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CRS Report for Congress

Farm Commodity Policy: Programs and Issues for Congress

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Summary

Farm commodity programs represent the heart of U.S. farm policy. The 2002 farm bill (P.L. 107-171) establishes farm income support and commodity price support programs for the 2002-2007 crop years. About 25 commodities representing a third of gross farm sales qualify for support. Five crops (corn, wheat, cotton, rice, and soybeans) account for over 85% of government commodity payments to farmers.

The 110th Congress will be making decisions about a new farm bill, and the Administration has issued its own recommendation. Planting flexibility (H.R. 1371), payment limits, and revenue counter-cyclical payments are key issues currently. The question is whether to continue with the current system or adopt different approaches in response to federal spending constraints, economic conditions, legal challenges from international trade agreements, and equity considerations. This report will be updated.

Since the 1930s, federal law has required the U.S. Department of Agriculture (USDA) to offer price and income support to producers of certain farm commodities. Authority comes from three permanent laws: the Agricultural Adjustment Act of 1938 (P.L. 75-430), the Agricultural Act of 1949 (P.L. 81-439), and the Commodity Credit Corporation (CCC) Charter Act of 1948 (P.L. 80-806). Congress typically alters these laws through multi-year omnibus farm bills or annual appropriations acts to address current market conditions, federal budget constraints, or other policy concerns.[1]

Like most farm bills, the 2002 farm bill (P.L. 107-171) temporarily suspends most provisions of the permanent law for five to six years. Title I contains provisions for farm income and commodity price support programs for the 2002-2007 crop years. Other titles in the law affect conservation, trade, nutrition, credit, rural development, and research.[2]

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[1] For more information about the history of federal farm income support programs, see CRS Report 96-900, *Farm Commodity Legislation: Chronology, 1933-2002.*

[2] The scope of a farm bill is summarized in CRS Report RL33037, *Previewing a 2007 Farm Bill*.

Commodities Eligible for Support

This report summarizes the subsidies that are available for about 25 agricultural commodities representing about one-third of gross farm sales. Five crops (corn, cotton, wheat, rice, and soybeans) account for about 90% of government payments. The largest 64,000 farms (3.1% of the total) have sales over $500,000 and produce 45% of production; they receive 27% of government payments. **Table 1** lists the support prices that Congress set by statute. Other CRS reports and USDA fact sheets provide details.[3]

- The "covered commodities" are the primary crops eligible for support and include **wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, and other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe,** and **sesame seed**). **Peanuts** are supported similarly. Farmers receive constant "direct payments" that are tied to historical production, and "counter-cyclical" and "marketing loan" payments that increase when market prices are low. For background on the types of payments and how they work, see CRS Report RL33271, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans.*

- "Loan commodities" include all of the "covered commodities" plus **wool, mohair, honey, dry peas, lentils,** and **small chickpeas**.

- **Dairy** prices are supported through federal purchases of nonfat dry milk, butter, and cheese. In addition, producers also receive a counter-cyclical "milk-income loss contract" (MILC) payment when prices fall below a target price. See CRS Report RL33475*, Dairy Policy Issues*.

- **Sugar** support is indirect through import quotas and domestic marketing allotments. No direct payments are made to growers and processors. See CRS Report RL33541, *Sugar Policy Issues*.

Commodities Not Eligible for Support

The list of commodities that normally do not receive direct support includes **meats, poultry, fruits, vegetables, nuts, hay,** and **nursery products** (about two-thirds of farm sales). Producers of these commodities, however, may be affected by the support programs because intervention in one farm sector can influence production and prices in another. For example, program commodities such as corn are feed inputs for livestock.

Congress and the Administration often provide periodic assistance to some non-program commodities. For example, the 2002 farm bill provided $94 million to apple growers for 2000 market losses, and $200 million annually to purchase fruits, vegetables, and specialty crops for food assistance (see CRS Report RS20235, *Farm and Food Support Under USDA's Section 32 Program*). Other food assistance programs such as food stamps and school lunches also promote fruit and vegetable consumption.

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

Table 1. Support Prices for Commodities in the 2002 Farm Bill

Type of payment	Direct Payment	Counter-cyclical	Marketing Loan
Payment based on	Historical base acres and yield		Actual production
Price used in formula	**Payment rate**	**Target price**	**Loan rate (national average)**
"Covered commodities"			
Wheat, $/bu	0.52	3.92	2.75
Corn, $/bu	0.28	2.63	1.95
Sorghum, $/bu	0.35	2.57	1.95
Barley, $/bu	0.24	2.24	1.85
Oats, $/bu	0.024	1.44	1.33
Upland Cotton, $/lb	0.0667	0.724	0.52
Rice, $/cwt	2.35	10.50	6.50
Soybeans, $/bu	0.44	5.80	5.00
Minor Oilseeds, $/lb	0.008	0.101	0.093
Other commodities			
Peanuts, $/ton	36	495	355
ELS cotton, $/lb	*	*	0.7977
Wool, graded, $/lb	*	*	1.00
Wool, nongraded, $/lb	*	*	0.40
Mohair $/lb	*	*	4.20
Honey, $/lb	*	*	0.60
Peas, dry, $/cwt	*	*	6.22
Lentils, $/cwt	*	*	11.72
Chickpeas, small, $/cwt	*	*	7.43
Milk, $/cwt	*	16.94	9.90
Sugar, raw cane, $/lb	*	*	0.18
Sugar, beet, $/lb	*	*	0.229

* not applicable.
Source: CRS, compiled from the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), Title I, Sections 1103, 1104, 1202, 1303, 1304, 1307, 1401, 1501, and 1502.

Policy Background

Historical Origins. When farm programs were first authorized in the 1930s, most of the 6 million farms in the United States were small and diversified. Imports and exports were small. Policymakers reasoned that stabilizing farm incomes with price supports and supply controls would help a large part of the economy (25% of the population lived on farms) and assure the capacity to produce abundant domestic food supplies.

In recent decades, the face of farming has changed. The United States is now a major exporter of farm commodities, yet we import many specialty or seasonal foods based on consumer preferences. Farmers now comprise less than 2% of the population. Most agricultural production is concentrated in fewer, larger, and more specialized operations. About 7% of farms account for 76% of sales; these 150,000 farms had

average sales over $1 million, yet are often "family farms." Most of the country's 2 million farms are part-time, and operators rely on off-farm jobs for most of their income.

Although some features of the commodity programs date to the 1930s, the programs have evolved to respond to changes in agriculture, the economy, the federal budget, and international trade. Congress and the Administration have sought for decades to make farming more market-oriented. However, periods of low prices and economic pressures on smaller "family farms" from consolidation have made that goal difficult to achieve.

Issues in Congress

Since most provisions of the 2002 farm bill expire in 2007, the 110th Congress will be making decisions about the content of a new farm bill. Congress held field hearings about the farm bill throughout 2006. The Administration held listening sessions and published a series of farm bill theme papers in 2006. On January 31, 2007, the Administration released its proposal for the 2007 farm bill. For information tracking farm bill legislation, see CRS Report RL33934, *Farm Bill Proposals and Legislative Action in the 110th Congress.*

A key question for the 110th Congress will be whether to follow the lines of the 2002 farm bill or adopt different approaches in response to federal spending constraints, prevailing economic conditions, potential challenges to U.S. farm policies from international trade agreements, and requests from groups not currently receiving support. For more background, see CRS Report RL33037, *Previewing a 2007 Farm Bill*.

Budgetary Considerations. As with all areas of the federal budget, the farm bill faces spending constraints imposed by Congress. Recent federal deficits have raised concern over the ability or willingness to fund farm programs.

In March 2007, the Congressional Budget Office released a multi-year baseline estimate of spending (which assumes the current farm bill continues under expected economic conditions). Due to rapid increases in the futures market price of corn and other commodities since the summer of 2006, the March 2007 baseline for the commodity programs decreased to $74.6 billion for the FY2008-FY2017 period, down by $34 billion (-31%) compared with March 2006 baseline. The "smaller pie" does not reduce the ability to continue current programs, but baseline price forecasts affect how legislative proposals are scored against the baseline.

The March 2007 CBO baseline will become the starting point for the budget allocation for the new farm bill. By April 2007, the Budget Committees are expected to allocate a specific multi-year amount to the Agriculture Committees for the new farm bill, factoring in baseline estimates, political considerations, and requests for additional funding.

The Senate-passed budget resolution for FY2008 (S.Con.Res. 21) would provide for the baseline plus a $15 billion "deficit neutral" reserve fund, meaning offsets would need to be found elsewhere in the federal budget for the reserve fund to become available (Sec. 306). The version passed by the House (H.Con.Res. 99) contains a $20 billion deficit-neutral reserve fund (Sec. 204). Once given the final allocation, the Agriculture Committees may craft changes in policy to fit the new farm bill within its budget.

Administration Proposal.[4] The Administration's proposal for the 2007 farm bill is unusually detailed; in recent farm bills, the Administration has not issued specific recommendations. For the commodity programs, the major points of the Administration's plan would reduce marketing loan rates and link benefits to the sale of the commodity (to reduce speculative gains), raise direct payments for some crops (especially cotton), create a revenue-based counter-cyclical program, eliminate the fruit and vegetable planting restriction, deny payments to households with over $200,000 in adjusted gross income (AGI), and offer extra benefits for beginning farmers.

For all areas in the farm bill, the Administration requests $5 billion more than the 10-year baseline, with commodity programs receiving $4.5 billion less than the $74 billion 10-year baseline, and conservation $7.8 billion more than the $49 billion baseline. CBO's score of the plan is twice as high, at $9.9 billion above the 10-year baseline, with commodities down only $0.065 billion and conservation up $4.9 billion.

WTO Trade Disputes. Price support in the United States has become a focus of developing country criticism in trade negotiations. A World Trade Organization (WTO) dispute settlement panel released findings in summer 2004 in a case brought by Brazil against the United States cotton subsidies. The United States lost an appeal of the case in March 2005, and has subsequently eliminated the upland cotton step-2 program. Other findings affect programs that the United States had considered WTO-compliant, particularly restrictions on planting flexibility. In January 2007, Canada began a WTO complaint against the U.S. corn program. See CRS Report RS22522, *Potential Challenges to U.S. Farm Subsidies in the WTO: A Brief Overview*.

Planting Flexibility, Fruits and Vegetables, and the WTO. Planting flexibility was created in the 1990 farm bill to allow farmers to respond to market signals when choosing crops, but has restrictions to protect fruit and vegetable growers who do not receive direct subsidies. Flexibility refers to the ability to receive government payments for a base crop (such as corn) and simultaneously grow a different program crop on those base acres (such as soybeans, but *not* fruits and vegetables). Farmers who violate the planting restriction on fruits and vegetables do not receive direct and counter-cyclical payments on acres in violation, and they must pay an additional financial penalty based on the market value of the fruits and vegetables planted.

Two policy issues have arisen about planting flexibility. First, some midwestern producers who grew fruits and vegetables have reduced their plantings since soybeans became a program crop in 2002. Processors for canning and freezing have reported short supplies and difficulty contracting new growers. H.R. 1371, "Farm Flex," would allow fruits and vegetables for canning and freezing to be grown on base acres without additional penalties (besides giving up program payments on those acres for one year).

Second, in the U.S.-Brazil cotton dispute, the WTO settlement panel found that the restriction on planting fruits and vegetables made direct payments ineligible to be a nondistorting payment (green box) for international trade purposes. In other words, the restriction means direct payments are not fully decoupled. If this finding is enforced, it

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[4] USDA's 2007 farm bill proposal and the theme papers are available at [http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1OB?navid=FARM_BILL_FORUMS].

could affect the United States' ability to meet WTO commitments during years when farm commodity payments are particularly high.

The Administration's plan would eliminate the fruit and vegetable planting restriction. If the restriction is lifted, fruit and vegetable growers may seek some type of compensation in return. A USDA study concludes that eliminating the planting restriction would not substantially affect the market for fruits and vegetables, but could significantly affect individual farms.[5] Most fruit and vegetable groups want more support for research and trade promotion. Moreover, the Specialty Crops Competitiveness Act of 2004 (P.L. 108-465) is seen as a marker for more thorough debate in the next farm bill. For more background, see CRS Report RL32951, *Specialty Crop Issues in the 109th Congress*.

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

Tighter payment limits were part of the Senate-passed 2002 farm bill, but were dropped in conference committee. In the 109th Congress, S. 385 and H.R. 1590 would have tightened limits to a total of $250,000 from the current limit of $360,000, and counted toward the limits the use of commodity certificates and loan forfeiture, which are currently unlimited. A floor amendment by Senator Grassley to add payment limits to the Deficit Reduction Act of 2005 failed by a procedural vote of 46-53. The Administration proposed tighter payment limits in both its FY2006 and FY2007 budget requests, and proposes for the 2007 farm bill to eliminate payments to households with more than $200,000 adjusted gross income (AGI). For more information, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Revenue-Based Support. Historically, farm commodity programs have focused on price, while crop insurance programs have focused on yield. In recent years, crop insurance policies have been written with revenue coverage (price times yield). Some reformers recommend a revision of the counter-cyclical price support program into a revenue-based program. Revenue insurance might be more attractive to producers now that commodity price forecasts are high. Producers cite years when yields were low and resulting prices were high, thus having little to sell and receiving no counter-cyclical price support. The National Corn Growers Association, among others, has proposed shifting a portion of current farm subsidies to a revenue-based policy.[6] The Administration also proposes a revenue-based counter-cyclical program.

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

[6] National Corn Growers Association, "Forging a New Direction for Farm Policy," Oct. 19, 2006, at [http://ncga.com/news/notd/pdfs/10_23_06NFSA.pdf].