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The 2002 Farm Bill: Overview and Status

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SUMMARY

Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. Although these laws may be considered and reauthorized as free-standing legislation, many of them are evaluated periodically, revised, and renewed through an omnibus, multi-year farm bill. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127) was the most recent omnibus farm bill, and many of its provisions expire in 2002.

Every omnibus farm bill spells out farm income and commodity price support policy – namely the methods and levels of support that the federal government provides to agricultural producers. However, farm bills also typically include sections on agricultural trade and foreign food aid, conservation and environment, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and marketing-related programs. "Miscellaneous" provisions dealing with subjects such as global warming, food safety, and animal health and welfare are often added.

The House Agriculture Committee held extensive hearings this year, and marked up an omnibus bill (H.R. 2646) on July 26-27, 2001. The panel chairman has been seeking full House action by this fall. The recent terrorist attacks have added some uncertainty to this schedule but not necessarily derailed the bill.

The committee bill would set a commodity-based support policy through 2011 (for 10 years) that would: provide fixed payments, new counter-cyclical assistance tied to target prices (a guaranteed per-bushel pricing system which had been eliminated in 1996), and marketing loans for grains, cotton, and oilseeds; continue planting flexibility with no supply controls; extend with some modifications dairy, sugar, wool and mohair, and honey supports; create a new peanut support program similar to that for major row crops, and terminate quotas; expand conservation program funding; reauthorize agricultural export and food aid programs; and include provisions for research, nutrition (food stamps), credit, and rural development.

The Senate Agriculture Committee also has been holding farm bill hearings but has not set a date to begin marking up legislation. Many observers believe a final bill will not clear Congress until 2002.

The congressional budget resolution (H.Con.Res. 83), completed in May 2001, reserves for FY2002-FY2011 an extra $73.5 billion in direct spending for farm and related programs. This total is over and above the approximately $95 billion projected for agriculture and related programs under a current-law baseline for the same 10-year period. The House committee bill would utilize most of this amount. Federal budget reestimates in August indicated that future surpluses, on which the farm bill was relying for its increased funding, have shrunk considerably from levels estimated in May. That, combined with new spending needs to response to the terrorist attacks, have raised questions about available resources.

[The resolution also permits Congress to increase agriculture spending by $5.5 billion in FY2001. A bill providing these *ad hoc* funds for 2001, H.R. 2213, passed the House and Senate prior to the August recess and was expected signed by the President on August 13, 2001 (P.L. 107-25).]

MOST RECENT DEVELOPMENTS

House floor on action a new 10-year omnibus farm bill (H.R. 2646; H.Rept. 107-191) could occur shortly. The bill was cleared by the House Agriculture Committee on July 27. Committee action had followed extensive hearings to solicit proposals from agricultural interest groups.

The Senate Agriculture Committee, too, has been holding hearings and receiving proposals for new farm policies, but a markup has not yet been scheduled. Many observers speculate that a final bill will not clear Congress until sometime in 2002 (when most current farm bill provisions expire).

The Bush Administration has not developed its own recommendations for a new farm bill nor commented (as of September 27) on the specifics in the House Agriculture Committee legislation. However, it did, on September 19, release a broad, 120-page report laying out "principles" for future farm policy.

Earlier, Congress passed another bill (H.R. 2213) to provide $5.5 billion in ad hoc assistance for 2001 crops. The measure passed the House on June 26 and the Senate on August 3, and was signed into law (P.L. 107-25) by the President on August 13.

BACKGROUND AND ANALYSIS

Overview

Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. Although these laws may be considered and reauthorized as free-standing legislation, many of them are evaluated periodically, revised, and renewed through an omnibus, multi-year farm bill. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127) was the most recent omnibus farm bill, and many of its provisions expire in 2002.

The heart of every omnibus farm bill is farm income and commodity price support policy – namely the methods and levels of support that the federal government provides to agricultural producers. However, farm bills also typically include titles on agricultural trade and foreign food aid, conservation and environment, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and marketing-related programs. "Miscellaneous" provisions such as global warming, food safety, and animal health and welfare often are added to farm bills.

Congressional Action

The House Agriculture Committee, after extensive hearings, marked up and approved a new farm bill (H.R. 2646) on July 26 and 27, 2001. The omnibus measure, reported August 2 (H.Rept. 107-191), would extend major farm, food, and related programs for 10 years, through 2011. More specifically, the bill would set a commodity-based support policy providing fixed payments, new counter-cyclical assistance tied to target prices (the per-bushel guaranteed price system eliminated in 1996), and marketing loans for grains, cotton, and oilseeds; extend with modifications dairy, sugar, wool and mohair, and peanut supports; expand conservation program funding; reauthorize agricultural export programs; and include provisions for research, nutrition (food stamps), and rural development.

The committee chairman was seeking House floor action on the measure in the fall. The bill's status was less certain in the aftermath of the September 11 terrorist attacks, although it still could reach the full House shortly.

The Senate Agriculture Committee also has held numerous hearings but has not yet set a date to begin marking up a bill. Some observers predict that omnibus farm legislation might not clear Congress and be ready for the President's signature until 2002.

Budgetary and Trade Constraints

Budget. The farm bill must be considered within the constraints of the federal budget. The congressional budget resolution (H.Con.Res. 83), completed in May 2001, reserves, for FY2002-2011, an extra $73.5 billion in direct spending for farm and related programs. This total is over and above the approximately $95 billion projected for such programs under a current-law baseline for the same 10-year period. The House Agriculture Committee-approved farm bill apparently utilizes most of these available funds. [See the Congressional Budget Office (CBO) website for its official farm bill cost estimates. Also see on Agriculture and the Budget in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

The budget resolution does make release of the extra funds contingent upon not utilizing federal surpluses not attributed to Social Security or Medicare. CBO and Administration budget revisions in August projected budget surpluses that are much smaller than those estimated in May, when the resolution was passed. After CBO and the Administration budget re-estimates this summer projected much smaller surpluses, questions arose as to whether the resources remain available to fund the additional spending written into the new farm bill. Agricultural interests assert that the language of the budget resolution is tied to the spring budget estimates (not the more recent ones) and, therefore, the money can be committed to the farm bill. The September terrorist attacks further cloud the budgetary picture.

Trade. The multilateral Uruguay Round Agreement on Agriculture (URAA) poses another constraint by limiting U.S. spending to no more than $19.1 billion per year on domestic farm supports most likely to distort production and trade. The agreement spells out rules for determining whether a policy is market distorting or whether it is exempt from the annual spending calculation. Thus, farm programs that can be justified as URAA compliant are likely to garner more congressional support than others. (See *Farm Support Programs and World Trade Commitments*, CRS Report RL30612; and *Farm Program Spending: What's Permitted Under the Uruguay Round Agreements*, CRS Report RS20840.)

Administration Views

The Bush Administration has not developed its own recommendations for a new farm bill nor commented yet on the specifics in the House Agriculture Committee legislation. However, it did release, on September 19, 2001, a 120-page report that attempts to take a comprehensive look at modern U.S. agriculture and to offer a set of "principles to guide policy development." The report, *Food and Agricultural Policy: Taking Stock for the New Century,* concludes, among other things, that:

- Farm policy should be tailored to reflect the wide differences among U.S. farms and farm practices. Current programs are tilted most heavily toward highly efficient commercial farms that enable them to expand operations and lower costs even more, with no direct relationship between benefits and a farm's financial status. Landowners, not necessarily farm operators, benefit the most through higher land values and farmland rental rates.
- Farm policy must promote "more sustainable prosperity" for farmers, relying on the market and not government for long-term support, although it could provide aid for "unexpected events" beyond control of farmers and ranchers.
- Trade policy not only must focus on more access to foreign markets, but also be supported by domestic policies that meet U.S. international obligations and provide the latitude "to pursue ambitious goals in trade negotiations." Domestic farm policy must not reduce competitiveness while seeking to expand farm export opportunities.

The report suggests that future policy should shift emphasis from traditional commodity price supports toward the demand side of agriculture – focusing on marketing and consumption, particularly overseas. Conservation programs, food safety and affordability, nutrition, and rural development also are addressed in the report, which can be viewed at the USDA web site: [http://www.usda.gov/news/pubs/farmpolicy01/fpindex.htm]. In releasing the report, Agriculture Secretary Veneman commented that "fundamental, far-reaching changes in policy, programs, procedures, and institutions may be required." She also emphasized that current farm policy does not expire until later in 2002 – implying that Congress should take more time to debate and pass a new bill. Following the release of the Administration's report, Senate Democrats, and, separately, the chairman and ranking minority member of the Senate Agriculture Committee, issued, in late September, their own lists of broad farm policy objectives.

Selected Issues

Farm Income and Commodity Price Support[1]

The 1996 farm bill significantly revised federal farm policy. Title I, the Agricultural Market Transition Act (AMTA), replaced production-based deficiency payments (the difference between legislated target prices and lower market prices) for wheat, feed grains,

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[1] Prepared by Geoffrey Becker and Jasper Womach, Specialists, Resources, Science, and Industry Division.

upland cotton, and rice with fixed "production flexibility contract" (PFC) payments. These payments are made irrespective of market prices or current planting choices. AMTA authorized $36 billion in PFC payments over the 7-year life of the law to producers with a participation history in the previous commodity programs. PFC contract payments are projected at $4.1 billion for FY2001. Previous annual supply controls, including crop-specific acreage bases and cropland set-asides, were ended by the 1996 law.

In addition, AMTA maintained the price guarantees of the marketing assistance loan program for contract commodities, soybeans and other oilseeds, and extra long staple (ELS) cotton. This counter-cyclical program makes up the difference between low market prices and specified commodity nonrecourse loan rates with direct payments. CCC net outlays for loan-related activities (including marketing loan gains, loan deficiency payments (LDPs), and commodity forfeitures) are projected at $6.6 billion in FY2001, according to USDA.

AMTA continued the market price support programs for sugar and peanuts, which operate through CCC loans and import quotas. The 1996 law also scheduled the elimination of the longstanding dairy price support program, but Congress has since continued it.

Persistently low commodity prices stimulated three years of large *ad hoc* emergency farm aid packages that have provided a total of approximately $17 billion in non-disaster related farm income assistance, over and above amounts already authorized by AMTA. Nearly $14 billion went to PFC contract holders. Much of the rest was for special subsidies for producers of soybeans, peanuts, tobacco, milk, honey, wool, and mohair. Congress has again provided additional "emergency" income support payments in FY2001 as provided for in the budget resolution (H. Con. Res. 83), which provides increased agriculture spending of $5.5 billion in FY2001. A bill (H.R.2213) providing this level of *ad hoc* funds for 2001 passed the House on June 26 and the Senate on August 3, and the President is signed it into law (P.L. 107-25) on August 13, 2001. The Senate Agriculture Committee on July 25 had approved a version (S. 1246) providing $7.494 billion. (See Supplementary Farm Support Payments for 2001 in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

Many policy makers and farm groups are now urging policy changes to provide a more certain method of funding future counter-cyclical income support than *ad hoc* laws. Except as noted, the options below mainly apply to policies for grains, cotton, and oilseeds.

PFC Payments. Most (although not all) producer groups have called for continuation of annual lump sum assistance like PFC payments. Some have recommended that the future annual fixed payments be larger than the 2002 level of $4 billion in the current law. Some want PFC eligibility expanded to include soybeans. One question is whether other commodity producers should share in any expanded AMTA funding – such as the tobacco, peanut, milk, wool, mohair, apple, and cranberry producers who recently received direct payments under the emergency assistance laws. Another is whether the basis for awarding PFC payments ought to be revised (e.g., by using more recent planting histories, allowing entry of farmers who did not produce contract crops when AMTA was adopted in 1996, etc.). Or, should an entirely different basic approach to subsidizing farmers, if any, be considered?

Counter-cyclical Assistance. There is growing interest in a new counter-cyclical assistance program that is more generous than now provided through marketing loans.

Various proposals differ in detail but share a common objective of providing more support when farm prices and/or incomes decline than provided under current law.

For example, the Commission on 21st Century Production Agriculture recommended "Supplemental Income Support" (SIS) payments when national aggregate PFC-crop gross income falls below some proportion of an earlier base period. Others have called for more targeted counter-cyclical aid. The American Farm Bureau Federation (AFBF) has recommended that such payments be made when any state's (as opposed to national) gross cash receipts for a particular PFC commodity fall below a recent average level.

Marketing Loan Assistance. There appears to be wide support to continue marketing assistance loans (including loan deficiency payments or LDPs). However, several groups have called for higher loan rates. Others have proposed "re-balancing" current loan rates by raising them to a level equivalent to soybeans (which are not currently a PFC commodity). Another question is whether marketing loans should be extended to currently ineligible commodities (e.g., fruits, vegetables, milk, tobacco) or to commodities that became temporary beneficiaries under the recent *ad hoc* funding packages (wool, mohair, honey).

Supply Management. Most major agricultural groups oppose any restoration of supply management tools. However, the National Farmers Union and the National Farmers Organization are proposing voluntary set-asides for crops – with loan rates increasing as more acres are removed from production – and also commodity reserve programs that (when prices are low) pay producers to store crops on the farm until prices rise.

Price-Supported Commodities. Support programs for tobacco, peanuts, sugar, and milk maintain farm prices above what the market might otherwise dictate. Nonrecourse loans and marketing quotas apply to virtually all U.S. tobacco and to all peanuts grown for domestic edible use. Sugar utilizes nonrecourse loans and tariff rate quotas to support prices and limit less expensive imports. Milk price support is provided through direct USDA purchases of dairy products at specified prices, milk marketing orders (which pool receipts and set classified prices for most fluid grade milk), and, in New England, the Northeast Interstate Dairy Compact (which allows producers there to receive higher prices than the national level). At issue for Congress is whether to maintain, modify, or eliminate these programs, which WTO considers highly market distorting. Supporters contend that these programs are effective in maintaining farm incomes and low cost to taxpayers. Some consideration is being given to direct payments as either an alternative or supplement to price support.

"Green" Payments. Some contend that farmers' incomes can be enhanced through so-called green payments, which provide financial incentives based not on the commodities they produce, but rather in exchange for practices that protect land, water, air quality, and/or wildlife; or possibly offer scenic, recreational, or open space amenities. (See "Conservation and Environment," below.)

House Committee Bill. The committee bill proposes the following provisions for ***grains, cotton, and oilseeds***:

- Fixed, decoupled payments (like the current PFC payments) at rates shown in the table, with a per-person payment limit of $50,000 per year.

- New counter-cyclical deficiency payments that make up the difference between a crop's average market price plus the fixed decoupled payment, and its "target price." Target prices are shown in the accompanying table. The per-person payment for this subsidy would be limited to $75,000 yearly.
- Continuation of marketing assistance loans (and LDPs) at current rates, except that the soybean rate would be lowered to $4.92/bu. (see table). A payment limit of $150,000 per year would be applied to marketing loan benefits.
- A producer's decoupled payments and counter-cyclical payments would be set at 85% of their current or updated AMTA base acres and AMTA crop yields.
- Continued flexibility to plant most crops (except fruits and vegetables) on base acres, and no USDA acreage control authority.

Loans, Fixed Decoupled Payments & Target Prices (Dollars per Unit)

Crop	Loan Rates	Fixed Payments	Target Prices
Wheat (bu.)	2.58	0.53	4.04
Corn (bu.)	1.89	0.30	2.78
Sorghum (bu.)	1.89	0.36	2.64
Barley (bu.)	1.65*	0.25	2.39
Oats (bu.)	1.21*	0.025	1.47
Upland cotton (lb.)	0.5192	0.0667	0.736
Rice (cwt.)	6.50	2.35	10.82
Soybeans (bu.)	4.92	0.42	5.86
Minor oilseeds (lb.)	0.087	.0074	0.1036

Source: House Committee on Agriculture. *Set by formula based on value relative to corn.

A new ***peanut*** program would be similar to other crop support, with fixed decoupled payments of $36/ton, a target price of $480/ton, and loan rate of $350/ton; marketing quotas would be ended, with compensation of $200/ton paid to quota holders for lost asset values. Also, ***sugar*** support at 18¢/lb raw and 22.9¢ refined would continue with the no-net-cost rule re-established, a payment-in-kind program and marketing allotments authorized, and no marketing assessment. ***Dairy*** would continue at its current support level of $9.90/cwt.; Marketing loans and LDPs would be provided at rates of $1/lb. for ***graded wool***, 40¢/lb. For ***nongraded wool***, $4.20/lb. for ***mohair***, and 60¢/lb. for ***honey***.

The total 10-year additional cost (above baseline) of the bill's commodity provisions were estimated by CBO to be $49.8 billion. (See: CRS Report RS20271, *Grains, Cotton, and Oilseeds: Federal Commodity Support*; CRS Report RS20848, *Farm Commodity Programs: A Short Primer*; CRS Report RS20913, *Farm Counter-Cyclical Assistance*; and Farm Income and Commodity Price Support Programs, Sugar Program, Peanut Program, and What Is "Counter-Cyclical Assistance"? in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

Conservation and Environment[2]

A farm bill conservation title might both amend existing programs and add new ones to protect or restore resources on agricultural lands and provide resource and environmental benefits to society. USDA agencies implement conservation policies through a combination of land use contracts, cost sharing payments, and technical assistance, backed by education and research. Participation in these programs is voluntary.

Starting with the omnibus farm bill in 1985, Congress expanded the conservation mission greatly beyond its traditional focus on controlling soil erosion and providing water to enhance production. The goals now include wetlands protection, wildlife habitat protection and development, and air and water quality improvement, among others. Since the 1996 farm bill was enacted, new issues have emerged, including the role agriculture might play in sequestering carbon, protection and restoration of grasslands, reduction of non-point water pollution caused by vary large animal feeding operations, and other "off-farm" impacts. For example, to what degree is nutrient run-off in the corn belt contributing to the growth of a seasonal "dead zone" in the Gulf of Mexico?

Congress has added new conservation tools, including controls over environmentally fragile lands and wetlands for producers who want to receive federal farm benefits, and easements to protect resource values while keeping the land under the control of the farmer.

The expanded conservation effort is reflected in funding levels. Conservation activities received just over $1 billion in FY1985 and now receive more than $3 billion annually. However, most of this growth has been for land retirement and easements (e.g., the Conservation Reserve and Wetlands Reserve Programs, CRP and WRP), while the other activities have grown little or not at all in real terms. (See CRS Report RL30331, *Conservation Spending in Agriculture; Trends and Implications* for a tabulation of programs and review of spending over the past 20 years.)

Numerous programs are scheduled to expire by the end of FY2002. During several days of hearings by the agriculture committees, farm groups generally have suggested only enlarging the size of existing programs to increase the flow of conservation funds to producers. Other interest groups, while supporting some of the farmer proposals, have recommended alternatives. One broader approach encompassing the idea of "green payments" is the Conservation Security Act (S. 932, Harkin; H.R. 1949, Thune). An alternative to the House committee-reported bill (see below), endorsed by many environmental organizations, is the Work Lands Stewardship Act (H.R. 2375, Kind). The Kind bill reportedly is being revised and may be offered as a floor amendment to H.R. 2646.

House Committee Bill. Title II of H.R. 2646 proposes new spending of $16.1 billion for conservation (a 75% increase over baseline). Changes from current programs include: reauthorization through 2011 of the CRP with a new 39.5 million acre enrollment cap, and of the WRP with an added 150,000 acres enrolled per year; extension of the Environmental Quality Incentives Program (EQIP) through 2011 at $1.2 billion annually (with $675 million in EQIP to address groundwater conservation issues plus explicit authority to use EQIP for

[2] Prepared by Jeffrey Zinn, Specialist, Resources, Science, and Industry Division.

annual and perennial crops (e.g., tree fruits or nuts)). The bill also: moves some conservation programs from the Natural Resources Conservation Service to the Farm Service Agency; reauthorizes the Wildlife Habitat and Incentives Program and Farmland Protection Program at, respectively, $25 million and $50 million annually; authorizes a new 2 million acre Grasslands Reserve Program under 10, 15, and 20-year contracts; provides up to $100 million annually (to $850 million over 10 years) for conservation technical assistance to producers using government or private contractors; and $150 million for small watershed dam restoration, among other provisions. Committee staff reportedly is preparing numerous changes to the conservation title that may be offered as a manager's amendment on the House floor. (See CRS Issue Brief IB96030, *Soil and Water Conservation Issues*; CRS Report RL31131, *Selected Conservation Proposals for the Next Farm Bill*; and Conservation and Environment in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

Foreign Trade and Food Aid

Exports are viewed by most U.S. agricultural groups as critical to their prosperity. Thus, trade titles in omnibus farm bills are important vehicles for addressing agricultural trade problems, export assistance, and foreign food aid programs. Other policy venues also are important. For example, negotiations are under way in the World Trade Organization (WTO) to strengthen multilateral agricultural trade rules. Regional and bilateral trade negotiations also will affect conditions of competition for U.S. farm products.

Provisions of the 1996 Law. Title II of the 1996 farm bill extended and amended the major U.S. foreign food aid and agricultural export programs. It reauthorized through FY2002 Titles I, II, and III of P.L. 480 (the Food for Peace program), which respectively provide concessional financing of U.S. agricultural exports, commodity donations for humanitarian and development activities, and bilateral development grants of food. The farm bill extended to FY2002, at previously authorized funding levels, export credit guarantees for agricultural sales (the so-called GSM programs). It also extended, at reduced spending levels, the Export Enhancement Program (EEP, an export subsidy program) and the Market Access Program (MAP, which assists in the export promotion of U.S. farm products), as well as the Foreign Market Development Cooperator Program (FMDP).

Selected Issues. In renewing the food aid and export assistance programs, the 107th Congress again is confronted with questions of policy direction and funding. Levels of spending and volumes of product subsidized under EEP and the Dairy Export Incentive Program (DEIP) are subject to limitations under the URAA. In practice, EEP has been used very little in recent years; DEIP has been used to the limits of the URAA. Market promotion programs like MAP, the food aid programs, and export credits (GSM) are not considered to be trade distorting under the current URAA, and therefore are not subject to spending disciplines. Foreign trading partners counter that the United States has utilized food aid and export credits as ways to dispose of heavily subsidized farm surpluses, thereby distorting trade. So, during the reauthorization deliberations, spending and program design might hinge not only on domestic questions such as budget impact but also trade considerations.

Some have questioned whether export subsidy and promotion support actually increases overseas sales or simply displaces those that would have occurred anyway. Even if sales increase, do they lead to substantially higher farm prices and incomes – or might direct farm subsidies be more cost-effective? Some critics claim that these programs benefit primarily large food and export companies (who can afford to pay for promotion activities themselves) or foreign buyers more than U.S. producers. Defenders cite studies claiming positive outcomes from such spending. Similar questions arise with regard to foreign food aid.

One issue is the performance of the $300 million pilot Global Food for Education Initiative, launched by the outgoing Clinton Administration to help establish school and pre-school food programs in developing countries. Members' perception of its value to farmers and recipients could help determine whether or not to authorize a more permanent program.

The farm bill also could be a vehicle for further congressional guidance on objectives and strategy in multilateral and/or bilateral trade negotiations. U.S. agricultural groups generally expect trade negotiations to open new markets. However, some segments of agriculture – e.g., dairy, peanut, sugar, and certain fruit and vegetable producers – could fear the prospect of increased imports under an agreement that reduces trade barriers.

House Committee Bill. Title III of H.R. 2646 would reauthorize MAP, FMDP, P.L. 480 Food for Peace, Food for Progress (FFP), export credit guarantees, EEP, and DEIP through 2011, with spending increases in some. For example, the MAP authorization would be more than doubled, to $200 million per year (from a current $90 million), and FMDP would be authorized at $35 million annually; FFP transportation and administrative funding also would be increased. In other trade-related action, the committee, during mark-up, adopted an amendment to make leaf tobacco eligible for MAP funds, but rejected another that would have imposed more stringent country-of-origin labeling requirements on red meat, fruits, vegetables, and farm-raised fish. Another committee provision authorizes $3 million annually in CCC funds to establish a program aimed at removing sanitary, phytosanitary, and related barriers to trade in specialty crops. Total additional 10-year cost (above baseline of the trade provisions was estimated by the CBO to be $3.8 billion.

The House International Relations Committee, to which H.R. 2646 also was referred, changed a number of the trade provisions during a mark-up session on September 6, 2001. The panel would: explicitly authorize (although not require) USDA to operate a global school food program, which is not in the Agriculture Committee version; set annual funding for MAP at $180 million; set FMDP funding at $40 million annually; and did not accept the Agriculture Committee's plan to make tobacco eligible for MAP funds, among other differences. The International Relations Committee approved a 6-year rather than 10-year reauthorization for trade programs. Presumably, differences in the two panels' versions will be resolved prior to floor action.

(See CRS Issue Brief IB10077, *Agricultural Trade Issues in the 107th Congress*; and Agricultural Trade and Foreign Food Aid in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

Farm Credit and Finance[3]

Omnibus farm bills commonly contain a credit title that makes policy changes to USDA agricultural credit programs and addresses issues that relate to commercial lenders such as

[3] Prepared by Ralph Chite, Specialist, Resources, Science and Industry Division.

the Farm Credit System (FCS, a confederation of federally chartered, member owned banks and associations) and commercial banks. Credit is an important production input for many farmers. Long-term credit is used to finance purchases of real estate, and shorter-term loans finance production expenses such as livestock, seed, feed and fertilizer.

USDA's Farm Service Agency (FSA) serves as a lender of last resort to eligible family-sized farmers whose financial condition is too weak to permit them to obtain commercial credit. FSA provides direct loans to farmers and also guarantees the timely repayment of principal and interest on certain loans made by commercial lenders. FSA makes and guarantees real estate and operating loans, and also makes direct emergency disaster loans. These loan programs have permanent authority under the Consolidated Farm and Rural Development Act, and unlike the farm commodity programs, do not require periodic reauthorization. However, Congress frequently uses the farm bill to make changes to loan program terms, conditions, and eligibility requirements.

The condition of the farm economy will be important to consideration of farm bill credit issues. For example, if low commodity prices and/or high energy and other input costs undermine the creditworthiness of farm borrowers, Congress might consider a further postponement of borrower graduation requirements, as well as other forms of forbearance for FSA loan customers. (Among other provisions, the credit title of the omnibus 1996 farm bill limited the number of years a borrower could remain a customer of FSA before being required to "graduate" to a commercial lender.)

House Committee Bill. Title V, the credit title of H.R. 2646, requires some program operational and administrative changes, and alters or expands certain eligibility and benefit provisions for FSA farm loans. Among the major provisions are a removal (through the end of 2006) of the requirement that an FSA borrower has to "graduate" to a commercial lender; extend authority through 2011 requiring USDA to earmark a certain portion of FSA loans for beginning farmers; and, to offer an interest-rate buydown program on certain loans. Additionally, Title V would respond to several recent occurrences by allowing a farmer to be eligible for an FSA emergency disaster loan to mitigate the effects of increased energy costs and USDA imposed animal quarantines, and allow loans for horse breeders who suffered losses as a result of mare reproductive loss syndrome.

Rural Development[4]

The 1972 Rural Policy Act (P.L. 92-419) designates USDA as the lead federal agency for coordinating rural development. The stated mission of the rural development agencies within USDA is to enhance rural communities by targeting financial and technical resources in areas of greatest need. Four agencies in USDA are responsible for the mission area: the Rural Housing Service (RHS), the Rural Business-Cooperative Service (RBS), the Rural Utilities Service (RUS), and the Office of Community Development, which provides community development support through Rural Development's field offices. The mission area also administers the rural portion of the Empowerment Zones and Enterprise Communities Initiative and the National Rural Development Partnership.

[4] Prepared by Tadlock Cowan, Visiting Scholar in Economic Growth and Entrepreneurship, Resources, Science, and Industry Division.

The rural development title of past farm bills has supported local business development and expansion and the physical infrastructure of rural areas, e.g., subsidies for housing, electricity, telephones, water and waste disposal, and community facilities. More recently, policymakers have pushed for programs that support innovative and alternative industry development, enhanced telecommunications access, as well as new funding mechanisms. Pressure for such alternatives is expected to continue as policymakers recognize the changing structure of agriculture and the diversity of rural communities. Some rural areas have grown and prospered during the last decade, particularly those within commuting distances of metro areas. Other rural areas are falling further behind as their primary industries (including agriculture) either decline or adapt to a global marketplace and economy that often means fewer employment opportunities and lost population, especially in farm-dependent areas.

Local investment strategies, notably value-added agriculture – e.g., regional food processing plants, cooperatives, organic farming – are being promoted by many in the farm sector. While holding promise for agriculture and surrounding communities, there are limits on how many yogurt plants, small dairy processors, or food processors can be supported by these local economies, especially with increasingly global competition in these sectors.

Thus, the kinds of rural entrepreneurship seen in the past (e.g., in the above types of value-added enterprises) may give way to future forms of rural entrepreneurship that build around new, or previously ignored resources. Among the possibilities are investment in environmental entrepreneurship or environmental capital, public-private development of carbon emission markets and sustainable land management innovations tied to national (clean water) and international agreements (carbon emissions), and environmentally sensitive land use for non-agricultural purposes (e.g., recreation). New forms of agricultural production and marketing, particularly agriculture within metro regions, also suggest future possibilities for enhancing rural opportunities. (See Rural Development in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

House Committee Bill. Title VI of H.R.2646 provides $2.6 billion in estimated budget authority for rural development in FY2002-2011, of which about $1 billion is funding for new programs. Section 601 of the Title proposes new mandatory spending of $20 million per fiscal year for grants and loans to provide or improve broadband services to rural areas of less than 25,000 population. Section 602 amends the 2000 Agricultural Risk Protection Act (P.L. 106-224) to permit $50 million to be used for value-added agricultural development grants for each fiscal year 2002-2011. Not less than $5 million of this funding for FY2002 and not less than $10 million for FY2003-2004 is provided for grants to establish Agriculture Innovation Centers for technical assistance to value-added agricultural businesses. For each fiscal year 2002-2011, $30 million is provided from the funds of the Commodity Credit Corporation for Community Water Assistance Grants, which extends spending for this program to 2011 and makes the funding mandatory. A new Pilot Program for Strategic Regional Development Plans and Implementation provides mandatory spending on planning grants of $2 million and implementation grants of $13 million for each fiscal year 2002-2011 to ten rural communities in states with a large proportion of rural residents. Loan limits are increased from $25 million to $100 million for certain other rural development loan programs; and loans and guarantees for renewable energy systems are also revised. Section 615 of Title VI establishes a new National Rural Development Partnership composed of the Coordinating Committee and the state rural development councils. Finally, the Title VI provides $2 billion in program level funding for loan guarantees to implement the Launching Our Communities Access to Local Television Act of 2000.

Agricultural Research, Extension, and Education[5]

1996 Farm Bill. Title VIII of the 1996 farm bill authorized USDA's agricultural research, extension, and education programs and modified public agricultural research policy. Also, a research-related provision in the rural development title of the 1996 Act authorized a competitive grants program (the Fund for Rural America) to support rural development projects and rural-focus research projects. Although not subsequently fully funded by appropriators, the Fund marked a significant change in that federal money for the program ($100 million annually for 3 years, of which roughly one-third was for research grants) was to be transferred directly to USDA from the U.S. Treasury instead of being appropriated.

1998 Research Legislation. In 1998 Congress passed separate legislation superseding Title VIII of the 1996 farm bill, making several significant reforms and reauthorizing USDA's research, extension, and education programs through 2002. The Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185) extended the new provisions contained in the 1996 farm bill (including the Fund for Rural America) and adopted additional policy changes to: (1) require greater accountability for program relevance and merit on the part of institutions receiving federal funds; (2) increase the funding authority for multi-state research projects; (3) phase in a matching funds requirement for the 1890 (historically black) colleges; and, (4) authorize several new research programs. Of the latter, the most significant is a 5-year, $600 million Initiative for Future Agriculture and Food Systems, a competitive grants program intended to promote cutting-edge research in the areas of genomics, biotechnology, food safety, new uses for agricultural products, natural resource management, and farm profitability. Congress authorized funding for the program – $120 million annually – to come directly from savings in mandatory spending stemming from reforms made in the food stamp program in 1997.

Selected Issues. In part because of difficulties in obtaining consistent financing for the innovative funding mechanisms authorized in the 1996 farm bill and the 1998 research reform law (the Fund for Rural America and the Initiative for Future Agriculture and Food Systems), a primary research policy issue in the current farm bill debate is funding. In June, a bipartisan group of 49 House members, including 24 from the House Agriculture Committee, wrote to Agriculture and Appropriations Committee leaders urging that a portion of the budget increase set aside for agriculture be used to double funding for research programs over the next 5 years, including $500 million in the coming year. (See CRS Report 97-325, *Agricultural Research, Education, Extension and Economics Programs: A Primer*.)

House Committee Bill. Title VII (Research and Related Matters) of H.R. 2646 reauthorizes research programs through 2011; this includes the Initiative for Future Agriculture and Food Systems at $120 million annually through FY2011. In addition, it seeks to increase funding for the 1890 colleges by gradually increasing the matching funds requirement from its current level of 50%, to 60% in 2003 and to 100% in 2007 (rising in 10% increments from 2003). The bill also initiates a 50% matching funds requirement for the

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[5] Prepared by Jean M. Rawson, Specialist, Resources, Science, and Industry Division.

land grant colleges in the U.S. territories (Puerto Rico, Virgin Islands, Guam, American Samoa, No. Mariana Islands, and Micronesia), and establishes a competitive grants program to strengthen the teaching programs at those colleges (plus institutions in the Republic of the Marshall Islands and the Republic of Palau). Title VII contains a new subtitle that amends the Research Facilities Act (7 U.S.C. 390 et seq.) to permit the assessment of civil penalties to cover damage from violence against agricultural research facilities.

Food Stamps and TEFAP[6]

Appropriations authorizations and other authorities related to the Food Stamp program and The Emergency Food Assistance Program (TEFAP) expire at the end of FY2002.

Food Stamp Issues. Although food stamp enrollment appears to have leveled off (and may be increasing), it has fallen dramatically (by nearly 40%) over the last 7 years. But less than half this decline can be linked closely to loss of eligibility because of an improved economy and increased earnings or the significant new restrictions put in place by the 1996 welfare reform law. Over half came from a sharp drop in the rate at which those who are eligible actually participate. And participation rates appear to be notably low among working poor families with children and the elderly.

At the same time, states, program advocates, and supporters of the 1996 welfare reform law (with its goal of moving families from welfare to work) maintain, to different degrees, that aspects of food stamp eligibility, benefit, and administrative rules serve to thwart participation and effective administration and deny needed support to working poor families and the elderly. They point to what they see as overly complex policies and food stamp rules that differ from those applied by states in administering Temporary Assistance for Needy Families (TANF) block grants and Medicaid. They also see a food stamp "quality control" system that penalizes states too harshly for erroneous benefit/eligibility determinations (pressuring them to "over-administer" the program) and inadequate benefits (especially for families with children and the elderly) that are not worth the "hassle" of applying and maintaining eligibility for.

Separately, some worry about the continued ineligibility of many legally resident noncitizens. While 1998 amendments restored eligibility to some made ineligible for food stamps by the 1996 welfare reform law, and several states are funding food stamps for others, over 400,000 legally resident noncitizens remain ineligible – and participation by eligible citizen children with legally resident noncitizen parents has declined greatly since 1996.

Food Stamp Reform Agendas. Program advocates, states, and welfare reform advocates all are dissatisfied, but there is not a unified reform agenda, and most alternatives would impose significant new costs. *States* call for simplified federal food stamp rules, much greater state control over program policies, and more standardized benefit/eligibility rules that will make it easier on both administrators and applicants/recipients. They also want major revision of the quality control system. *Program advocates* emphasize the inadequacy of benefits and the need to restore eligibility to noncitizens. Although they support reform of the quality control system and selective changes to make eligibility/benefit determinations

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[6] Prepared by Joe Richardson, Specialist, Domestic Social Policy Division.

simpler for applicants, they resist vesting much more decision-making with states and tampering with what they see as a food stamp "safety net." *Welfare reform supporters* also agree with quality control reforms, but stress the need to ensure that the Food Stamp program fulfills a major role in supporting the working poor as a first priority.

A description of state-supported initiatives can be found in the American Public Human Services Association's "Crossroads" report on welfare reform reauthorization. Program advocates' proposals are incorporated in the Nutrition Assistance for Working Families and Seniors Act (S. 583/H.R. 2142) and Title VI of the Leave No Child Behind Act (S. 940/H.R. 1990). These include provisions similar to, but more extensive than, the four structural changes in H.R. 2646. They *also* encompass restoration of food stamp eligibility to all legally resident noncitizens, a benefit increase for child support recipients, larger benefits for those with very high shelter costs, changing food stamp rules for redetermining eligibility to conform to those used in Medicaid, an increase in minimum monthly benefits for small households (primarily elderly), and a series of outreach efforts.

TEFAP. Federal food donations under TEFAP have recently increased, and private-sector donations to emergency feeding organizations are on the rise. But many contend that federal help has not kept pace with growing demand and is well below what would be required in a serious economic downturn. Perhaps more important, they argue that costs for storing and distributing food given out by state/local providers (whether privately or federally donated) are seriously underfunded.

House Committee Bill. Title IV of H.R. 2646, the House Agriculture Committee's farm bill, reauthorizes all expiring food stamp authorities and the appropriations authorization through FY2011. It also includes 4 significant structural changes intended to increase benefits to families with children and ease burdens on administrators and applicants/recipients – at a cost of $3.25 billion through FY2011. Benefits to households of four or more persons are raised modestly. Administrative burdens are lightened by allowing states to conform the way they count income for food stamp purposes to the method they use in either their TANF or Medicaid program and by allowing them to provide "transitional food stamp benefits" for 6 months to families leaving TANF for work. Finally, the quality control system is substantially revamped by raising the threshold above which states are penalized for erroneous benefit/eligibility determinations, imposing sanctions only after a state has exceeded the threshold for a third consecutive year, and instituting new "bonus" payments to states that lead in providing quick service to recipients and have low rates of improper denials.

For TEFAP, the House Committee's farm bill reauthorizes funding for food purchases and distribution costs through FY2011 and increases annual funding by $40 million a year, $10 million of which is earmarked for distribution costs. (See CRS Report 98-59, *Food Stamps: Background and Funding*, CRS Report RL30164, *The Emergency Food Assistance Program and Emergency Feeding Needs*, and Food Stamps and TEFAP in the CRS Electronic Briefing Book on Agriculture Policy and Farm Bill.)

Other Provisions

Forestry. The House Agriculture Committee farm bill (H.R. 2646) contains a forestry title (Title VIII), and a forest management section under miscellaneous provisions (Title IX). Under the forestry title, the existing, overlapping Forestry Incentives and Stewardship

Incentive Programs would be replaced with a coordinated Forest Land Enhancement Program to provide cost-sharing to private landowners for planning and implementing sustainable forestry practices, with $15 million annually in mandatory appropriations. The Renewable Resources Extension Act and Forest Service's Office of International Forestry would be reauthorized through 2011. The existing wildfire protection assistance programs would be expanded with additional authority to cooperate with state foresters and private landowners on activities to protect intermingled government-private lands from wildfire. Another section would authorize "stewardship end result contracts," under which the Forest Service (and the Interior Department) could require timber purchasers to reduce wildfire fuel levels, essentially trading goods (timber) for services (fuel reduction). Finally, under a section in Title IX, the Secretaries of Agriculture and of the Interior could make grants to biomass-to-energy facility operators "to offset the costs incurred to purchase" potentially hazardous wildfire fuels. (See CRS Report RL31065, *Forestry Assistance Programs*.)