet, $/lb							0.229	+0.006	128.5% of cane

Source: CRS.

Counter-Cyclical Payments. Counter-cyclical payments are automatic when market prices fall below target prices set in statute. Historically, farm programs have focused on price, while crop insurance focused on yield. But producers cite insufficient government support during drought years when yields are low and prices are high, because they have little to sell and receive no counter-cyclical support.

The Senate bill would offer farmers a choice between traditional program payments and an "average crop revenue (ACR)" payment. The ACR plan is based on whether actual state-level revenue drops below an expected revenue target, crop by crop. The program would begin with the 2010 crop year and participation would apply to all of the covered crops on a farm for the reminder of the farm bill. Instead of the traditional direct, counter-cyclical, and marketing loan program, the ACR program offers a $15/acre direct payment for every crop, a revenue-based payment, and recourse loans.

The House bill would offer farmers a one-time choice between the existing price counter-cyclical payments and a new, national-level "revenue counter-cyclical payment." The House bill's option would replace only the price-based counter-cyclical payment, leaving direct payments and marketing loans unchanged. The House's revenue-based option is modeled largely on the Administration's proposal.

For the traditional price-based counter-cyclical program, the House bill would increase target price for six commodities and slightly reduce the target price for cotton. The Senate bill adjusts the same commodities plus sorghum, and adds counter-cyclical support for dry peas, lentils, and chickpeas. Both bills eliminate advance counter-cyclical payments in 2011 and delay final payments. According to CBO, the House counter-cyclical provisions would save $754 million over five years. The ACR provisions in the Senate bill would cost $4.3 billion over five years and $30 billion over 10 years.

Marketing Loans and Related Assistance. The House bill increases support prices for seven commodities and reduces support prices for two. The Senate bill adjusts the same commodities plus one more, and adds large chickpeas to the list of eligible commodities. The Senate bill has a recourse loan for participants in the ACR program, which would not provide loan deficiency payments or marketing loan gains. CBO scores the House bill's changes as costing $564 million over five years; the score of the Senate provisions saves about $462 million after adjusting for ACR changes which reduce participation in the marketing loan program. Both bills create a new payment for domestic users of upland cotton to modernize their operations. CBO scores this cotton provision at $387 million over five years in the House and $337 million in the Senate.

Neither bill has a provision that the Administration wants and has mentioned in its veto threat — tying the determination of loan deficiency payments (LDP) to when a farmer loses "beneficial interest" (sells the commodity). This would prevent farmers from receiving an LDP at harvest when market prices are low, and waiting to sell the commodity until prices rise. Some view this as practice as paying unnecessary LDPs since farmers may eventually sell for a higher price than when the LDP was determined.

Planting Flexibility, Fruits and Vegetables, and the WTO. The direct payments program provides flexibility to make planting choices, but prohibits planting fruits, vegetables, and wild rice on program crop base acres. While seemingly reasonable to protect growers of unsubsidized fruits and vegetables, the provision jeopardizes the "green box" classification for direct payments. The WTO has determined that the restrictions are inconsistent with the rules of a minimally distorting subsidy.

Both the Senate and House bills do not change the fruit and vegetable planting restriction, although both create a pilot program allowing up to 10,000 acres of tomatoes to be grown on base acres in Indiana with a corresponding one-year reduction in payment acres (the Senate's provision applies only to the 2008 and 2009 crop years). For participants in the ACR program, the Senate bill offers more planting flexibility for fruits and vegetables for processing: up to 10,000 acres in each of seven midwestern states. These additional flexibilities, however, do not address concerns over WTO compliance. USDA proposes to eliminate the fruit and vegetable planting restriction completely.