

## **Title 1 -- Section By Section Analysis**

(Includes changes proposed in the Chairman's En Bloc technical amendment)

### **SUBTITLE A – DIRECT PAYMENTS AND COUNTER CYCLICAL PAYMENTS**

#### **SEC. 1001. DEFINITIONS**

Section 1001 sets out definitions of various terms used in the bill.

“Base acres” means the number of acres established by the 2002 farm bill as in effect one day before enactment of this bill.

“Counter-cyclical payment acres” means 85 percent of the base acres for a covered commodity on which counter-cyclical payments are made.

“Direct payment acres” means 85 percent of the base acres for a covered commodity on which direct payments are made.

Amends definition of “loan commodity” by replacing rice with long grain, short grain, and medium grain rice, and by replacing barley with feed barley and malt barley.

Amends definition of “payment yield” to mean the yield established for direct and counter-cyclical payments under the 2002 farm bill as in effect one day before enactment of this bill.

Adds definition of “Far East Price” and two definitions dealing with cotton quality and premiums: “United States Premium Factor,” which means the difference between the premiums offered by the U.S. loan schedule for certain grades of cotton in excess of the premiums for comparable international grades delivered cost and freight to the Far East market; and “Comparable United States Quality”, which states a classification standard for upland cotton which contains a slight premium for uniformity and falls within an acceptable range – to avoid a discount – for fiber wall thickness.

#### **SEC. 1101. ADJUSTMENTS TO BASE ACRES**

Although updating of base acres or payment yields is generally NOT allowed under this bill, section 1101(a) continues the 2002 farm bill's provisions regarding Treatment of Conservation Reserve Contract Acreage. This allows the Secretary to provide base acre adjustments when a conservation reserve contract ends.

Section 1101(b) continues the 2002 farm bill's provisions allowing the Secretary to reduce base acres when the sum of the farm's base acres and the farm's other acreage enrolled in certain conservation programs exceeds the actual cropland acreage of a farm.

Section 1101(c) continues the 2002 farm bill's provisions allowing a farmer to permanently reduce the base acres on a farm.

#### SEC. 1102. AVAILABILITY OF DIRECT PAYMENTS

Section 1102(a) authorizes direct payments for 2008-2012 crop years in same manner as in 2002 Farm Bill.

Section 1102(b) maintains direct payment rates as in 2002 Farm Bill.

Section 1102(d) allows advanced direct payments of up to 22 percent for 2008-2012 crop years and requires repayment of direct payments under same conditions as 2002 Farm Bill.

#### SEC. 1103. AVAILABILITY OF COUNTER-CYCLICAL PAYMENTS

Section 1103(a) and (b) authorize counter-cyclical payments and establish the effective prices for covered commodities for 2008-2012 crop years in same manner as in 2002 Farm Bill.

Section 1103(c) establishes target prices as follows:

Wheat, \$4.15 (**23 cents above 2002 Farm Bill price**)

Corn, \$2.63 (Same as 2002 Farm Bill price)

Grain Sorghum, \$2.57 (Same as 2002 Farm Bill price)

Barley, \$2.32 (**8 cents above 2002 Farm Bill price**)

Oats, \$1.50 (**6 cents above 2002 Farm Bill price**)

Upland Cotton, \$0.70 (**2 cents below 2002 Farm Bill price**)

Rice, \$10.50 (Same as 2002 Farm Bill all rice price)

Soybeans, \$6.00 (**20 cents above 2002 Farm Bill price**)

Other oilseeds, \$0.1150 (**1.4 cents above 2002 Farm Bill price**)

Section 1103(d) and (e) maintain the 2002 Farm Bill formulas for payment rates and amounts but reflect the new target prices in 1103(c).

Section 1103(f) allows for partial counter-cyclical payments of up to 40% for 2008-2012 crop years and requires repayments of such under same conditions as 2002 Farm Bill.

#### SEC. 1104. PRODUCER AGREEMENT REQUIRED AS CONDITION OF PROVISION OF DIRECT PAYMENTS AND COUNTER-CYCLICAL PAYMENTS

Section 1104(a) requires producers receiving direct and counter-cyclical payments to use the land for an agricultural or conserving use, comply with planting flexibility requirements, comply with certain conservation requirements, and to control noxious weeds and otherwise maintain the land in accordance with sound agricultural practices.

Section 1104(b) through (e) maintain 2002 farm bill requirements governing transfer of interest, acreage reports, tenants and sharecroppers, and sharing of payments.

#### SEC. 1105. PLANTING FLEXIBILITY

Section 1105 maintains 2002 Farm Bill provisions restricting the planting of fruits and vegetables on base acres except that it establishes a pilot Farm Flex project in Indiana, under which tomatoes may be planted on up to 10,000 base acres.

#### SEC. 1106. PERIOD OF EFFECTIVENESS

Section 1106 authorizes the previous sections for 2008 through 2012 crop years.

### **SUBTITLE B—MARKETING ASSISTANCE LOANS AND LOAN DEFICIENCY PAYMENTS**

#### SEC. 1201. AVAILABILITY OF NONRECOURSE MARKETING ASSISTANCE LOANS FOR LOAN COMMODITIES

Section 1201 authorizes nonrecourse loans for loan commodities for 2008-2012 crop years in same manner as 2002 Farm Bill. Includes requirement that producers comply with certain conservation requirements.

#### SEC. 1202. LOAN RATES FOR NONRECOURSE MARKETING ASSISTANCE LOANS

Section 1202 establishes two loan rates for rice, a long grain rice loan rate and a combined medium and short grain rice loan rate. And two loan rates for barley: a feed barley rate and a malt barley rate. It deletes 2002 Farm Bill provisions requiring that loan rates for dry peas, lentils and small chickpeas be based on feed peas, number 3 lentils, and number 3 small chickpeas. It sets loan rates as follows:

- Wheat, \$2.94 **(19 cents above 2002 Farm Bill rate)**
- Corn, \$1.93 **(2 cents below 2002 Farm Bill rate)**
- Grain Sorghum, \$1.93 **(2 cents below 2002 Farm Bill rate)**
- Feed Barley, \$1.93 (8 cents above 2002 Farm Bill all barley rate)**
- Malt Barley, \$2.50 (65 cents above 2002 Farm Bill all barley rate)**
- Oats, \$1.39 **(6 cents above 2002 Farm Bill rate)**
- Upland Cotton, \$0.50 **(2 cents below 2002 Farm Bill rate)**
- Extra long staple cotton, \$0.7977 (Same as 2002 Farm Bill rate)
- Long grain rice, \$6.53 **(3 cents above 2002 Farm Bill all rice rate)**

Medium/short grain rice, \$6.53 (**3 cents above 2002 Farm Bill all rice rate**)

Soybeans, \$5.02 (**2 cents above 2002 Farm Bill rate**)

Other oilseeds, \$.0.1070 (**1.4 cents above 2002 Farm Bill rate**)

Dry Peas, \$5.40 (**82 cents below 2002 Farm Bill rate**)

Lentils, \$11.28 (**44 cents below 2002 Farm Bill rate**)

Small Chickpeas, \$8.54 (**\$1.11 above 2002 Farm Bill rate**)

### SEC. 1203. TERMS OF LOANS

Section 1203 continues the provisions of the 2002 Farm Bill on the terms of loans: 9 months; no extensions.

### SEC. 1204. REPAYMENT OF LOANS

Section 1204(a) establishes a general rule that loans may be repaid at the lesser of the rate established in section 1202, or a rate determined by the Secretary that will minimize forfeitures, accumulation of stocks, storage costs, market impediments, and discrepancies in benefits across State and county boundaries. It also excludes cotton, rice, and sunflower seeds (other than oil sunflower seeds) from the general rule on repayment of loans.

Section 1204(b) sets out repayment rates for upland cotton and rice. Loans may be repaid at the lesser of the rate established in section 1202, or the prevailing world market price for the commodity.

Section 1204(c) sets the loan repayment rate for extra long staple cotton at the rate established under section 1202 plus interest (same as 2002 Farm Bill).

Section 1204(d) requires the Secretary to issue regulations with formulas to determine the prevailing world market prices for cotton and rice, and requires mechanisms for adjustment and periodic announcements of such prices.

Section 1204(d)(1) specifies that USDA use price quotes from Far East market (rather than from Northern Europe, as in current law) to determine the prevailing world market price for upland cotton. "Far East Price" means the three lowest price quotes on the sale of upland cotton in Far East markets based on delivered cost and freight. The term Far East comes from a Cotlook – an independent firm that reports cotton market information – publication.

Section 1204(e) provides for adjustments to the prevailing world market prices for upland cotton and rice for quality and location. The Secretary currently makes such adjustments and the new provisions provide direction to the Secretary with regard to some of the adjustments.

Under section 1204(e)(2), adjustments to the prevailing world market price for cotton to reflect U.S. quality would include marketing costs (including transportation) and the premiums associated with Comparable United States

Quality and reflect any United States Premium Factor, which are both defined in section 1001. “United States Premium Factor” means the difference between the premiums offered by the U.S. loan schedule for certain grades of cotton in excess of the premiums for comparable international grades delivered cost and freight to the Far East market. “Comparable United States Quality” states a classification standard for upland cotton which contains a slight premium for uniformity and falls within an acceptable range – to avoid a discount – for fiber wall thickness.

Section 1204(f) lists a new set of criteria on which USDA may further adjust the prevailing world market price for upland cotton:

1. Minimizing loan forfeitures
2. Minimizing the accumulation of cotton stocks
3. Improving the marketing of upland cotton at home and overseas
4. Ensuring that U.S. upland cotton is competitive in world markets
5. Ensuring a seamless transition of the calculation of AWP from current crop prices to forward-crop prices, with some limitations

Section 1204(g) allows farmers who put their upland cotton in the loan to assign to a marketer of loan cotton the ability to ship the cotton prior to redeeming it from the CCC. The marketer becomes responsible for the loan and must repay the loan no later than 10 months after the date of the loan was issued. The marketer must also provide financial security against the loan. The producer has no further responsibility for the loan. The bill also grants Cooperative Marketing Association this assignment ability.

Section 1204(h) sets the repayment rate for sunflower seeds.

Section 1204(i) changes the 2002 Farm Bill provisions requiring repayment rates for dry peas, lentils and small chickpeas to be based on feed peas, number 3 lentils, and number 3 small chickpeas. Now they would be based on quality grades for those commodities.

#### SEC. 1205. LOAN DEFICIENCY PAYMENTS

Section 1205 authorizes loan deficiency payments for 2008-2012 crop years under same conditions as 2002 Farm Bill.

#### SEC. 1206. PAYMENTS IN LIEU OF LOAN DEFICIENCY PAYMENTS FOR GRAZED ACREAGE

Section 1206 authorizes payments in lieu of LDPs for producers who have grazed acreage for the 2008-2012 crop years under same conditions as 2002 Farm Bill.

#### SEC. 1207. SPECIAL MARKETING LOAN PROVISIONS FOR UPLAND COTTON

Section 1207 authorizes the President to issue special import quota for upland cotton if for a consecutive 4-week period the price of American cotton exceeds the price of cotton in the Far East markets. This is a change from current law, which is based on Northern Europe markets. Under current law, another trigger for this special import quota is a decline in the U.S. stock-to-use-ratio to below 16%. That trigger would be removed by this bill. The amount of cotton that can come into the U.S. under the special import quota during any marketing year is limited to the equivalent of 10 weeks consumption of upland cotton by domestic mills. This is a change from 5 weeks in current law.

Section 1207(b) continues a limited global import quota for upland cotton, as existed under the 2002 Farm Bill

Section 1207(c) authorizes the Secretary to issue marketing certificates or cash payments to domestic users of upland cotton for uses of all cotton regardless of origin. The payments or certificates will equal 4-cents per pound, and these payments can be used for acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities, or machinery.

#### **SEC. 1208. SPECIAL COMPETITIVE PROVISIONS FOR EXTRA LONG STAPLE COTTON**

Section 1208 authorizes through July 31, 2013 special competitive provisions for extra long staple cotton as they operated under the 2002 Farm Bill.

#### **SEC. 1209. AVAILABILITY OF RECOURSE LOANS FOR HIGH MOISTURE FEED GRAINS AND SEED COTTON**

Section 1209 authorizes recourse loans for these crops for the 2008-2012 crop years in same manner as under 2002 Farm Bill.

### **SUBTITLE F – ADMINISTRATION**

#### **SEC. 1601 ADMINISTRATION GENERALLY**

Section 1601 authorizes the use of the Commodity Credit Corporation in carrying out the provisions of title 1 and generally continues other administrative provisions of the 2002 Farm Bill.

#### **SEC. 1602 SUSPENSION OF PERMANENT PRICE SUPPORT AUTHORITY**

Section 1602 suspends the permanent price support authority of the Agricultural Adjustment Act of 1938 and Agricultural Act of 1949 for the 2008-2012 crops.

### SEC. 1603. PAYMENT LIMITS

Section 1603 amends the payment limit provisions of the 1985 Farm Bill by requiring direct attribution of benefits. Specifically, the new provisions define “entity” and “individual” and prohibit such individuals and entities from receiving direct payments of more than \$40,000 and countercyclical payments of more than \$65,000. Current limits of \$75,000 limits on marketing loan benefits are terminated after the 2007 crop year. All other provisions remain the same as under 2002 Farm Bill.

### SEC. 1604. ADJUSTED GROSS INCOME LIMITATION

Section 1604 contains continues provisions of the 2002 Farm Bill and adds a provision for a two year or extended denial of program benefits if Secretary determines person or entity is trying to avoid AGI limits.

### SEC. 1605. ADJUSTMENTS ON LOANS

Section 1605 authorizes the Secretary to make adjustments in the loan rate for cotton for differences in quality factors and requires the Secretary to revise the marketing assistance loan program for cotton to better reflect market values for cotton. Required revisions include:

1. Warehouse location differentials would be eliminated or revised to reflect market conditions
2. Changing the way premiums and discounts are calculated by using a 3-year weighted moving average of spot market data weighted by each region’s share of production. The current simple average of spot market data averaged 1-to-1 with the previous loan schedule inflates premiums out of alignment with market conditions.
3. Further caps on premiums based on leaf and color considerations
4. Eliminating gaps between premium and discount differentials based on certain fiber lengths

Section 1605 also provides for discretionary revisions in how USDA adjusts the loan rates schedule using non-spot market price data in addition to spot market data for cotton and eliminating gaps between premium and discount differentials based on certain longer fiber lengths. Section 1605 also encourages USDA consultation with the private cotton industry when making the mandatory and discretionary adjustments.

### SEC. 1606. PERSONAL LIABILITY OF PRODUCERS FOR DEFICIENCIES

Section 1606 extends an administrative provision of the 1996 Farm Bill exempting producers from liability for certain deficiencies in collateral.

SEC. 1607. EXTENSION OF EXISTING ADMINISTRATIVE AUTHORITY REGARDING LOANS

Section 1607 extends authority for producers to repay marketing loans with commodity certificates.

SEC. 1608. ASSIGNMENT OF PAYMENTS

Section 1608 continues requirement of the 2002 Farm Bill that assignment must be done in accordance with USDA regulations.

SEC. 1609. TRACKING OF BENEFITS

Section 1609 continues requirement of the 2002 Farm Bill that the Secretary must track the benefits provided under titles I and II of the Farm Bill.

SEC. 1610. COTTON STORAGE PAYMENTS

Section 1610 ends the practice of paying for upland cotton storage, handling and other costs associated with cotton going into the loan starting with the 2012 crop.

SEC. 1611. GOVERNMENT PUBLICATION OF COTTON PRICE FORECASTS

Section 1611 ends the current prohibition on the publication of cotton price forecasts.

SEC. 1612. TREATMENT OF FARMS WITH TOTAL BASE ACRES OF 10 OR LESS

Section 1612 makes farms with 10 total base acres or less ineligible for the direct and counter-cyclical payments.