REGIONAL RESOURCE
The Council of State Governments ■ 3355 Lenox Road, N.E., Suite 1050 ■ Atlanta, Georgia 30326 ■ 404/266-1271

Finally, the Farm Bill

By Jonathan Watts Hull

September 2002

After years of preparation and debate, Congress passed and President Bush signed the Farm Security and Rural Investment Act of 2002, the omnibus farm legislation that replaces the Federal Agricultural Improvement and Reform (FAIR) Act of 1996. Known generically as the Farm Bill, the 2002 Act raises federal farm spending to record levels, extends federal program support to new crops, expands conservation activities, and signals a partial retreat from the ideological underpinnings of the 1996 law.

Contrary to expectations of a shrinking federal role in agriculture, government spending on the sector reached a record $22 billion in 2000, largely due to a sizable emergency assistance package for farmers in response to poor market conditions, weather-related disasters, larger than anticipated payments for "program crops" during market downturns caused by economic problems in Russia, Latin America and Southeast Asia, and a global glut in several key commodities. At the same time, farm survival became increasingly tenuous, and farm profitability declined for a number of producers, particularly for the small and mid-sized farms that historically have been the core of American agriculture.

This **Regional Resource** provides background on Farm Bill legislation, a summary of the main items included in the 2002 Farm Bill, and a review of some key issues arising from the new federal legislation. Also included is a review of how the new federal policy matches the SLC Policy Position on the 2002 Farm Bill passed in August 2001 at the 55th Annual Meeting of the Southern Legislative Conference in Savannah, Georgia.

What is a Farm Bill?

The Farm Bill is the "common name" for the periodic review and adjustment to federal agriculture policy conducted by Congress and administered by the United States Department of Agriculture. Of varying duration and scope, Farm Bills have created and maintained price support and income protection for farmers, directed resources for research, conservation, and trade promotion, and offered funding and authorization for programs as diverse as food assistance for the poor and economic development in rural America.

At the heart of the Farm Bill are federal programs designed to provide a "safety net" to farmers. Among the approaches pursued within Farm Bill legislation past and present are: price supports; supply controls; marketing and loan payments; trade promotion; conservation cost shares, tax credits, and offsets; and fixed payments. Most safety net programs have their roots in the post-World War I era, when prices plummeted from their wartime highs, and economic turmoil in Europe made American farm products too expensive. At this time, farmers established voluntary marketing cooperatives to control supplies, attempts that met with resistance both within and outside the farm community, as well as antitrust challenges from the government. With the start of the Great Depression, farm income and prices collapsed, with prices falling more than 50 percent in the three years following the 1929 stock market crash. With nearly one-quarter of Americans living on a farm, the impact of the cratering of farm income was catastrophic.

As one of the first elements of the New Deal, Congress passed the Agricultural Adjustment Act (AAA) of 1933 which created price supports and production controls for key commodities and authorized direct subsidies to farmers. While the AAA was struck down by the Supreme Court in 1936, much of it was resurrected the following year in slightly modified form. The logic behind the parallel programs at the time was fairly straightforward: absent price supports, market signals could drive farmers out of a given commodity deemed essential to the national food chain; absent supply controls, farmers could glut the market with a given commodity, driving the market price down and collecting huge payments from the federal government. Thus the two pillars of the program–price supports and production controls–are mutually dependent. Between 1933 and 1996, Congress adjusted and expanded (and occasionally eliminated) federal farm programs, but the formula for farm support remained similar.

Market reforms began to gain strength in Farm Bill debates in the 1980s, with revisions to price supports, quota programs and allotments for some commodities in order to make U.S. products more competitive abroad as trade became increasingly central to federal farm policy. Planting flexibility, payment limitations and price support changes included in the 1990 Farm Bill set the stage for the 1996 Farm Bill, the FAIR Act. Heralded as a sea change in federal farm policy, the FAIR Act increased the pace of the transition from a protected market to an open market for agriculture by eliminating price supports for commodities, replacing them with fixed, but declining, market transition payments, over seven years, and removing most planting and acreage restrictions. Freedom to Farm, as it was known, was intended to get the federal government out of agricultural markets in a hurry.

For the first few years following Freedom to Farm, market prices were high and "program" farmers (those farming federally-supported crops) did well. But in 1998, a series of economic downturns in major markets for U.S. goods and global bumper crops in a number of key commodities hit U.S. farmers hard, and Congress stepped in to rescue the farm sector from financial catastrophe. This emergency assistance was $5.5 billion in 1998, rising to $7.8 billion in 1999, $8.5 billion in 2000, and nearly $9 billion in 2001. Emergency assistance also contributed to the record $22.1 billion in total federal farm payments in 2000, just as debate over the next Farm Bill was gearing up.

It was clear that instead of becoming less involved in the farm economy, the federal government had taken an even more central role. Farm income has remained relatively high, and agricultural land prices have not eroded as they did during the farm crisis of the 1980s, but at the root of this good news was federal support. While accounting for only 11 percent of gross cash income, federal payments accounted for one-half of net farm income in fiscal year 2000. Thus, federal payments have a disproportionate impact on farm survival. To many observers this reflects the distorted market farmers are now encountering, with high tariffs and subsidies in critical export markets as well as increased competition from highly-subsidized competitors. Regardless, without the scheduled and emergency payments made to farmers in the past several years, farm failures would have been far higher than the modest rates experienced.

Emergency spending has been credited with saving the farm sector from calamity, but it has concerned a number of lawmakers for various reasons. On the one hand, expensive emergency packages were possible in years of an otherwise booming economy. With federal budget surpluses now less likely for the near term, the prospects for emergency packages passing Congress are lower. Furthermore, as the number of years mounted in which such packages were deemed necessary, the forces of the mercurial global food market came into conflict with the political realities of seeing the American agriculture sector and rural economies decline markedly. As the debate over reauthorizing the FAIR Act gathered steam, support for programs to assist American farmers when markets were at their worst grew in Washington, D.C., and in farm country. Such "counter-cyclical" supports are a departure from the market principle behind the FAIR Act.

The debate over the 2002 Farm Bill began in 2000, with both Congressional chambers holding public field hearings to gather input from farmer and ranchers, as well as calls for considerable testimony and input from interested groups. The process received a major jolt with the switch in partisan control in the Senate from Republican to Democrat and the resulting shift in leadership of the Senate Agriculture, Nutrition and Forestry Committee from Senator Richard Lugar of Indiana to Senator Tom Harkin of Iowa. Senator Harkin initially advanced a plan calling for a shift to conservation payments for farmers. The House Committee on Agriculture was seeking increased commodity support and more moderate expansions in conservation programs. Because Senator Lugar had been a leading advocate of the changes advanced in the 1996 Farm Bill, the shift in leadership in the Senate Committee proved key in scaling back some of the reforms incorporated in the FAIR Act.

As the two chambers developed their respective bills, their proposals differed sharply on a number of points; so many, in fact, that there was serious concern that the 1996 Farm Bill would expire before new legislation could be approved. While budget writers had set aside additional funding for farm programs when crafting the 2002 budget, the potential existed for that money to be eroded by declining revenues and other pressing concerns, a fact that created an urgency around the completion of the legislation. Even after the two chambers had passed legislation and the bills went to Conference Committee, the stark differences between the two versions made the final outcome far from certain.

The final compromise reached by the Conference Committee passed the House of Representatives on May 2 and the Senate on May 8, and was signed into law by President Bush on May 13. At a cost of $190 billion over the next 10 years, the law represents an 80 percent increase in spending on farm programs. Among other things, the law guarantees higher subsidies for growers in the Midwest and South by increasing support prices on cotton and grains, and revives the target price system eliminated in the 1996 law to provide a counter-cyclical safety net for farmers.

What's in the New Farm Bill?

The Farm Security and Rural Investment Act of 2002 consists of 10 titles and expires in six years. Initially scored at $150 billion ($73.5 billion over base funding of $76.5 billion), the figure was raised once to $170 billion and then to the current estimate of $190 billion because of anticipated low commodity prices, which raises the cost of the legislation as counter-cyclical payments kick in. Of the new money, nearly $50 billion will go to grain, cotton and rice growers. The new Farm Bill continues with decoupled payments instituted in the 1996 Farm Bill as a measure to ease farmers transitions from subsidies. The legislation establishes commodity loan rates which are higher for most crops and target prices for selected commodities. The Farm Bill includes $17.1 billion in additional funding for conservation programs, an increase of 80 percent, including the new Conservation Security Program, which is funded for $2 billion over 10 years.

The 2002 Farm Bill allows farmers to retain their base acres used for determining program participation or to update them to reflect 1998-2001 planted (and "prevented" planted) acres. New payment limitations also will be in effect for the new Farm Bill, set at a total $360,000 across all programs, and restricts farmers and operations with adjusted gross income of $2.5 million from participating in farm programs. The new Farm Bill includes a new Energy Title, establishes target prices for minor soybeans and minor oilseeds for the first time, and provides for a quota buyout for peanuts, which become a program crop with this legislation.

The 2002 Farm Bill maintains the planting flexibility provided in the 1996 Farm Bill and returns programs for mohair, wool, and honey, and creates a new market-loss assistance program for dairy. Furthermore, the Farm Bill includes language mandating country-of-origin labeling for fish, meat and peanuts. Two items of note that were not included in this Farm Bill were a ban on meat packer ownership of livestock and a proposal to provide additional opportunities for trade with Cuba. The scope and size of the 2002 Farm Bill are sure to make it an unparalleled achievement in farm policy. While a complete summary of the legislation is beyond the scope of this report, the following provides a brief, title-by-title overview of key elements in the Farm Bill.

Title I: Commodities

The Commodity Title of the Farm Bill lays upon the foundation for the Depression-era commodityprograms, providing a safety net for producers of crops considered key to the American food and fiber supply. Title I includes three distinct kinds of payments: direct (or decoupled) payments; target price (counter-cyclical) support; and loan deficiency payments (LDP) and marketing loan gain payments.

Direct payments are a continuation of sorts of the Agricultural Market Transition Act (AMTA) payments from the 1996 Farm Bill. A farmer with established acreage in an eligible program crop can receive a fixed payment from the government. Counter-cyclical payments are more reflective of the

Market Loss Assistance payments from the emergency legislations of 1998-2001 than the pre-1996 target price program. Marketing Loan Assistance and LDPs provide producers with payments to facilitate the orderly marketing of storable commodities. This eases what otherwise could be an end-of-season rush to market by producers, creating a temporary glut (and precipitating a later supply shortage) that would drive market prices down. All three programs include nine core commodities--corn, sorghum, wheat, barley, oats, soybeans, minor oilseeds, upland cotton, and rice. Target price support is available for peanuts as well, and the LDP and marketing loan programs also include extra long staple cotton, dry peas, lentils, small chickpeas, peanuts, graded wool, non-graded wool, mohair, and honey. Counter-cyclical and loan payment programs both use legislatively-established prices for their target commodities; decoupled payments use legislatively-fixed payment rates. Table 1 describes these rates.

Target Prices, Loan Rates, Payment Rates and Minimum Effective Prices, Selected Commodities

Commodity	Target Prices			Loan Rates			Payment Rate (Decoupled Payment)	Minimum Effective Prices*	Maximum Counter-Cyclical Payment Rate**
Year	**1995**	**2002-2003**	**2004-2007**	**2001**	**2002-2003**	**2004-2007**	**2002-2007**	**2002-2003 (2004-2007)**	**2002-2003 (2004-2007)**
Wheat (/bu)	$4.00	$3.86	$3.92	$2.58	$2.80	$2.75	$0.52	$3.32 ($3.27)	$0.54 ($0.65)
Corn (/bu)	$2.75	$2.60	$2.63	$1.89	$1.98	$1.95	$0.28	$2.26 ($2.23)	$0.34 ($0.40)
Grain Sorghum (/bu)	$2.61	$2.54	$2.57	$1.71	$1.98	$1.95	$0.24	$2.33 ($2.21)	$0.21 ($0.27)
Barley (/bu)	$2.36	$2.21	$2.24	$1.65	$1.88	$1.85	$0.35	$2.12 ($2.09)	$0.09 ($0.15)
Oats (/bu)	$1.45	$1.40	$1.44	$1.21	$1.35	$1.35	$0.024	$1.375 ($1.374)	$0.026 ($.0.086)
Upland Cotton (/lb)	$0.729	$0.724	$0.724	$0.5192	$0.52	$0.52	$0.0667	$0.5867 ($0.5867)	$0.1373 ($0.1373)
Rice (/cwt)	$10.71	$10.50	$10.50	$6.50	$6.50	$6.50	$2.35	$8.85 ($8.85)	$1.65 ($1.65)
Soybeans (/bu)	none	$5.80	$5.80	$5.26	$5.00	$5.00	$0.44	$5.44 ($5.44)	$0.36 ($0.36)
Minor Oilseeds (/lb)	none	$0.0980	$0.1010	$0.093	$0.096	$0.093	$0.008	$0.104 ($0.101)	$0.00 ($0.00)
Peanuts (/ton)***	none	$495	$495	$610/ $132	$355	$355	$36	$391	$104.00 ($104.00
Graded Wool (/lb)	???	none	none	none	$1.00	$1.00	none	NA	NA
Small Chickpeas (/cwt)	none	none	none	none	$7.56	$7.43	none	NA	NA
Lentils (/ cwt)	none	none	none	none	$11.94	$11.72	none	NA	NA
Dry Peas (/cwt)	none	none	none	none	$6.33	$6.22	none	NA	NA

table 1

bu=bushel; lb=pound; cwt=hundredweight (100 pounds)
Source: USDA, Economic Research Service & Farm Services Agency.
*The Minimum Effective Price is the loan rate plus the direct payment rate.
**The Maximum Counter-Cyclical Payment Rate is the Target Price less the Loan Rate and the Direct Payment Rate.
***The old peanut program, eliminated with the 2002 Farm Bill, included separate loan rates for quota and "additional" peanuts. The higher loan rate was for quota peanuts; those grown for crushing and export had the much lower rate.

Direct and Counter-Cyclical Payments

To determine direct and counter-cyclical payments, a farmer must establish with the USDA a “base acreage” of covered commodities. Base acres are simply the amount of land a farmer has committed to a given commodity. Under the 1996 Farm Bill, farmers signing up for Payment Flexibility Contracts (and the associated AMTA payments) had to establish the acreage they had historically planted in each eligible crop. This was their base acreage, which remained constant even if they altered their planting patterns. With the 2002 Farm Bill, farmers have the option of retaining their 1996 base acres or updating them with actual planted acres and acres for which planting was prevented due to conditions outside the control of the farmer from the 1998 through 2001 crop years. Oilseed acres are to reflect the 1998 to 2001 actual and prevented plantings average, with the exception that a farmer retaining 1996 base acres cannot then claim oilseed acreage in excess of total available acreage.

Direct and counter-cyclical payments also require the establishment of “payment yields” for each covered crop on a farm. Simply put, each farm is to have a yield value for each covered commodity which reflects the historical production pattern of that farm. Farmers can update their yields with the 2002 farm bill based on a formula that allows for the election of one of two higher calculated averages.

Direct payments are then calculated by multiplying the payment rate (as outlined in the legislation) by the payment acres (statutorily 85 percent of base acres) by the payment yield. Thus a farm with 600 base acres of wheat with a payment yield of 27 bushels per acre would receive $7,160.4 [0.52 cents (payment rate) x [600 x .85](payment acres) x 27 (payment yield)]. Other covered commodities would require similar calculations. Farmers receive direct payments on their base acres regardless of actual planted acreage in a covered commodity. The 2002 Farm Bill retains the planting flexibility incorporated in the 1996 Farm Bill which “decoupled” payments from production, allowing the planting of any crop with the exception of fresh fruits and vegetables on program acreage. The logic of these payments was to remove the incentive for farmers to shift crops into a commodity based upon its payment rate. Decoupled payments, it was thought, would provide farmers with more direct responsiveness to market signals along with a reasonable level of support.

Counter-cyclical payments are to be made to farmers in any year it is determined that the effective price for covered commodities is less than an established target price. An important difference between the new counter-cyclical payment system and the target price program eliminated with the 1996 Farm Bill is the use of base acres and not actual acres for calculating payment. The effective price is determined as the higher of the national average market price received by producers over the 12-month marketing year or the national average loan rate for this period. Target prices are established by statute. The payment rate is determined as the difference between the target price and the effective price. The counter-cyclical payment is calculated in an almost identical fashion to the direct payment, by multiplying the three elements: payment rate x 85 percent of base acres x payment yield. Partial disbursements of both direct and counter-cyclical payments are available to farmers before the end of the season, a provision which is seen as greatly improving the business cycle for farmers struggling with low prices or high costs during the production period.

Eligibility for direct and counter-cyclical payments also is restricted to farmers who abide by applicable conservation, wetland, and planting flexibility requirements. Farmers also must agree to use the base acres for an agricultural or conservation purpose, and not a non-agricultural commercial or industrial operation, control noxious weeds and maintain the land using sound agricultural practices.

Marketing Loans Assisstance and Loan Deficiency Payments

Marketing Loan Assistance and Loan Deficiency Payments are related programs. The marketing assistance loans program consists of non-recourse loans made to producers on pledged commodities for specified commodities. A non-recourse loan is one in which the collateral – pledged commodities – can be surrendered as full repayment of the loan regardless of the actual market value when the loan is settled. Producers take out short-term (nine month), low-interest loans from the Commodity Credit Corporation (CCC) using their crop as collateral. These loans allow farmers to pay off bills at harvest without requiring them to market their crop, which prevents a flood of commodities on the market at harvest and allows individual producers to wait for suitable conditions before marketing their crop.

In lieu of repayment, farmers have the option of forfeiting the commodity to the CCC without further penalty if the sales price offered is below the loan rate. In so doing, the grain is taken out of circulation by the CCC, which boosts prices for those producers remaining in the market. The CCC, for its part, uses its stocks for government food donations to developing countries, domestic food assistance programs and other non-traditional industrial uses, so as to not compete with private commodity stocks.

When market prices drop below the loan rate, producers also have the option of repaying the loan at the repayment rate – the posted county price (PCP) for most commodities and the adjusted world price for rice and cotton – and retaining ownership of the commodity. The PCP is determined by the USDA using prevailing prices at major terminal markets from the previous day, corrected for transport and handling costs for program crops. For rice and cotton, the USDA determines a prevailing world price with similar adjustments. The difference between the loan rate and the repayment rate is called a marketing loan gain. Farmers thus make the marketing decisions about the commodity, and the government avoids the costs and complications related to storing and disposing of forfeited crops. Farmers also can sell their crop later at a rate above the repayment rate and realize a profit. Calculated into this for the farmer, however, are the costs of commercial or on-farm storage while waiting for markets to recover, and the potential for further market declines.

The downside for the Marketing Loan Assistance program is that in a down market, and particularly a prolonged downturn, nearly all eligible farmers will participate, given the opportunity to realize a marketing loan gain. Overutilization of the program leads to a number of complications, including added administrative costs and the increased potential for swelling stocks of forfeited commodities. To remedy this, Congress authorized loan deficiency payments for farmers willing to forgo participation in the marketing assistance loan program. Instead of securing (and repaying) a loan, farmers receive a payment equal to the difference between the payment rate and the loan rate – essentially offering the same payment benefits as the marketing loan program, without the administrative costs. The risk for farmers with the LDP program is that prices could continue to decline, and they would have no opportunity to sell the crop and recover costs associated with its production. The marketing loan option allows a farmer in this circumstance to sell off at an even lower rate and pay off the loan. Farmers can choose either the LDP or Marketing Loan Assistance option or combine them for their harvest, allowing them to spread out their risk.

Producers with land planted in wheat, barley or oats who are eligible for LDPs but use this acreage for grazing livestock are still eligible for payment from the USDA so long as the producer agrees to forgo any other harvesting of those crops on that acreage. Payment for these non-harvested grazing lands is the product of the LDP rate, the deferred acreage and the payment yield used for direct payments.

Cotton

Programs for upland and extra long staple (ELS) cotton both have been retained in the 2002 Farm Bill. Price supports to buyers and users of cotton are still eligible for marketing certificates or cash payments should the four-week average price of domestic cotton fall below the Northern Europe price (for upland) and the world adjusted average price (for ELS), or is less than 134 percent of the loan rate over the same period. Both programs were instituted to improve the competitiveness of U.S. cotton in overseas markets and are not restricted by a payment cap.

Peanuts

The 2002 Farm Bill eliminated the peanut program, replacing the previous two-tier price support program with a system of direct and counter-cyclical payments and marketing loans similar to other commodities. Prior to this legislation, peanuts for domestic, edible consumption could only be grown by producers holding quotas and were eligible for price supports through non-recourse loans. Additional, non-quota peanuts could be grown for export at a considerably lower support rate. With the elimination of the dual price system, farmers holding peanut quota will be compensated for lost value over a five-year period, based on $0.11 a pound for growers' 2001 quota allotments.

Direct payments of $36 per ton of eligible base production are available to farmers with a history of peanut production between 1998 and 2001, regardless of quota ownership. Farmers must establish base acres and yields in a manner similar to that for those program crop producers updating their base acres and yields. Continued peanut production is not required on these acres in order for the producer to be eligible for direct payments, so long as the land remains in agricultural production.

Counter-cyclical payments are available for farmers with base acres in peanuts as well, with the established target price set at $495 per ton. The payment rate is calculated as the target price less the direct payment rate and the higher of the 12-month average peanut market price or the loan rate. The actual payment is the product of this payment rate, the payment acres (as with other commodities, 85 percent of base acres) and the payment yield. Again, counter-cyclical payments are not tied to actual production.

Peanut farmers also are eligible to participate in the Marketing Assistance Loan and LDP programs regardless of historical production. The loan rate for peanuts is $355 per ton, well below the previous rate for quota production of $610, but above the "additional" production rate or $132 per ton.

Sugar

U.S. sugar policy essentially is conducted through two components: a price support loan program and a tariff rate quota. The loan program is available to processors of domestically-grown sugar beets and sugar cane. Processors, not producers, receive the payments because the perishable nature of sugar cane and sugar beets makes their long-term storage impossible. Processors must agree to pay producers a price proportional to the value of the loan they receive from the USDA. In many other regards, the loan works in a similar fashion to those for other commodities. The tariff rate quota regulates the quantity of foreign-origin sugar available in the American market to a level that will not adversely affect U.S. sugar producers.

With the 2002 Farm Bill, the sugar program is to operate at "no-net cost" to the federal government by avoiding loan forfeitures in the non-recourse loan program. Marketing assessments, which had been levied on sugar processors on all sugar until suspended in 2001, were eliminated in the 2002 Farm Bill, as were forfeiture penalties for processors which surrendered sugar to the government as repayment of the loan. The Farm Bill also continues the Payment-in-Kind (PIK) program established in 2000 in response to oversupply and low prices. Under the PIK program, producers can bid on amounts of CCC inventory in lieu of a farmer-specified number of planted acres, thus diverting production. Perhaps most significantly, the Farm Bill reinstitutes marketing allotments for sugar to control inventory, avoid forfeiture, and ensure that U.S. sugar imports comply with trade agreements. Because this will mean that sugar will not be allowed to be marketed when imports are predicted to fall below a certain level, producers will have to refrain from marketing, and thus store, sugar until levels return to balance. Because the storage costs have been shifted to the industry, the Farm Bill includes a sugar storage facility loan program similar to those for grain and other commodity crop producers.

Dairy

Federal milk policy is established through two mechanisms: milk price support and federal milk marketing orders. Federal milk marketing orders set the minimum prices for dairy products. The milk price support program conducts government purchases of dairy products. Under the price support program, the CCC will buy any butter, cheddar cheese or nonfat dry milk that meets specifications at the support price. This program, which was twice extended by Congress, is now part of the Farm Bill. The Dairy Export Incentive Program (DEIP) also provides indirect price support to dairy farmers by paying cash bonuses to producers to buy at the prevailing U.S. prices and sell abroad at the international market price. The DEIP also was included in the Farm Bill.

The Farm Bill also creates a National Dairy Market Loss Assistance Program which reflects supplemental payments made to dairy producers in 1999 through 2001. Program participants receive payments when the monthly Class I fluid milk price in Boston drops below $16.94 per cwt. The payment is 45 percent of the difference between the monthly price in Boston and the payment threshold. Producers receive payment calculated on the quantity of eligible production marketed during that month. To participate, producers must enter into a contract with the USDA, and can receive payments on no more than 2.4 million pounds of milk marketed per year. The program is scheduled to expire in September 2005.

Generic Certificates

The 2002 Farm Bill also continues the issuance of generic certificates, first introduced in 1998 as a means to avoid mass forfeitures of loan collateral among program crops. The CCC sells these certificates to producers or their agents with outstanding non-recourse loans for the value of their collateral. This allows farmers to convert their commodity into a redeemable coupon. The value of the certificate is equal to the value of the commodity held in collateral. Once purchased, the certificates are then to be immediately exchanged for loan collateral. Mass forfeitures generally are a threat only if a down market compels farmers to transfer ownership after all benefits from the Marketing Loan Assistance program (marketing loan gains and LDPs) have been exhausted. By allowing producers to convert their collateral into a certificate, farmers can fulfill their loan obligations without disrupting the orderly marketing of their commodity. Generic certificates are exempt from payment limitations, which means that producers who reach their limits with counter-cyclical payments, LDPs and marketing loan gains are eligible to receive additional support through this avenue.

Payment Limitations

Payment limitations, the issue of some of the greatest disagreement between the House and Senate going into Conference, reflect both regional and philosophical differences. The payment limitation in place for the 2001 crop year (under the FAIR Act) is $460,000, with additional benefits allowed through other mechanisms. For the 2002 Farm Bill, the House entered into the Conference discussions with a limitation of $550,000 and retention of several loopholes allowing for increased benefits. The Senate bill included a payment cap of $275,000 and closed many of the loopholes. The Farm Bill as signed into law incorporates a $360,000 payment limitation on all programs and maintains the use of generic certificates for rice and cotton farmers, which serves as an avenue for providing additional benefits to farmers after their payment limit has been reached.

The specific payment limits in the 2002 Farm Bill are specified by program: $40,000 per person for direct payments; $65,000 for counter-cyclical payments; $75,000 for marketing loan and loan deficiency payments. Producers can receive full payments on their first farm operation and up to a half payment for each of two additional farm operations. This "three-entity rule," as it is known, essentially doubles the amount a farmer can receive. Producers with a three-year averaged adjusted gross income of more than $2.5 million are ineligible to receive payments unless more than 75 percent of this income is derived from agriculture. Because generic certificates do not take the form of direct payments, their value is outside the payment limitations within the Farm Bill. This allows farmers who have higher costs per acre, particularly rice and cotton producers, to receive program benefits beyond their payment limitations through the purchase of a certificate and its exchange for collateral commodity.

To understand why the payment limitation issue was so difficult for the House and Senate Conferees, two points of context should be kept in mind: regional differences in costs of production, and varying perspectives on the nature of the agriculture sector. In the South, poorer soils and different crop patterns have led to higher costs of production than in the upper Midwest and Great Plains. Cotton and rice, two crops prominent in the South and parts of the Southwest, are among the most expensive program crops to raise per acre. Corn and wheat, by comparison, are relatively cheap. Limiting payments to $275,000, or even the current $360,000, reflects a perception of a reasonable amount of support for producing grains. Southern producers, when advocating higher limits, pointed out that the cap on a cotton farmer could be reached at about 600 acres, whereas a farmer could produce around 20,000 acres of corn and soybeans in the Great Plains before running up against a cap. The Cotton Council noted that the Senate payment cap would have affected 40 percent of all cotton production and 50 percent of all rice production in the United States. Furthermore, poorer soils and lower rainfall in parts of the South, such as Texas and Oklahoma, lead to inherently lower yields per acre than states with better rainfall, and smaller farms in the region with the same crops as larger farm states face higher costs of production. These factors all point to a need for a higher payment limitation to provide a meaningful safety net.

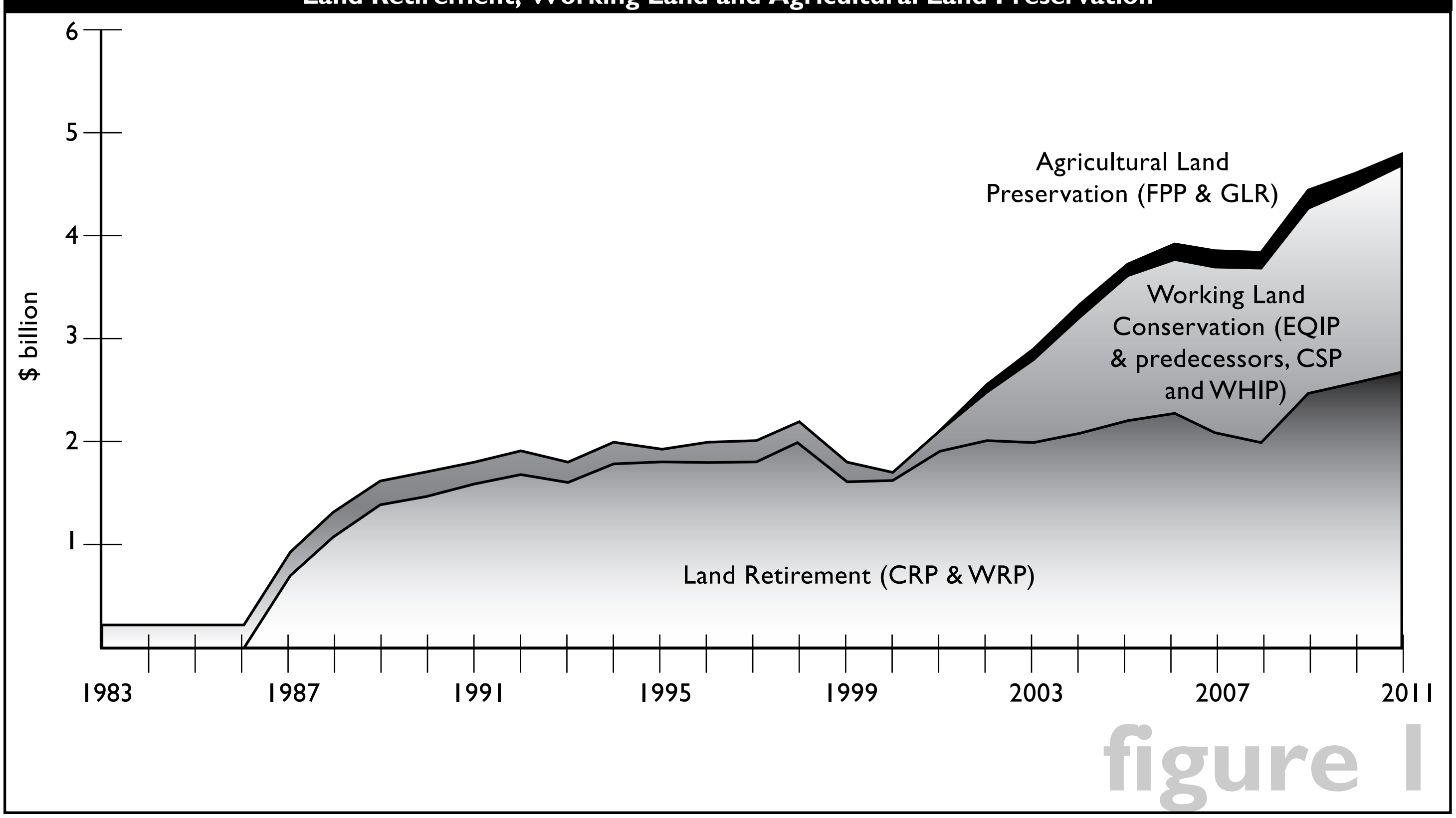
The second conflict in this debate often is portrayed as a divergence between those supporting smaller family farms and those supporting larger agricultural operations. States with smaller agricultural operations, particularly those in the northeast, worry that high payment caps allow larger farms to receive larger payments, further extending an advantage these farms have over smaller producers. The largest farms tend to receive the largest payments and the largest share of all federal support. The General Accounting Office reported that the largest 7 percent of all farms received 45 percent of farm payments, while the 76 percent of farms categorized as small by the USDA received only 14 percent of all farm payments. Program participation among small farms also is historically low, with less than one-third of all small farms receiving federal funds in 1999, while more than 70 percent of large farms received payments the same year.

Furthermore, payments and program benefits that accrue to larger farm operations can have the effect of encouraging production in commodity crops, which drives prices down. The impact of this is both to make the price situation more precarious for small producers and to make farm programs more expensive. A final worry for farmers in the Southeast is the effects higher payment caps and the opportunity for beyond-limits benefits have on the amount of money available for non-program crops. Two-thirds of the $73 billion in new revenue for the Farm Bill is dedicated to commodity programs, which now include soybeans and minor oilseeds, but continue to bypass fruits, vegetables, herbs and other minor crops as well as nurseries and horticultural operations.

Title II: Conservation

Agricultural conservation programs increase almost across the board with the 2002 Farm Bill, with an estimated 10-year increase of $38.6 billion, 80 percent above baseline. A major shift with the new legislation is support for working land, while maintaining support for retirement of environmentally-sensitive land. The conservation title continues or expands the existing Conservation Reserve Program (CRP); Wetlands Reserve Program (WRP); Environmental Quality Incentives Program (EQIP); Wildlife Habitat Incentives Program (WHIP); and Farmland Protection Program. New in the Farm Bill are the Conservation Security Program (CSP) and the Grassland Reserve Program (GRP). Figure 1 illustrates the growth in funding for working lands over the life of the 2002 Farm Bill.

Conservation Emphasis in Federal Farm Payments 1983-2011 (projected)
Land Retirement, Working Land and Agricultural Land Preservation



Source: USDA, Office of Budget and Policy Analysis; Congressional Budget Office

A major advantage of increasing funding to farmers through conservation payments is that such payments are considered trade-neutral with respect to WTO agreements and enjoy the support of many lawmakers from non-agricultural districts. Conservation payments are also, in principle, available to all farmers, regardless of the size of their operation, and serve to pay agricultural landowners for the environmental services society as a whole demands of them.

Conservation Security Program (CSP)

The Conservation Security Program provides payments to farmers for adopting or maintaining land management practices that will provide environmental benefits. All producers and private lands, with the exception of Conservation Reserve, Wetlands Reserve, and Grasslands Reserve Program land, and idle cropland (that which was cropped for fewer than four out of the past six seasons), are eligible to participate. Forestland that is an incidental part of the operation may be included. These incentive payments are available in three tiers to producers who must sign contracts ranging from five years to 10 years. The tiers include increasingly more complex and comprehensive environmental management activities as their funding level increases. Contract payment rates are based on 5 percent, 10 percent, and 15 percent of national land rental rates per acre for the three tiers, with payments limited to $20,000, $35,000 and $45,000, respectively. Producers also can receive up to 75 percent cost sharing for adopting or maintaining conservation activities.

Producers choose their participation level, or tier, based on the conservation practices involved. Conservation priorities are established at the state level by the state conservationist, in consultation with the state technical committee, local producers and conservation working groups. Tier I contracts are for five years and require the producer to address at least one "significant resource concern" for the portion of the land enrolled in the program. Tier II contracts are for between five years and 10 years and require the producer to address a significant resource concern for the entire farm. Tier III contracts are also for five years to 10 years and require the producer to fully address all resources of concern on the entire farm. Contracts at Tier II and III can be renewed; renewal for Tier I contracts is contingent upon either applying additional conservation practices on the part of the land previously covered or applying conservation practices on additional land.

The CSP allows for enhanced payments for taking additional measures, including actions which exceed Tier III requirements; address local conservation priorities in addition to resources of concern; involve on-farm research, demonstration or pilot conservation projects; include participation in a watershed or regional resource conservation plan that involves at least 75 percent of area producers; or carry out assessment and evaluation activities relating to practices in a conservation security plan.

While state conservation officers and producers are allowed considerable latitude in determining which conservation practices to pursue, the legislation does provide some guidance. Stipulated in the law are nutrient management; integrated pest management; water conservation and water quality management; soil conservation, quality and residue management; invasive species management; fish and wildlife habitat conservation, restoration and management; air quality management; energy conservation measures; biological resource conservation and regeneration; contour farming; strip cropping; cover cropping; controlled rotational grazing; resource-conserving crop rotation; conversion of portions of cropland from a soil-depleting use, including the production of cover crops; partial-field conservation practices; and native grassland and prairie protection and restoration.

Conservation Reserve Program (CRP)

The Conservation Reserve Program is the largest land retirement program authorized by the Farm Bill. Farmers receive a rental payment from the USDA in exchange for converting environmentally-sensitive lands from cropland to conserving purposes, such as grassland or forests. A popular program with farmers, it historically has been the largest budget item in the conservation title. This has led to concern that the title has an inherent bias away from working lands, something the CSP is intended in part to address. CRP, for its part, has long been heavily subscribed. This has generated pressure from farmers to increase the acreage allowed in CRP, something the 2002 Farm Bill does, from the 36.4 million acres allowed under the Freedom to Farm Act up to 39.2 million acres with the current legislation. Payments to individual farmers are capped at $50,000 annually.

Land can be enrolled in the CRP if it was cropped for four years between 1997 and 2002, a shift from the two-year cropping history in the previous legislation. This was done to prevent farmers from cropping otherwise idle land in order to meet CRP eligibility requirements, as had been reported. Farmers enroll land for contracts of 10 years to 15 years in duration, with allowance for five-year extensions for land converted to hardwood trees, shelterbelts, windbreaks or wildlife corridors on contracts signed after 1990, and for one-year extensions for contracts signed after that date. For land being re-enrolled, existing ground cover is to be maintained whenever feasible. Other enrollment requirements include having an erodibility index of eight or higher; incorporating or surrounding non-cropped wetlands; being subject to scour erosion; being dedicated to a highly beneficial environmental practice; or being located in a national or state CRP priority area.

The Farmable Wetlands CRP pilot program, which served six states, was expanded by the new legislation into a national program, with a per state enrollment limitation of 100,000 acres and a national cap of 1 million acres. Wetlands that have been cropped in three out of the preceding 10 years can be enrolled, along with buffer acreage contiguous to the wetland necessary to its protection.

Farmers also can enroll entire fields through continuous CRP as buffers in cases in which more than half the field is eligible and it is impractical to farm the remaining land. Continuous CRP is an administrative feature of the program which allows for the enrollment of high-priority areas in the program without competition. Furthermore, farmers gain more flexibility for managed grazing and haying, including biomass collection, on CRP land, with reduced payments, and can install wind turbines on land set aside under CRP. This is an extension of the limited emergency authority for haying allowed by the Freedom to Farm Act.

Wetlands Reserve Program (WRP)

The Wetlands Reserve Program was reauthorized in the 2002 Farm Bill, with a cap of 2.275 million acres, up from the 1.075 million acres allowed by the 1996 Farm Bill. The USDA is to enroll 250,000 acres a year "to the extent possible." The WRP consists of long-term (30-year) easements, perpetual easements, with farmers agreeing to forgo production on this land, and restoration cost-share agreements with farmers for wetlands. Priority is given in cost-share agreements to the restoration of wetlands for wildlife habitat. The 2002 Farm Bill removes the requirement that enrolled acreage be evenly divided between long-term easements, perpetual easements and cost-share activities, providing the USDA with increased flexibility in distributing WRP funds.

Environmental Quality Incentives Program (EQIP)

The Environmental Quality Incentive Program assists crop and livestock producers with conservation and environmental improvements. The program offers technical assistance, cost-share payments and incentive payments to producers. EQIP was funded at $200 million a year in the 1996 Farm Bill. The 2002 Farm Bill increased this funding to $400 million for FY 2002, $1 billion for FY 2003 and FY 2004, $1.2 billion for FY 2005 and FY 2006, and $1.3 billion for FY 2007, making it the largest single expenditure for conservation in the Farm Bill. Of this funding, 60 percent is for livestock producers, with crop farmers receiving the balance. The cost-share amount is 75 percent for most farmers, with an allowance for up to 90 percent cost-share for limited resource farmers. An animal unit cap on livestock operations was removed from the program in the 2002 Farm Bill, although EQIP payments are capped at $450,000.

Farmers enter into contracts from one to 10 years in length. Contract offers are evaluated by the USDA on their use of cost-effective conservation practices; use of practices that address national priorities; and optimization of environmental benefits. The 2002 Farm Bill adds surface and groundwater conservation to the program and allows participation for non-industrial forestland. As part of a national water conservation program, EQIP has $600 million in funding for ground and surface water projects, including $50 million designated for the Klamath Basin in Oregon.

The Farm Bill also establishes under EQIP a competitive grant program for conservation innovation. Under this program, EQIP funds can be used to stimulate innovation in environmental enhancement and protection. Governmental, non-governmental and private entities are eligible to participate in projects involving producers, including market-based pollution credit trading and carbon sequestration. The federal contribution through this cost share program is limited to 50 percent of the total project cost.

Grassland Reserve Program (GRP)

A new program in the 2002 Farm Bill, the Grassland Reserve Program enrolls restored, improved, or natural grassland, rangeland and pasture for the purposes of restoration and conservation. Landowners can under-30 or perpetual easements on a tract (or the maximum allowed by state law), or choose to enroll a tract for 10, 15, 20 or 30 years for improvement. No more than 40 percent of the funds are to be used for contracts of less than 30 years in duration, and not more than 60 percent of the funds are to be used for 30-year contracts and 30-year and permanent easements. Grazing and haying are allowed on GRP land. Rental and easement payments are based on a percentage of fair market value less grazing value. Cost-sharing on restoration is allowed up to 75 percent on restored grassland, and 90 percent on virgin grassland.

Other Conservation Programs

The 2002 Farm Bill includes increased funding for most other conservation programs that were a part of previous farm legislation. The Wildlife Habitat Improvement Program (WHIP) has a considerable increase, from $50 million for FY 1996-2002 to $360 million for FY 2002-2007. WHIP is a cost-sharing program for landowners interested in developing and improving wildlife habitat, with contracts lasting 5-10 years.

The Farmland Protection Program (FPP), which provides funds to public and private groups for the purchase of easements on agricultural land, will experience an increase of funding from $50 million in the previous legislation to authorization for $597 million between FY 2002 and FY 2007. The acreage cap on the amount of land the program can purchase was removed, and eligibility has been expanded to include land with historical or archaeological resources, and land with prime, unique or other productive soil.

The Small Watershed Rehabilitation Program (SWRP) funds rehabilitation of water impoundment and other water resource projects constructed over the past 50 years. The program had an initial funding level of $5 million in 2001. The new Farm Bill increases this funding to $275 million.

Table 2 provides a summary of major program spending outlined in Title II.

Summary of Conservation Spending

Program	Funding	Acreage Cap
Conservation Reserve Program (CRP)	$1.517 billion	Acreage Cap: 39.2 m acres
Wetlands Reserve Program (WRP)	$1.5 billion	Acreage Cap: 2.275 m acres
Grasslands Reserve Program (GRP)	$254 million	Acreage Cap: 2 m acres
Farmland Protection Program (FPP)	$597 million	Acreage Cap eliminated
Wildlife Habitat Improvement Program (WHIP)	$360 million	NA
Environmental Quality Incentives Program (EQIP)	$4.6 billion	NA
Water Conservation Program (WCP)	$310 million	NA
Small Watershed Rehabilitation Program (SWRP)	$275 million	NA
Conservation Security Program (CSP)	no limit specified, estimated cost: $2 billion	NA

table 2

Title III: Trade

International trade is a vital part of America's agricultural economy. Agriculture is one of the few sectors of the national economy to consistently return a trade surplus. As global competition in commodities in which the United States has historically been dominant increases, it is seen as critically important to continue to expand trade in new markets, develop new products for existing markets, and pursue trade disputes vigorously. During the past several reauthorizations, trade has taken an increasingly important place in the Farm Bill. The Trade Title of the current Farm Bill reauthorized all trade programs from the previous legislation and included several new provisions, including a program to fight non-tariff trade barriers, an assistance program for specialty crops, and an online exporter assistance program. Trade programs can be divided into two categories: trade and export promotion programs and food donations and humanitarian aid programs.

Promotion Program Highlights

The Export Credit Guarantee Program consists of short and intermediate term (3 years and 7 years, respectively) guarantees of private credit to exporters to facilitate sales of U.S. agricultural products. The receiving country must be deemed credit-worthy prior to a guarantee being extended. Processed and high-value products are to compose at least 35 percent of all guarantees extended. The program was continued by the 2002 Farm Bill at levels established by the 1996 legislation.

The Market Access Program (MAP) replaced the Market Promotion Program in the 1996 Farm Bill. It works to expand markets for U.S. agricultural products through partnerships with private companies, nonprofit agricultural trade organizations, and regional trade groups which fund promotional activities. Funds are distributed through the CCC. Under the new legislation, MAP is scheduled to increase gradually from its current $90 million budget to $200 million by FY 2006. The additional funding is intended in part to increase participation by groups that have not previously been involved in the program.

The Export Enhancement Program (EEP) provides exporters with cash bonuses for purchasing U.S. agricultural products for sales overseas, particularly in the European Union. This makes American products more competitive against products from heavily-subsidized markets. The program is targeted at specific unfair trade practices and countries. Funding for EEP was extended with the 2002 Farm Bill at the current level of $478 million annually. The legislation expands the definition of unfair trade practices to include pricing practices by state trading enterprises that "are not consistent with sound commercial practices in the ordinary course of trade;" subsidies that distort an agricultural market in a manner harmful to the United States or that decrease U.S. export opportunities in that market; unfair or unjustified technical barriers to trade, such as labeling, sanitary, or phytosanitary restrictions, particularly those affecting new technology, including biotechnology; unfair restrictions on U.S. imports in the administration of a tariff-rate quota (e.g., excluding U.S. products first or disproportionately in the imposition of higher post-quota tariffs); and failure to meet the terms of existing trade agreements with the United States. The Foreign Market Development Program (FMD) and the Emerging Markets Program (EMP) were also reauthorized by the new legislation, with the FMD program funding increasing to $34.5 million.

Two new trade-related components in the Farm Bill are an online exporter assistance program and the requirement for the development of a global market strategy by the USDA. The online exporter assistance program creates a Website to provide comprehensive information to "assist exporters and potential exporters of U.S. agricultural commodities." This website is to provide information on relevant laws and regulations which could have an impact on trade shipments. It is intended to link together the resources currently provided in an uncoordinated manner by the USDA, Foreign Agriculture Service, the U.S. Treasury Department, the U.S. Commerce Department, as well as foreign governments, private sector agents, and non-profit organizations. It is anticipated that the website will include information on market opportunities, marketing requirements and restrictions, and legal considerations.

The secretary of agriculture is directed in the Farm Bill to consult with Congress on the development and implementation of a long-range global market strategy for agricultural trade. This strategy is to identify potential growth opportunities for U.S. agricultural trade; ensure the coordination of resources, programs and policies of various agencies involved in trade; and remove the barriers to agricultural trade in overseas markets.

The Farm Bill also creates a new program to address trade barriers for bio-engineered products. The program provides grants to public and private organizations that address "quick response intervention regarding nontariff barriers to U.S. exports due to biotechnology, food safety, disease or sanitary or phytosanitary concerns, or to develop protocols as part of bilateral negotiations with other countries" on these issues. This program is funded at $6 million annually for the life of the 2002 Farm Bill.

Food Assistance and Humanitarian Aid Programs

The Food for Peace Program provides overseas humanitarian food aid, and is the most significant source of foreign food donations provided by the United States annually. The purpose of these donations is to fight hunger and malnutrition and to aid in equitable and sustainable development. The program is divided in responsibility between the USDA and the U.S. Agency for International Development (USAID). The USDA is responsible for directly administering government-to-government sales to developing countries under long-term credit arrangements. USAID administers food donations through governments and private or public agencies. Commodities are delivered from CCC inventories, with the costs of transport to ports of entry financed by the CCC. These commodity transfers can be either in the form of humanitarian relief or as products for sale on the domestic market, with the proceeds being used by the host government for economic development purposes. Surplus CCC inventory may also be directly donated if it cannot be disposed of without disrupting global markets.

The 2002 Farm Bill reauthorized the Food for Peace Program with some revisions, increasing the minimum level of assistance from 2.025 million metric tons to 2.25 million metric tons annually and setting allowable funding for transport and administrative costs of sponsoring agencies to between 5 percent and 10 percent. Other food aid programs, including the Food for Progress program, the Bill Emerson Humanitarian Trust/Food Security Commodity Reserve Program and the John Ogonowski Farmer-to-Farmer Program were reauthorized. The George McGovern-Robert Dole International Food for Education and Nutrition Program, which was begun in FY 2001 as a pilot program, also is authorized in the Farm Bill. The program will provide commodities, financial and technical assistance for foreign preschool and school meal programs.

Title IV: Nutrition Programs

Title IV of the Farm Bill deals with the federal food assistance program known as food stamps, a commodity distribution program for the needy, and the community food security programs. The food stamps program, included in the Nutrition Title, is one of the central components of the American social safety net, and the 2002 Farm Bill reauthorized it with mostly minor adjustments. The most significant change is the restoration of food stamp benefits to legal immigrants who have been in the United States for five years. In 1996, the Personal Responsibility and Work Opportunity Reconcilliation Act restricted access to food stamps to legal resident aliens who had been continuously employed in the United States for 10 years. Benefits were restored to immigrant children, disabled and elderly individuals who were in the United States in 1996. Effective October 2003, all legal immigrants are eligible to apply for food stamp benefits after they have met the five-year continuous residency threshold. Other changes adjusted the standard deduction for eligibility requirements to allow greater benefits for many larger households. For those leaving welfare, food assistance in the form of transitional food stamp benefits is available for five months at the benefit rate equal to the last month of benefits before leaving welfare, with some adjustments. States have authority to recertify families during the transitional period for up to one year.

The 2002 Farm Bill provides for food stamp program simplification for states and participants, including changes in asset and income reporting limits and requirements to achieve harmonization with Temporary Assistance to Needy Families (TANF). Standardized deductions, utility allowances, determination of housing costs and reporting requirements also have been simplified. As a part of an effort to reform the program's quality control system, the USDA will impose penalties on states with high error rates for payment, and will reward states that show improvement in the error rates or demonstrate improved administration from an annual $48 million fund. The Food State Employment and Training (FSE&T) Program, which provides funding to states for training programs serving food stamp recipients, gained increased flexibility in spending through the removal of some requirements and categorical payment limitations. The Farm Bill also promotes the use of electronic benefit transfer (EBT) cards by removing the requirement that the cards operate at no new costs to the government.

The Nutrition Title also includes assistance for community food projects, which the 2002 Farm Bill expands to include projects that meet specific state, local or neighborhood food and agricultural needs for infrastructure improvement and development, planning for long-term solutions; innovative marketing activities that mutually benefit agricultural producers and low-income consumers. Included in this are programs that address loss of farms and ranches, rural poverty, welfare dependency, hunger, the need for job training and the need for self-sufficiency. Annual funding for these projects doubled in the 2002 Farm Bill to $5 million. Funding can be used to contract with federal, state or local government or with qualified private non-governmental organizations.

Three new components of the Nutrition Title of the 2002 Farm Bill are the use of commodities held by the CCC in domestic feeding programs, pilot programs for the free distribution of fruits and vegetables in schools, and encouragement for federally-assisted feeding programs to purchase locally-produced goods. The USDA is authorized by the 2002 Farm Bill to distribute surplus commodities from the CCC's stock to any USDA domestic feeding program. The required minimum funding for this program is $200 million annually, with a minimum $50 million to be spent on the fruit and vegetables for use by school lunch and child nutrition programs.

Title V: Credit

The availability of credit for farmers at reasonable rates is a lynchpin of the U.S. agricultural economy. The Farm Credit System is a network of private, federally-chartered banks and associations that provide loans to farmers. The Farm Service Agency (FSA) of the USDA offers direct and guaranteed farm ownership and operating loans to farmers who are temporarily unable to obtain private, commercial credit. Often these are beginning farmers who cannot qualify for conventional loans because they have insufficient financial resources. Other key groups the FSA program assists are those established farmers who have suffered economic setbacks due to natural disasters, and those with limited resources.

Guaranteed loans are obtained through conventional lenders. Direct loans, for those unable to obtain guaranteed loans, are available through the FSA, which then services and maintains the loan. Ownership loans are provided for the purchase of farmland, the construction or repair of buildings or other fixtures and the promotion of soil and water conservation. Operating loans provide financing for regular agriculture activities.

The 2002 Farm Bill makes only minor changes to the existing farm credit system. The legislation includes some limited new resources for beginning farmers and ranchers, with eligibility expanding to allow for larger land purchases, increased terms for down payment loans and extended preferential purchase opportunities for beginning farmers to buy FSA inventory farm property.

Other changes in the 2002 Farm Bill are the easing of qualification requirements for direct loans, expansion of opportunities for limited liability corporations and trusts, waiver allowances on eligibility time limits for recipients of direct and guaranteed farm operating loans, and increased availability of emergency loan financing. The legislation also includes support for beginning farmers and ranchers and streamlines the application process for loans

Direct operating loan recipients are eligible for a one-time, two-year waiver of the seven-year exclusion, which had been waived entirely in the 1996 Farm Bill. Farmers and ranchers receiving guaranteed loans will continue to have the eligibility waiver in force. Without the waiver, borrowers receiving new guaranteed operating loans are disqualified from receiving additional operating loans for a period of 15 years.

Authorization levels for farm credit have been increased, particularly in the area of direct farm ownership loans. Annual loan authorization levels are set at $205 million for direct farm ownership loans (up from $85 million in the 1996 Farm Bill); $565 million for direct operating loans (up from $500 million); $1 billion for guaranteed farm ownership loans (up from $750 million); and $2 billion for guaranteed operating loans (down from $2.1 billion).

The Credit Title also provides Farm Credit

Banks and Farm Credit System Associations greater flexibility in issuing loans outside of their territory and increased authority for financing import-export of farm supplies, agriculture-related processing equipment and machinery, and other capital goods related to the storage or handling of agricultural commodities or products.

Title VI: Rural Development

The importance of viable rural communities to the health of the U.S. agriculture section is well-understood. The Rural Development Title of the Farm Bill covers a diverse array of programs related to improving the quality of life in rural America. Included in the legislation are increased resources for water and wastewater systems, comprehensive and strategic regional planning, value-added agriculture, rural business investment, and new funding for broadband Internet access in rural areas.

Water, wastewater and waste disposal

The Farm Bill authorizes funding for the Rural Utility Service (RUS) to finance, through loans and grants, rural waste water and waste disposal facilities. The 1996 Farm Bill capped the authorizations for grants at $590 million, a limit that has been removed in the 2002 Farm Bill. The Farm Bill also includes a $360 million authorization from the CCC to reduce the backlog of qualified, pending applications for grants and loans for Water and Waste Disposal and Emergency and Imminent Community Water Assistance. Very small communities (those under 3,000 population) are specifically targeted with the latter of these programs and also are eligible to apply for SEARCH grants, which award $51 million annually for feasibility and environmental studies related to environmental projects to meet water and waste water standards. The Farm Bill also includes funding for technical assistance for communities for water projects, including the creation of a Rural Water Circuit Rider Program within the RUS (which contracts for a similar program currently) authorized at $15 million annually. The legislation also includes a new grant opportunity for non-profit organizations to capitalize revolving loans for water and waste disposal facilities, with $30 million available annually for small capital projects and pre-development costs not associated with regular maintenance.

Regional planning

The Farm Bill expands upon the existing support framework for planning at the regional and local level by providing grants and assistance through a variety of programs. Multi-jurisdictional regional planning organizations are eligible for cost-share grants for assistance to local governments to improve the infrastructure, services and business development capabilities of rural areas. These grants can pay for up to 75 percent of the costs of this assistance, with a maximum annual grant to any one organization not to exceed $100,000. This program is authorized at $30 million annually.

The 2002 Farm Bill establishes the Rural Strategic Investment Program which is to fund regional investment boards. These boards are to develop and implement regional strategic investment plans and facilitate the locally-based planning and implementation processes for development that optimizes regional competitive advantages by providing resources and a framework for operation. Regional strategic plans are to address a range of issues, including basic infrastructure needs; basic services within the region; opportunities for economic diversification and innovation; current and future human resource capacity; access to market-based financing; and public and private collaborators.

A component of this program is the creation of a National Board on Rural America, which is to approve, negotiate, or disapprove each regional plan; develop a national strategic investment plan; distribute planning grants to regional groups; provide leadership for regional boards; and evaluate the progress made by each regional board. Authorized funding for this program is $100 million from the CCC. Grants to regional boards for planning are not to exceed $100,000. Competitive innovations grants are available to regional boards for the implementation of regional strategic plans. These grants cannot exceed $3 million per regional board, with priority given to regional boards and plans which leverage additional funding with this federal grant. A final component of this program is a National Conference on Rural America, a meeting to help define policy recommendations and strategies and to develop an action plan for resolving challenges in rural America.

Telecommunications/Rural Broadband Access

The Farm Bill includes a new section of the Rural Electrification Act of 1936 on Rural Broadband Access. A pilot program providing capital funding for broadband transmission infrastructure was instituted in 2001, with a budget of $2 million. The Farm Bill expands considerably on this pilot project program with loans and loan guarantees for construction, improvement and acquisition of facilities and equipment to provide broadband service in rural areas. The authorized appropriation for this program is $100 million over the life of the Farm Bill.

The Farm Bill also includes support for teleworking programs in rural areas. The legislation sets aside $5 million for grants to at least one rural institution to serve as a clearinghouse for research and development, conduct outreach, and develop and share best practices for telework opportunities in rural areas. In addition, the institution is to support private sector businesses that are transitioning to telework, and assist telework officials at the state and local level. The five year grants are supported at 70 percent for their first three years and 50 percent for the remaining two. Along with this, the 2002 Farm Bill authorizes $25 million for grants to organizations to share the costs of establishing or expanding a telework program in a rural area.

Rural Business Assistance Programs

The 2002 Farm Bill establishes the Rural Business Investment Program to "promote economic development and the creation of wealth and job opportunities in rural areas by encouraging developmental venture capital investments in smaller enterprises and to establish a venture capital program with the mission of addressing the unmet equity investment needs of small enterprises located in rural areas." The program is authorized to guarantee funds raised by companies to make equity investments in rural businesses, and to provide grants for operational assistance for program participants. The program has funding to guarantee up to $280 million in investments and to provide $44 million in grants.

Other business assistance programs, including the Rural Business Enterprise Grants, Rural Development Loans and Grants and Rural Cooperative Development Grants, were reauthorized with only minor adjustments. Annual funding for the Rural Business Opportunity Grants program was doubled from $7.5 million to $15 million.

Value-Added Agriculture

Promoting opportunities for producers to add value to their agricultural production before marketing was part of the 1996 Farm Bill and continues to be supported through a number of programs within the new legislation. Among these are loans and loan guarantees for renewable energy systems, with wind and anaerobic digesters, which convert agricultural wastes into methane for energy, now explicitly included alongside solar power. The Farm Bill also includes $10 million annually for grants to agriculture organizations to train farm workers in new technologies and specialized skills necessary for high-value crops. Of regional interest, the new legislation provides $7 million annually for the development of state-of-the-art technology and value-added manufacturing to promote economic development in the Lower Mississippi Delta region.

The Farm Bill expands the Value-Added Agricultural Products Market Development Grants pilot program, authorizing funding of $40 million annually for competitive grants to producers and groups. The grants are to assist the participants in developing business plans and strategies to create marketing opportunities for value-added agricultural products. Alongside this, the legislation establishes an agriculture innovation center demonstration program to provide grant funding to organizations to support agricultural producers' needs for technical, marketing and organizational assistance for value-added agriculture.

Title VII: Research

Scientific research has played a central role in making American farmers the most productive in the world. Sustained public and private investment in agriculture-related research and extension has long been an important part of successive Farm Bills. While the importance of this research has grown over the past several years due to advances in science, new and persistent pests and diseases, and an increasingly competitive market, federal funding for scientific research has remained relatively unchanged over the past two decades, even as private funding for research has increased. The 2002 Farm Bill includes language to extend funding for many research programs through to 2007, and to eliminate specific dollar amounts, replacing the exact figures with "such sums as are necessary to carry out" the research. The legislation provides further instruction in a "Sense of

Congress" statement that funding for research should double over the next five years.

In general, the Farm Bill adds a number of research concerns to priority lists for research funding, something that was also done in 1998 through the Agricultural Research, Extension, and Education Reform Act. New priority areas for research in the 2002 Farm Bill include: genetically-modified agriculture products; wind erosion; crop loss; land use management; water and air quality; revenue and insurance tools; agrotourism; environment and private lands; integrated pest management; and animal infectious diseases. The Farm Bill extends the authorization for the Initiative for Future Agriculture and Food Systems (IFAFS) to 2007, and adds rural, economic and business and community development to the list of priority areas to be addressed. The IFAFS program funds research in a wide variety of priority areas, including environmental quality, farm income, food safety, biotechnology, precision agriculture, crop diversification, alternative crop production and farm profitability.

Two areas of particular interest for new research in the 2002 Farm Bill are bioterrorism and biosecurity. Unspecified funds are authorized for biosecurity planning and response, which is to be used to reduce the U.S. food system's vulnerability to chemical or biological attack, to support long-term partnerships to enhance U.S. biosecurity and capacity to analyze and respond to bioterrorism threats, and to respond to chemical or biological attacks on the U.S. food system. Funding is to increase for the units within USDA charged with researching and responding to biothreats. Furthermore, security upgrades at research facilities are eligible for federal support through a competitive grant program established by the 2002 Farm Bill.

A second new area of major priority for research is into the potential risk posed by biotechnology. The purpose of this research is to investigate the environmental effects of biotechnology and to provide information for the discussion on the widespread use of genetically-modified organisms in production agriculture. Grants are available through the Cooperative State Research and Extension Service and the Agricultural Research Service for institutions to conduct environmental assessment research on appropriate management strategies to minimize physical and biological risks associated with bio-engineered plants, animals and micro-organisms; on monitoring the spread of these organisms; on the transfer of genetic information from host to non-target wild and domestic species; and on the relative impact of these modified organisms compared with other types of production systems.

The Farm Bill also supports biotechnology research for developing countries, a new area of activity. Through a competitive grant program conducted by the Foreign Agriculture Service, the USDA will make available funds for research on biotech crops which enhance the nutritional content of the agricultural product, increase yields or safety of the product, provide for disease or drought and stress resistance, and develop vaccines to immunize against life-threatening diseases.

Another new program in the Research Title is a Beginning Farmer and Rancher Development Program. Farmers and ranchers who have been in operation for fewer than 10 years are eligible for training, education, outreach and technical assistance offered by participating public and private entities. These opportunities are supported through competitive grants to the sponsoring organization and include mentoring, apprenticeships and internships; assistance in land acquisition from retiring farmers; business and marketing training; whole farm planning; financial management; conservation assistance; basic practices; and environmental compliance, among others.

Title VIII: Forestry

The Forestry Title creates the Forest Land Enhancement Program to provide financial assistance to state foresters and encourage long-term sustainability of non-industrial private forest lands. The program provides federal cost-share funds to private landowners who agree to develop and implement a 10-year (or longer) management plan for forested land of no more than 1,000 acres (although this limit can be increased to 5,000 acres with the approval of the USDA). Landowners are eligible for up to 75 percent of the costs of implementing the plan. The plans are to provide projects and activities to protect or enhance soil, water, air, range and aesthetic quality, recreation, timber, water, wetland, or fish and wildlife resources. The program is funded at $100 million over the life of the Farm Bill.

The legislation also includes authority for cooperative land management between federal, state and local officials to combat wildfire threats, ensure continued forest health, and aid in wildfire prevention and control. Included in this is $35 million for a program of outreach and education, to augment federal programs for wildfire prevention, and to focus the federal role in promoting optimal fire-fighting efficiency. Finally, the Forestry Title includes $30 million for extension to promote sustainable forestry's value and benefits, and the variety of private and public resources available to assist landowners in planning and implementation of sustainable forest projects.

Title IX: Energy

A new addition to the Farm Bill, the Energy Title, provides encouragement and support for a number of sustainable, bio-based and renewable energy resources. Among the items included are requirements for federal procurement of bio-based products, biorefinery development grants, energy audit and renewable energy development, biomass research and development, and the continuation of the bioenergy program.

The federal procurement requirements call for preference to be given to items with the highest bio-based content whenever possible following the promulgation of procurement guidelines established by the USDA and U.S. Environmental Protection Agency. The Farm Bill also provides for grants to individuals, corporations, farm cooperatives and others to assist in paying the costs of development and construction of biorefineries to convert biomass into fuels or chemicals and possibly produce electricity. Grants are made on a competitive basis and cannot exceed 30 percent of the total cost of the project.

The Farm Bill also includes authorization for competitive grants to state energy or agriculture offices, regional- or state-based organizations, rural electric cooperatives and others to conduct and promote energy audits for and provide energy efficiency assistance to farmers, ranchers and rural small businesses, and to provide information on using renewable energy. Farmers, ranchers and business owners who receive an energy audit through this program are expected to pay a minimum of 25 percent of its costs. Associated with this program is an annual $23 million grant, loan and loan guarantee program for the purchase of renewable energy systems and implementation of energy efficiency improvements. Grants cannot exceed 50 percent of the cost of the project.

Biomass research and development receives an increase in funding under the Farm Bill, with an annual appropriation of $49 million as well as an additional $75 million transferred from the CCC. The Bioenergy Program, which makes payments to bioenergy producers who purchase agricultural commodities to manufacture biodiesel and fuel grade ethanol, is continued in the new legislation as well. Energy producers are reimbursed based on their production volume for their purchases of eligible commodities. No producer can receive more than 5 percent of the total amount distributed in a fiscal year. Program funding is authorized at $150 million annually until 2006.

Title X: Miscellaneous

The final title of the Farm Bill includes a handful of new measures, including new authority for the USDA in restricting animal movements to protect animal health, a limited prohibition on non-disclosure clauses in production contracts, a cost share program for organic certification, labeling requirements for catfish, the establishment of a food safety commission, and requirements for country-of-origin labeling.

The Animal Health Protection Act allows the secretary of agriculture to restrict or prohibit the importation, further movement, or use of any animal or related item, if necessary, to prevent the introduction or dissemination of any livestock pest or disease. This extends to the authority to seize, quarantine, treat, or destroy any animal, as well as restrictions on interstate shipment of livestock. Owners of destroyed livestock or related items are to be compensated at fair market value. The legislation also creates a 15-member Food Safety Commission to make specific recommendations to enhance the food safety system of the United States.

The Farm Bill also restricts the scope of non-disclosure clauses in production contracts for poultry and livestock, prohibiting such measures in contracts relating to discussions between a contracting party and the legal adviser, lender, accountant, executive manager, landlord, or a member of the immediate family of the party or with an agency of the federal or state government. Also included in the legislation is $5 million to assist producers and handlers of agricultural products with the costs of becoming certified under the National Organic Program. Producers or handlers are eligible for 75 percent cost sharing, with individual payments capped at $500.

American catfish farmers, who have faced increased competition from Vietnamese producers of a similar fish, will experience some relief through a restriction on the use of the term "catfish" to only those fish of the family *Ictaluridae*, which includes domestic catfish, but not the *basa* fish that are raised by farmers in Southeast Asia. Another, more significant, labeling requirement is the mandate that consumers of beef, pork, lamb, wild and farm-raised fish, perishable agricultural products and peanuts be informed of the product's country-of-origin at the point of sale. While this provision does not apply to food service operations or for products in which the fish, poultry, meat or peanuts are an ingredient in a processed food item, it does cover ground products. For meat to have a U.S. country-of-origin label, it must be exclusively from an animal born, raised, and slaughtered in the United States. Labels on seafood must also distinguish between wild harvested and farm raised fish.

Trouble Ahead, Trouble Behind

The 2002 Farm Bill has sparked a considerable amount of criticism for what was, until recently, a parochial issue. Domestically, criticism has come from those concerned that the federal law was too costly and amounted to a welfare program for farmers and large agribusiness. Internationally, critics grumbled over the retreat from Freedom to Farm's commitment to end subsidies and the increase in U.S. support for farmers. There were also warnings from several trading partners that the Farm Bill could create problems for the United States in the World Trade Organization. Farm groups have rallied behind the bill and are working to counter some of the negative publicity that has arisen in the wake of the legislation's passage.

Domestically the criticism turns on perceptions that the Farm Bill, and the commodity programs in particular, amount to welfare for individuals already making an above average income, distort markets and promote overproduction and, by extension, depress markets. Opinion pieces in many major newspapers took Congress and the president to task for the size and nature of the Bill. As an example, the *Washington Post* called the Farm Bill "shockingly awful" in a May 2, 2002 editorial, criticizing both parties for what the *Post* portrays as massive handouts to a "handful of vast agro-industrial operations." *The Wall Street Journal* was even less sympathetic, labeling it "a bucket of slop" that gouges taxpayers.

Supporters of the Farm Bill counter this criticism by noting that the legislation reduces subsidies when compared with the FAIR Act and the emergency legislation, passed in the last several years. By building these higher levels into farm legislation Congress has provided stability to the farm support equation. Annual emergency legislation created an onerous level of uncertainty for agricultural producers and was fiscally difficult to sustain. The incorporation of these payment levels also amounts to an indirect acknowledgement by Congress that the emergencies of the 1990s are more a part of the permanent landscape for farmers in the current global market.

While most major newspapers criticized the 2002 Farm Bill as too expensive, others have voiced concern that the Bill will harm small farms. Rural activists argue that the absence of meaningful payment limitations and the emphasis on program crops, as well as the increase in payment rates for program crops in general, will encourage overproduction, which in turn will lower prices for producers. As prices fall, pressure will build for farmers to get bigger or get out, accelerating a trend toward farm consolidation and creating circumstances favorable for larger, wealthier farmers to buy out their smaller, less well-capitalized neighbors. As was often pointed out in the debate over the 2002 Farm Bill, commodity programs dominate farm spending even though they are grown on only 30 percent of all farms and account for roughly 20 percent of total agriculture sales. The dominance of program crops in the Farm Bill worries advocates of a number of minor crops who view the new Farm Bill, with all of its increased funding, as continued exclusion of the majority of farmers from farm program participation.

Overseas, criticism has been remarkably widespread. Argentina, Australia, Brazil, Canada, China, the European Union, Mexico, and South Africa, among others, all have complained publicly about the increase in support for farmers. International groups including the World Bank and the International

Monetary Fund also have warned that U.S. credibility in advancing freer trade and open markets is severely undermined by the 2002 Farm Bill. American agriculture and trade analysts have been swift to defend the legislation, pointing out the still relatively limited subsidies the United States provides compared to other nations, including the European Union and Japan.

To understand how complicated this issue can be, the simple act of updating yields could trigger a WTO complaint. Farmers of minor oilseeds, of course, have to update their yields if they are interested in participating in the program and, according to some observers, this could be viewed as distorting production patterns, which violates U.S. trade agreements under the WTO. It is also equally possible that the WTO will not view the updates as distorting since they are for a fixed period of time. Analysis by the Food and Agriculture Policy Research Institute at the University of Missouri gives the 2002 Farm Bill a 20 percent chance of exceeding allowable WTO "amber box" subsidies (those viewed as promoting production or affecting markets). While this is a low probability, the 1996 Farm Bill and succeeding emergency legislation did not face even this level of possible violation, and if the WTO resolution process determines that U.S. counter-cyclical payments are production or trade distorting, the potential for a negative finding for the United States increases.

Under WTO agreements, the United States is allowed $19.1 billion in agricultural subsidies annually, the so-called amber box payments. Payments in this category are estimated at about $11 billion in 2001, well below the cap. Conservative estimates of U.S. subsidies under the new legislation show the payments reaching a top level of $16.7 billion. By comparison, the European Union has a limit of about $60 billion, although this sum is spread out among 7 million farmers, as opposed to the fewer than 2 million farmers in the United States. Should U.S. subsidy payments exceed allowable limits, the Farm Bill authorizes the secretary of agriculture to curtail payments to remain in compliance. Conservation payments, including land retirement and restoration, which are considered trade neutral, are "green box" payments and essentially are unlimited.

The international response to the Farm Bill likely will place the United States negotiators in an awkward position in the next round of trade talks following an increase in steel tariffs to protect the U.S. industry from competition. The current round of trade negotiations, begun in Doha, Qatar, in November 2001, involved enticements for developing country involvement through reduced agricultural subsidies in Europe and the United States and increased access to the industrialized nations' food markets.

Criticism of the legislation is not limited to the expansion of subsidies, however. The country-of-origin labeling requirement in the final title poses huge risks for Mexico and Canada, both of which export substantial amounts of meat and livestock into the United States. The labeling requirement for catfish will also likely have a negative affect on the burgeoning aquaculture industry in Southeast Asia and could potentially lead to a WTO challenge.

Beyond the criticism of the Farm Bill, the USDA faces a very practical problem in implementing the massive bill: personnel. In the years following Freedom to Farm, USDA field offices, and particularly Farm Service Agency (FSA) staff, experienced reductions reflecting the anticipated reduction in paperwork and administration brought on by the 1996 Farm Bill's phasing out of farm programs. FSA staff, who administer the commodity programs and are responsible for verifying yield and acreage information for farm program participation, will see their workloads increase at a time when field office staff are stretched very thin. Program expansion will further contribute to the work for these offices. Furthermore, the expansion of several key conservation programs, and the addition of an entirely new program, creates administrative and logistical challenges for the USDA.

What Happened to the SLC Priorities?

The SLC Agriculture and Rural Development Committee put forth a number of recommendations at its 2000 AgForum in Coral Gables, Florida. These were later adopted as an SLC Policy Position by the Conference during the 2001 SLC Annual Meeting in Savannah, Georgia. A number of the SLC's recommendations are included in the final Farm Bill. The following table provides a comparison.

Comparison between SLC Recommendations and the 2002 Farm Bill		
Issue	**SLC Recommendation**	**2002 Farm Bill**
Counter-Cyclical Payments	At the center of any safety net for farmers needs to be support in the form of counter-cyclical assistance and conservation payments. Counter-cyclical programs must recognize regional differences and utilize regional priorities and performance to determine implementation. In the presence of adequate counter-cyclical support for farmers, decoupled payments are not a priority.	The 2002 Farm Bill includes counter-cyclical support for farmers while retaining decoupled payments. Regional differences are not specifically recognized in the Farm Bill, and the counter-cyclical program is still focused on program crops, with several key Southern crops now added. The program establishes target prices for commodities, but the payment is decoupled from actual production, since payment is based on historical (base) planting acreage.
LDP/Marketing Loans/ SIP	As part of the counter-cyclical safety net, the Committee calls for the retention of current marketing loan rates and the creation of a supplemental income program that recognizes the special characteristics of the South. Such a program should retain crop specificity and not aggregate across crops.	The LDP/Marketing Loan Programs both saw modest increases through higher loan rates and the addition of some new commodities, including peanuts. Loan rates are now fixed in legislation and no longer subject to 5-year olympic averaging or other adjustments. No Supplemental Income Program (SIP) was included in the final legislation.
Farm Savings Accounts	These tax-deferred accounts farmers may use to shelter funds in good years to be accessed in bad years were considered worth developing as a potential resource for farmers.	Not in Farm Bill
Conservation Programs	The Conservation and Wetland Reserve Programs (CRP and WRP) and the Environmental Quality Incentive Program (EQIP), are a vital part of the total agriculture safety net and should be retained and expanded. Increasing allowable reserve program acreage would provide benefits to a greater number of farmers and expand the environmental benefits as well. Furthermore, by providing more flexible program commitments (both longer and shorter) program involvement can match the flexibility enjoyed by producers under other farm programs	The Farm Bill includes increased acreage for CRP and WRP and increased resources for EQIP.
Purchase of Development Rights (PDR)/Agricultural Conservation Easements (PACE)	In order to further the goal of the preservation of productive agricultural capacity, the Committee encourages the expansion of matching funds to state purchase of development rights and purchase of agricultural conservation easement programs with increased flexibility for state program guidelines.	The Farm Bill includes $597 million in funding for PACE and PDR programs through the Farmland Protection Program. Program flexibility does not meet the standards suggested by the SLC.
Structure of Agriculture	The shifting structure of agriculture is having a negative impact on farm producers. Trends toward consolidation, concentration, and integration are limiting producers' options and influence in the market. It is in the interest of a stable, open, competitive food and fiber system to have producers and agricultural business entities operate on equal footing in the market.	A ban on packer ownership of livestock was struck from the legislation during Conference. The Farm Bill does include language calling for a study of the impact consolidation has on the food system.

table 3

Comparison between SLC Recommendations and the 2002 Farm Bill		
Issue	**SLC Recommendation**	**2002 Farm Bill**
Contract Production	The trend toward contract production in several sectors and the growth of captive supply for processors requires serious scrutiny in how this will impact producer marketing options and the future of a fair and open market.	The Farm Bill calls for limitations on non-disclosure clauses in production contracts.
Anti-Trust and Merger review	To further the aims of an open market, the SLC Agriculture and Rural Development Committee encourages support and additional resources for USDA merger and antitrust investigation and enforcement activities.	Not in Farm Bill.
Trade	Trade being critical to the continued health of American agriculture, the SLC Agriculture and Rural Development Committee calls for expanded support for the export promotion and market development programs of the USDA Foreign Agriculture Service and the augmentation of existing commodity programs.	Export promotion and market development programs both will experience increased support under the 2002 Farm Bill.
Country-of-Origin Labeling	Support for American agriculture should extend to the identification of products of foreign origin, including meat, at the retail level. USDA certification of inspected meat should be changed to indicate product of domestic or foreign origin.	The Farm Bill includes a mandate for the labeling by country-of-origin for all meat, fish, perishable agricultural products and peanuts to be identified as to their country of origin to the final consumer. Food service establishments and items used as ingredients in prepared foods are excluded. The secretary of agriculture is to promulgate rules for this provision by 2004, following a year-long comment period.
Food Safety/GMOs	The USDA should create a clearinghouse of scientific information related to food safety and actively promote its use. As part of this, the USDA should increase funding to state institutions for research on the health and safety of genetically-modified organisms.	The Farm Bill includes provisions for research and education on genetically-modified agricultural products as well as a new food safety commission to provide specific recommendations on food safety. The Farm Bill also includes new funding for research into the environmental effects of biotechnology and on the relative impact of their use compared to other types of production systems.
Research and Extension/ Curriculum Support	In order to encourage farmers of the future to enter the field and to improve the understanding of the importance of agriculture to all Americans, the SLC supports increased resources dedicated to research, extension and promotion of agriculture. In addition to traditional extension programs, the SLC encourages the support of agricultural education curriculum specialists in state departments of agriculture through USDA-sponsored grants.	The Farm Bill includes no specific funding levels for research, but does feature a "Sense of Congress" statement which calls for the doubling of research spending over the next five years. The Farm Bill provides additional support to youth agriculture groups and significant new resources for beginning farmers, but does not provide for curriculum specialists at the state level.
Estate and Capital Gains Taxes	The SLC Agriculture and Rural Development Committee encourages relief for family farmers from estate and capital gains taxes for farm operations that remain in production agriculture.	Not in Farm Bill

table 3

Comparison between SLC Recommendations and the 2002 Farm Bill		
Issue	**SLC Recommendation**	**2002 Farm Bill**
Supporting High Regulatory Standards Globally	Increasing regulatory standards in the United States put domestic producers at a disadvantage in the global market. Supporting high and consistent standards globally for environmental, labor, and safety regulations is vital to the health of the global environment, the economy and the food supply.	Not in Farm Bill
Farm Credit	Access to reasonable credit is critical to farmer survival and should be fully supported by Congress. Furthering access to affordable credit should be a priority for U.S. farm policy.	Authorization levels for farm credit have been increased, particularly in the area of direct farm ownership loans. Annual loan authorization levels are set at $205 million for direct farm ownership loans (up from $85 million in the 1996 Farm Bill); $565 million for direct operating loans (up from $500 million); $1 billion for guaranteed farm ownership loans (up from $750 million); and $2 billion for guaranteed operating loans (down from $2.1 billion).

table 3

What Does This Mean for the SLC States?

According to a number of observers, the big winners in the Farm Bill are farmers in the Upper Great Plains and in the South. The rice, sugar and cotton provisions in the legislation, and particularly the higher than expected payment limitations and use of generic certificates, is very welcome news for Southern states' agriculture sectors. Additional funding for conservation and increased acreage for the CRP and WRP should also allow for increased opportunities for producers in the South.

Economically, the sugar, cotton and rice provisions in the final Farm Bill all amount to a major victory for Southern state agriculture. Select Southern states alsocan celebrate the labeling requirements for catfish and country-of-origin labeling mandates for meat, since this should provide additional assistance in marketing their products domestically. Beyond crops and livestock, the increased investment in conservation on working lands in general should provide a boost for the South if Southern farmers are aggressive about getting involved in the programs. The inclusion of biomass in the Energy Title also is a nod to Southern farmers who have potential for biomass production through industrial forestry and residue from several key Southern crops.

Key opportunities exist for all states to capitalize on new federal funding for rural development. Many Southern states have been engaged in a long-term program of improving rural communities' infrastructure. The 2002 Farm Bill provides an opportunity to maximize these efforts to improve and diversify the economies of the rural South. Also of importance for agriculture everywhere is continued support for agricultural research. While the Farm Bill carries a "Sense of Congress" statement calling for the doubling of research funds in five years, the legislation not only does not appropriate this money, it fails to list specific sums for any research activities. This, of course, allows budget writers to increase the appropriations for these projects as they see fit, but it creates a degree of uncertainty around all research activities, particularly as budgetary pressures continue.

The Food and Agriculture Policy Research Institute has developed a state-by-state comparison of the 1996 Farm Bill and projected payments under the 2002 Farm Bill. For all states, farm payments increase, although a handful–notably Texas–will experience enormous gains. Table 4 provides this information for the SLC states.

Comparison of Crop Payments: Historical, Projected FAIR Act and 2002 Farm Bill (Annual Averages, $ Thousands)							
State	Payments						
	Historical 98-00	FAIR Act 2002 Crop	2002 Farm Bill 2002 Crop	Change from FAIR Act	FAPRI Act 02-07 Crops Projections	2002 Farm Bill 02-07 Crops	Change from FAIR Act
Alabama	110,376	46,925	95,472	48,547	42,307	85,825	43,518
Arkansas	811,370	567,921	811,113	243,192	484,659	684,582	199,922
Florida	21,604	10,150	20,916	10,766	9,375	19,049	9,674
Georgia	237,443	99,784	221,223	121,439	90,148	200,098	109,950
Kentucky	175,524	104,458	172,247	67,788	85,170	141,883	56,713
Louisiana	364,270	206,223	347,058	140,836	182,456	304,144	121,688
Maryland	59,484	40,540	70,040	29,500	31,808	56,796	24,988
Mississippi	397,293	211,101	368,476	157,375	183,386	323,602	140,216
Missouri	572,962	381,413	574,267	192,854	308,704	475,416	166,712
N. Carolina	216,734	114,441	216,635	102,194	95,716	185,788	90,072
Oklahoma	333,039	136,121	294,900	158,779	123,627	246,081	122,454
S. Carolina	81,037	39,153	73,697	34,544	34,275	64,788	30,513
Tennessee	182,878	96,431	172,497	76,066	80,649	147,042	66,393
Texas	1,261,042	569,687	1,151,864	582,177	512,215	1,011,791	499,577
Virginia	70,673	40,902	72,040	31,138	33,615	60,094	26,479
W. Virginia	5,259	2,707	4,503	1,796	2,356	3,894	1,538

table 4

While the 2002 Farm Bill is now the guiding legislation for federal farm policy for the next six years, the spending levels are far from guaranteed. Congressional appropriators were working on the spending levels for farm programs when this report was published. With a calculated federal budget deficit of $200 billion or more, there is a growing concern that farm spending may be a target of initial cuts. Certainly the negative response of the media to the 2002 Farm Bill at its unveiling indicates that farm appropriations could be easy targets for cuts. The most likely cuts would occur in non-program areas, including administration, conservation and research, but other areas could see adjustments. While this could scale back the overall level of support, it is unlikely that any reductions would alter significantly the scope of farm programs, although it could result in delays or changes in the delivery of services that would affect farmers, or a continued decline in public support for agricultural research.

Glossary

Agricultural Adjustment Act	New Deal legislation which created the framework of price supports and production controls that constitutes the core of federal farm programs. The 1933 legislation was replaced by a more workable version in 1938.
Base acres	A farm's crop-specific acreage of wheat, feed grains, upland cotton, rice, oilseeds, or peanuts eligible for participation in commodity programs under the 2002 Farm Act.
Commodity Credit Corporation (CCC)	A federally owned and operated corporation within the U.S. Department of Agriculture created to stabilize and support agriculture prices and farm income by making loans and payments to producers, purchasing commodities, and by various other operations. The CCC handles all money transactions for agriculture price and income support and related programs.
Counter-Cyclical Support	Support to agricultural producers whenever market prices dip below a target price.
Direct Payments	Fixed payments for eligible producers of wheat, corn, barley, grain sorghum, oats, upland cotton, rice, soybeans, other oilseeds, and peanuts. Producers enroll annually in the program to receive payments based on payment rates specified in the 2002 Farm Act and their 85 percent of their base acres and yields.
Farm Bill	The generic term for the periodic omnibus food and agiculture legislation .
Farm Service Agency	Unit of the USDA responsible for administering farm loans, commodity programs, some conservation programs, and disaster assistance. Producers report their base acres and yields to their county FSA office.
Federal Agricultural Improvement and Reform (FAIR) Act of 1996	The title of the 1996 Farm Bill which created a seven-year framework for phasing out commodity program payments, introduced market transition payments, and consolidated certain conservation programs and marketing orders.
Loan Deficiency Payments	A payment to a producer equal to the difference of the actual sales price for an eligible commodity and the loan rate for that commodity.
Loan Rate	The price per unit at which the Commodity Credit Corporation provides commodity-secured loans to farmers for a specified period of time.
Marketing Loan Gain	The difference between the posted county price and the loan rate on a given commodity for producers with non-recourse CCC loans
Marketing Loan Assistance	Short-term loans to producers of program commodities to facilitate orderly marketing of storable agricultural products.
Payment Yields	Farm commodity yield which reflects the historical production of the farm to determine direct and counter-cyclical payments.
Posted County Price (PCP)	The price of major program commodities at the 18 major grain terminals in the United States, adjusted for transportation costs.
Program Crops	Crops for which federal support programs are available to producers, including wheat, corn, barley, grain sorghum, oats, extra long staple and upland cotton, rice, oilseeds, tobacco, peanuts, and sugar.
Target Price	Prices established in the 2002 Farm Act used for calculating counter-cyclical payments for program crops. Prior to 1996, target prices were used to calculate deficiency payments.
Three-entity Rule	Rule allowing producers to recieve payments for up to three farm operations in which they have an interest. Full payments are allowed on the first operation, with half payments allowable on the remaining two.

A more extensive glossary of farm policy terms can be found on the USDA website at:
http://www.ers.usda.gov/Features/FarmBill/2002Glossary.htm#clr

References and Resources

Abbot, Charles. "Bush fattens U.S. farm subsidies," Rueters, June 13, 2002.

Beaudette, Marie. "Pending Farm Bill Rekindles Regional Divisions," *Stateline.org*, from the Internet site www1.stateline.org, accessed April 3, 2002.

Becker, Geoffrey S., ed. *Farm Commodity Legislation: Chronology 1933-1998*, Congressional Research Service, U.S. Library of Congress, Washington, D.C., February 9, 1999.

Belsie, Laurent. "Grudgingly, farmers take more aid," *The Christian Science Monitor*, Boston, Massachusetts, April 29, 2002.

"Big spending US farm bill tangles trade talks," *Agriculture Online*, from the Internet site www.agriculture.com, accessed May 7, 2002.

"Bill backs wiring of rural America," *The Richmond Times-Dispatch*, Richmond, Virginia, June 28, 2002.

Blustein, Paul and Dan Morgan. "Showdown on Subsidies," *The Washington Post*, May 7, 2002.

Brasher, Philip. "Bush signs $190B farm bill into law," *The Clarion-Ledger, Jackson*, Mississippi, June 14, 2002.

Dyckman, Lawrence and Gregory Kosarin. *Farm Programs: Information on Recipients of Federal Payments*, United States General Accounting Office, Washington, D.C., June 2001.

"Farm and Commodity Policy: Government Payments and the Farm Sector," The United States Department of Agriculture Economic Research Service, from the Internet site www.ers.usda.gov/briefing/farmpolicy/gov-pay.htm, accessed on June 3, 2002.

Fischler, Franz. "Hitting agriculture worldwide makes US farm bill a flunk bill," *Financial Times*, London, United Kingdom, May 27, 2002.

Goldstein, David and Kevin Muphy. "New farm bill heavy on subsidies," *The State*, Columbia, South Carolina, June 7, 2002.

Harl, Neil E. *Farm Security and Rural Investment Act of 2002* (Summary of Selected Provisions), Iowa State University, Ames, Iowa, June 12, 2002.

Looker, Dan. "Most of the new farm bill continues the status quo," *Agriculture Online*, from the Internet site www.agriculture.com, accessed June 2, 2002.

Looker, Dan. "Two steps forward, one back on farm bill negotiations," *Agriculture Online*, from the Internet site www.agriculture.com, accessed April 19, 2002.

Penn, J.B. *Press Briefing for Farm and Foreign Agricultural Services*, transcript, United States Department of Agriculture, May 22, 2002.

Phillips, Jim. "The Chosen Few," *Progressive Farmer*, Birmingham, Alabama, April 2002.

Rainford, Cheryl. "What's in the new farm bill?" *Agriculture Online*, from the Internet site www.agriculture.com, accessed June 2, 2002.

Sanger, David. "Reversing Course, Bush Signs Bill Raising Farm Subsidies," *The New York Times*, May 14, 2002.

"Stop the Farm Bill," editorial in *The Washington Post*, May 2, 2002.

The 1996 Farm Bill: Comparison of Selected Provisions with Previous Law, Food and Agriculture Section, Congressional Research Service, U.S. Library of Congress, Washington, D.C. April 4, 1996.

The 2002 Farm Bill, The United States Department of Agriculture Economic Research Service, from the Internet site *www.ers.usda.gov/Features/farmbill*, accessed on June 22, 2002.

The Challenge of a New Century: Agriculture Policy Statement, the Southern Legislative Conference Agriculture and Rural Development Committee, Atlanta, Georgia, November 16, 2000.

The Farm Security and Rural Investment Act of 2002, federal law.

The Farm Security and Rural Investment Act of 2002: Preliminary FAPRI Analysis, The Food and Agricultural Policy Research Institute, University of Missouri, Columbia, Missouri, May 6, 2002.

The Farm Security and Rural Investment Act of 2002--comparison of existing law and the 2002 Farm Bill, from the Internet site www.aglaw.com/specials/finalfarmbill.htm, accessed June 2, 2002.

"The South Rises Again," *Progressive Farmer*, Birmingham, Alabama, May 2002.

Wiesemeyer, Jim. "Detailed Farm Bill Primer," *AgWeb.com*, from the Internet site www.agweb.com, accessed April 30, 2002.

Wiesemeyer, Jim. "Farm Bill defenders try to go on offensive," *AgWeb.com*, from the Internet site www.agweb.com, accessed June 13, 2002.

Wiesemeyer, Jim. "U.S. farm groups to meet June 12 to defend Farm Bill," *AgWeb.com*, from the Internet site www.agweb.com, accessed May 31, 2002.

Winfield, Nicole. "Poor Nations Denounce U.S. Farm Subsidies," *The Washington Post*, June 12, 2002.

Womach, Jasper. *Agricultural Marketing Assistance Loans and Loan Deficiency Payments*, Congressional Research Service, U.S. Library of Congress, Washington, D.C., December 13, 2000.

This Regional Resource was prepared for the Agriculture and Rural Development Committee of the Southern Legislative Conference (SLC) by Jonathan Watts Hull, SLC Regional Representative.

The SLC is a non-partisan, non-profit organization serving Southern state legislators and their staffs. First organized in 1947, the SLC is a regional component of The Council of State Governments, a national organization which has represented state governments since 1933. The SLC is headquartered in Atlanta, Georgia.