

# CRS Report for Congress

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## Agriculture: Prospective Issues for the 107<sup>th</sup> Congress

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### Summary

Persistent low farm prices and 3 years of multi-billion dollar *ad hoc* additions to federal spending for farmers are expected to put pressure on the 107<sup>th</sup> Congress for an early review of federal farm policy. Farm policy is governed by a variety of laws, many of which are incorporated into an omnibus, multi-year farm bill. Most of the provisions of the current farm bill, the Federal Agricultural Improvement and Reform (FAIR) Act of 1996, expire after the 2002 crop year. Key issues are the responsiveness of current policy to low commodity prices and farm income, factors influencing low prices, and options for improving prices and/or providing automatic relief to farmers when prices fall. Increased concentration in the agriculture industry, trade, and environmental regulations affecting agriculture are likely to be part of the debate. House and Senate Agriculture Committee hearings on the future direction of agriculture policy are scheduled for late January and early February. This report will be updated as needed, or replaced as events warrant.

### Background

For the last 3 years, abundant world supplies and declining export demand have kept prices for most U.S. farm commodities and farm income quite low. Despite economic recovery in world markets and some recent growth in export demand, the USDA projects that current supplies, especially of major field crops, are likely to keep farm commodity prices well below the highs of the mid-1990's. Higher input (energy and fertilizer) costs for farmers also are expected to erode farm income. The 106<sup>th</sup> Congress approved several multi-billion dollar emergency farm aid laws to offset farm price declines. It also expanded crop insurance coverage and premium subsidies. Longer term changes were debated but not enacted. These included proposals for providing automatic counter-cyclical farm income relief and tax deferrals in the form of Farm and Ranch Risk Management (FARRM) accounts, both of which are expected to resurface in the 107<sup>th</sup> Congress. Other issues on the likely agenda are regulation of bio-engineered crops and the environmental and food safety concerns it has raised with consumers here and abroad.

## The 1996 Farm Bill

The 1996 farm law (FAIR) significantly revised federal farm support policy. Title I of this law, the Agriculture Market Transition Act (AMTA), replaced target prices and deficiency payments for wheat, feed grains, cotton, and rice with annual lump sum payments, declining in amount each year. These payments are provided irrespective of market prices or planting choices. Previously, farmers received the difference between legislatively set target prices and lower market prices. Supply controls in the form of specific acreage bases and cropland set-asides were ended by the 1996 law because, it was argued, they distorted production decisions and ceded export markets to foreign competitors who increased production. With federal payments “decoupled” from production, farmers were encouraged to plant for “markets” rather than “federal programs,” and were given broad planting flexibility. Some price protection was maintained with marketing loan assistance for AMTA commodities and soybeans and oilseeds. Under this program, a farmer can receive a deficiency payment when the loan rate for a crop is higher than the market price.

### Key Farm Facts

- ! There are some 2.2 million farms in the U.S. Of these, 93% classified as small (sales under \$100,000) produce about 20% of the nation’s agricultural goods. The remaining 7% produce 80% of farm goods.
- ! In calendar year 1999, direct Federal payments to farmers totaled \$20.6 billion. In rank order, Texas, Iowa, Illinois, Kansas, and Nebraska received the largest amounts (42% of the total).
- ! In calendar year 2000, direct farm payments totaled \$24 billion, or 52% of net farm income. Of this total, \$9.5 billion came from emergency farm aid.

Enacted at a time when farm prices were rising to record highs and foreign markets were expanding greatly, the 1996 farm law changes were widely supported. Objections, however, were heard from some who worried about inadequate “counter-cyclical” income support if prices fell, as began to happen late in 1997. This followed several years of unusually good growing conditions in many parts of the world, and a financial crisis in key growth markets for U.S. farm goods (Asia and Latin America). Falling commodity prices substantially reduced farm income, and the Congress stepped in with several emergency measures to increase government payments to farmers. This aid raised farm payments well above the levels anticipated under the 1996 policy, and is expected to increase pressure for action by the 107<sup>th</sup> Congress to make long-term policy changes.

## Selected Issues

### An Early Farm Bill or Further Ad Hoc Assistance?

One force likely to drive consideration of a new farm bill in early 2001 will be the supply/price situation. If prices remain low, supply continues to outpace demand, and farm income falls below the high levels created by past supplemental emergency farm assistance, there will be pressure for additional income support for farmers. In 2000, direct government payments to farmers (\$24 billion) represented over one-half of net farm

income and some 40% of net cash income. Of this total, \$9.5 billion came from “emergency” farm aid. Most policymakers and farm groups would prefer a more reliable method for supporting farm income than *ad hoc* laws and are pushing for policy changes that will automatically release funding when it is needed. Getting money for such changes, and resolving ideological differences over the best method of assisting farmers (i.e., through the market or federal intervention) is likely to be difficult, however. Thus, it is possible that another supplemental funding package will be considered while longer term decisions about farm policy are debated. Among the issues are: (1) competition for additional money with those pursuing other policy interests, such as tax relief, deficit reduction, or social security and medicare reforms; (2) the extent to which policy changes might weaken the underlying market orientation goal of changes made by the 1996 farm law; (3) which commodity groups should benefit from policy changes and by how much, and (4) conformance with trade agreement caps on domestic support for agriculture and with the U.S. negotiating position that the European Union (EU) and other parties should reduce trade-distorting farm support.

A variety of options discussed in the last Congress are expected to reemerge as the farm bill commodity provisions are debated. One option might be to revise current AMTA law to make permanent the *ad hoc* funding additions of the past year by raising the amount available for participating farmers. One way to do this might be to simply increase the level of AMTA payments. Another might be to revise the basis for AMTA payments (e.g., by using more recent planting history, or adding some form of automatic counter-cyclical income relief when farm income declines, whether due to reduced prices or yields). There also has been interest in extending AMTA eligibility to other crops (e.g. soybeans, oilseeds, dairy, etc.). Past proposals calling for changes to the marketing loan assistance program are expected to be renewed. Options might include revising or removing the cap on loan rates so that deficiency payments rise or fall with prices or income, and/or extending loan terms. There also may be proposals to restore features of supply management tools, for example, by re-establishing a farmer-owned reserve and/or cropland set-asides, or by expanding long term cropland retirement programs. (For more information, see CRS Issue Brief IB10043, *Farm Economic Relief: Issues and Options for Congress*; CRS Report 98-744, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments*; CRS Report RL30739, *Federal Crop Insurance and the Agricultural Risk Protection Act of 2000 (P.L.106-224)*; CRS Report RS20269, *Emergency Funding for Agriculture: A Brief History of Congressional Action, FY1989-FY2001*; and CRS Report RL30612, *Farm Support Programs and World Trade Commitments*.)

## Other Commodity Program Issues

**Dairy.** Low prices prompted the 106<sup>th</sup> Congress to add some \$667 million in “market loss payments” for dairy farmers to the FY2001 agriculture appropriations law (P.L.106-387). Separate legislation offered in the 106<sup>th</sup> Congress to increase the level of dairy price support was not enacted. While prices have risen from previous lows nationwide, they remain low in the cheese producing states (Midwest). The National Milk Producer Federation has proposed the creation of a target price (and deficiency payments) for milk used for cheese. Meanwhile, authority for the Northeast dairy Compact is scheduled to expire at the end of this fiscal year. Demands for its extension, as well as for adding other compacts (e.g., in the Southeast) are likely to be forthcoming. These compacts are strongly opposed by Upper Midwest dairy farmers. Meanwhile, the USDA continues to

implement legislative mandates for modifying federal pricing policy for farm milk under federal milk marketing orders. (For more information, see CRS Issue Brief IB97011, *Dairy Policy Issues*.)

**Livestock.** A variety of animal agriculture issues, including low livestock prices, the impact of consolidation in the meat packing industry, trade, and the environmental impacts of large feedlots, are expected to resurface in the 107<sup>th</sup> Congress. The 106<sup>th</sup> Congress approved livestock loss payments and livestock assistance totaling \$500 million, as well as price reporting requirements for large meat packers. Hog prices have recovered from their historic lows of December 1998, but questions about the causes have revived concern about the impact of consolidation in the livestock industry. This may renew proposals to ban packer ownership of livestock and impose a moratorium on large agribusiness mergers. Other proposals mandating that meat products be labeled with their country of origin, allowing state inspected meat to be sold interstate, and addressing food safety issues also may resurface. On the trade front, disputes continue with the EU over its barriers to U.S. meat and poultry imports. Chronic difficulties getting products into countries in the increasingly important Asian market also are at issue. Both will focus congressional interest on existing trade agreements and negotiations over new ones. Environmental concerns about animal waste removal in large scale animal feeding operations (AFOs) also are an issue. (For more information, see CRS Issue Brief IB10063, *Animal Agriculture: Current Issues*.)

## Agricultural Trade

The United States is the world's largest exporter of agricultural products, with the EU a close second. Production from one-third of harvested U.S. acreage is exported and some 25% of the value of agricultural goods comes from exports. Thus, the economic prosperity of the U.S. farm sector is heavily dependent upon exports, and declining farm prices and incomes, which characterize the current U.S. farm economy, make agricultural trade liberalization an important congressional issue.

Agricultural trade proposals, including free trade for the Americas and "fast track" legislation to facilitate trade agreement legislation, reportedly is high on the new Administration's agenda. Trade negotiations will be taking place as Congress considers legislation to modify or replace the existing farm law. Thus, the Congress will be faced with designing a new domestic farm policy that is consistent with both existing and potential multilateral farm trade rules. Negotiations now underway in the World Trade Organization may strengthen the existing multilateral rules and disciplines for agricultural trade, for example, by making further changes in rules for market access, export subsidies, and domestic farm support.

### Ag Trade Facts

- ! U.S. agricultural exports were valued at of \$50.9 billion in FY2000 and are expected to climb to \$53 billion in FY2001. Both are below the record of \$59.8 billion in 1996.
- ! Agricultural imports reached a record \$38.9 billion in FY2000.
- ! Japan, the European Union, Canada, Mexico, Korea and Taiwan are the leading importers of U.S. farm goods.
- ! Farm cash receipts from U.S. agricultural exports represented about 25% of gross farm income in FY2000.

Regional trade negotiations will also affect conditions of competition for U.S. agricultural products. Other important considerations are the extent to which other countries' willingness to reduce export subsidies should be matched by changes in U.S. export credit or food aid programs. (For more information, see CRS Report 98-254, *Agricultural Negotiations in the World Trade Organization*; CRS Report RL30612, *Farm Support Programs and World Trade Commitments*; CRS Issue Brief IB10040, *Agricultural Trade Issues in the 106<sup>th</sup> Congress*; CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*; and CRS Report RL30753, *Agricultural Support Mechanisms in the European Union: A Comparison with the United States*.)

## **Biotechnology and Agriculture**

Roughly half of all soybeans and cotton and one third of the corn in the United States is grown from seeds that have been genetically engineered (GE) to resist insects or withstand herbicides applied for weed control. Proponents of this technology contend that it has helped producers lower input costs, reduced the need for chemicals, and increased yields. They also contend that this technology produces items that are not substantially different from conventionally produced counterparts. Recently, however, evidence of unintended environmental impacts (e.g., possible damage to monarch butterflies), genetic contamination of food supplies (e.g., StarLink™ corn controversy), and rejection of U.S. GE commodities in foreign markets (e.g., the EU's *de facto* moratorium on biotech crop approvals), have begun to erode confidence in crop biotechnology. Government agencies are struggling under their existing authorities to ensure consumer safety while maintaining public confidence in the technology. Key trade partners such as Japan, Korea, and the EU are in the process of establishing stringent standards for GE material in imported commodities that threaten to force U.S. exporters to meet costly segregation and identity preservation requirements. Domestically, the Environmental Protection Agency is being asked to reexamine its zero tolerance rule with respect to human consumption of a genetically modified variety of StarLink corn, and the Food and Drug Administration is reviewing the content of voluntary labels being used by some companies. (For more information, see CRS Report RS20732, *StarLink Corn Controversy: Background*; CRS Report RS20507, *Labeling of Genetically Modified Foods*; CRS Report RL30594, *Biosafety Protocol for Genetically Modified Organisms: Overview*; CRS Report 98-861 ENR, *U.S.-European Agricultural Trade: Food Safety and Biotechnology Issues*.)

## **Concentration and Market Power in Agriculture**

Recent low farm prices also have generated renewed congressional interest in the structure and business methods of agriculture, which are undergoing increasingly rapid change. Farming, food processing, and food retailing are concentrating into fewer and larger operations. Ownership or tight control of more than one phase of production and marketing by a single firm (known as vertical integration or coordination) is becoming common. Agricultural support industries such as seed, chemical, transportation, and biotechnology companies are rapidly consolidating, too. Debate revolves around the impacts – both negative or positive – of such changes on farm prices; on the traditional system of smaller-sized, independent, family-based agriculture; and on rural communities. Also at issue are implications for consumers and for trade in a global economy. Inherent in these questions is the role government should play in monitoring and regulating

agricultural markets. Policy makers are examining whether current laws for ensuring competition and antitrust are still appropriate – and are properly enforced – as well as whether new policy approaches might be considered. Among the proposals debated in the 106<sup>th</sup> Congress were: giving the USDA more authority to review and challenge agricultural mergers; prohibiting certain business practices deemed to be anti-competitive; imposing a moratorium on large mergers between agribusiness firms; and banning large meat companies from owning the animals they slaughter. Although no major legislation was passed, several lawmakers have signaled their intention to revisit the issue in the 107<sup>th</sup> Congress – when an anticipated farm bill to replace the expiring 1996 law is expected to be considered. (For more information, see CRS Report RS20562, *Merger and Antitrust Issues in Agriculture*; CRS Report 95-116A, *General Overview of United States Antitrust Law*; and CRS Report RS20241, *Monopoly and Monopolization – Fundamental but Separate Concepts in U.S. Antitrust Law*.)

## **Environmental Challenges for Agriculture**

Agricultural activities have been associated with adverse environmental impacts both on the farm and across the landscape. Among these are soil erosion and sedimentation, destruction of habitat and wetlands, water supply decline and increased water pollution (especially phosphorous and nitrogen build-up from fertilizer and animal wastes), and air pollution. Although agriculture has been largely exempt from major environmental laws, pressure is growing to include it. Members of the farm community claim that they are good stewards of the land and that problems are not significant enough to demand greater regulation or mandates on agriculture. Environmentalists, however, believe that greater regulation and intervention is warranted. In particular, they contend that changes in the structure of agriculture, with increasingly large farm operations (including livestock) and growing concentration, are expanding the scale of environmental problems. The House and Senate agriculture committees tend to reflect farm interests and to defend existing policies, which rely heavily on production friendly practices, such as land protection, incentives for conservation, and voluntary environmental safeguards. These policies are expected to be part of debates when the Congress reviews the conservation provisions of the 1996 farm law, which, along with most other provisions in this law, are scheduled to expire in 2002. Other House and Senate committees deal with broad environmental issues and legislation. Some members of these Committees and those in the environmental advocacy community advocate broader application of existing environmental protection laws to cover agriculture. (For more information, see CRS Issue Brief IB96030, *Soil and Water Conservation Issues*; CRS Report RL30331, *Conservation Spending in Agriculture: Trends and Implications*; and CRS Report RL30437, *Water Quality Initiatives and Agriculture*.)