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Staff Paper

A Preview of the 1996
Farm Program Provisions

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Abstract

The U.S. House of Representatives and Senate have written farm bills that contain major revisions in farm commodity programs. Differences in these bills, House bill HR 2854 and Senate bill S 1541, must now be resolved by a Conference Committee, approved by a final vote of both houses of Congress, and signed by the President. Though differences in the bills do exist, the bills contain many similar provisions that appear likely to be included in the final version of the bill. This paper summarizes the major provisions of these bills and identifies areas where differences must be resolved by the Conference Committee.

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A PREVIEW OF THE 1996 FARM PROGRAM PROVISIONS
Department of Agricultural Economics
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From the Series: Michigan Agriculture in a Global Economy

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The U.S. House of Representatives and Senate have written farm bills that contain major revisions in farm commodity programs. Differences in these bills, House bill HR 2854 and Senate bill S 1541, must now be resolved by a Conference Committee, approved by a final vote of both houses of Congress, and signed by the President. Though differences in the bills do exist, the bills contain many similar provisions that appear likely to be included in the final version of the bill. The bills have major differences in the areas of dairy programs, nutrition programs, and rural development programs. Commodity program and conservation program provisions are similar and are likely to provide the basis for agreement in the final version of the bill. This paper summarizes the major provisions of these bills and identifies areas where differences must be resolved by the Conference Committee. Because some provisions of the bill could be changed by the Conference Committee, program participants are advised to consult their local office of the Farm Service Agency for final program provisions.

The Budget for Commodity Programs: 1996-2002

The budget cost of farm programs dominated the debate on the 1996 farm bill and was a major factor in the decision to revise U.S. commodity programs. The total deficiency payments paid for feed grains, wheat, cotton, and rice averaged $5.8 billion during the 5-year life of the 1990 farm bill. Farm program spending decreased in 1995 as market prices rose above the target price levels.

Early in the deliberations on the 1996 farm bill, the House and Senate Budget Committees established limits on farm program spending for the 1996-2002 period. These limits established the budget for commodity programs that the House and Senate Agriculture Committees were required to follow. Commodity program spending for the 1996-2002 period will average $5.1 billion, with the following limits in each of the next seven years:

- 1996: $5.570 billion
- 1997: $5.385 billion
- 1998: $5.800 billion
- 1999: $5.603 billion
- 2000: $5.130 billion
- 2001: $4.130 billion
- 2002: $4.008 billion

Commodity Provisions of the 1996 Farm Bill

Both the House and Senate versions of the 1996 farm bill replace the existing target price programs with Production Flexibility Contracts that would be offered to participants for the life of the bill. The major changes in commodity programs include:

- Target prices and deficiency payments would be eliminated for feed grains, wheat, cotton, and rice.
- All existing Acreage Reduction Program (ARP) provisions would be eliminated.
- All 0/85 provisions would be eliminated.
- All existing Crop Acreage Bases would be converted into Contract Acreage for the payment of Production Flexibility Contracts.
- Eligible landowners and operators could sign 7-year Production Flexibility Contracts and receive contract payments from 1996 to 2002. Contracts must be signed during the 1996 sign-up period if any contract payments are to be received between 1996 and 2002.
- Program participants would not be required to obtain catastrophic risk protection crop insurance in order to receive contract payments, but participants who do not obtain catastrophic risk protection must agree to waive any eligibility for emergency crop loss assistance on uninsured crops.
- The honey program, Farmer Owned Reserve, and Emergency Livestock Assistance Program would be eliminated.
- The Senate bill would suspend permanent law for 1996-2002, while the House bill would eliminate the permanent law provisions of the 1938 and 1949 farm bills.

Program eligibility: Production Flexibility Contract payments will be paid on eligible cropland that is enrolled in the program and that meets all compliance requirements. Owners and operators enrolling farmland in a contract must comply with the conservation plan prepared for the farm under the Food Security Act of 1985, the wetland protection requirements in the 1985 act, and the planting flexibility provisions contained in the 1996 farm bill.

Cropland will be eligible for a Production Flexibility Contract if it has Contract Acreage attributable to the land and if it meets one of the following criteria:

- At least a portion of the land was enrolled in the acreage reduction program for the contract commodity during at least one crop year from 1991 to 1995 or was considered planted during that period.
- The land was enrolled in a conservation reserve contract that expired or was voluntarily terminated after January 1, 1995.
- The land was enrolled in a conservation reserve contract that was released by the Secretary of Agriculture between the period from January 1, 1995 until the final day of sign-up established in the 1996 farm bill.

In addition, HR 2854 requires that enrolled land must be used for agriculture or related uses and cannot be used for nonagricultural commercial or industrial uses. The Senate bill does not contain this provision and this issue must be resolved by the Conference Committee.

Farmland owners and farm operators will be eligible to enter a Production Flexibility Contract if they meet one of the following criteria:

- The owner of the eligible cropland assumes all the risk of producing the crop.
- The owner of the eligible cropland shares in the risk of producing the crop.
- The owner of the eligible cropland and the operator who share-rent the eligible cropland both enter into the contract.
- The operator of the eligible cropland cash rents the land with a lease that expires after September 30, 2002 (consent of the owner is not required);
- The operator of the eligible cropland cash rents the land with a lease that expires before September 30, 2002 (consent of the owner is required);
- The owner of the eligible farmland cash rents the land with a lease that expires before September 30, 2002 but whose operator declines to enter a contract. The owner will be eligible to receive contract payments beginning in the fiscal year after the lease with the non-participating tenant has expired.

Calculation of Contract Payments: Production Flexibility Contract payments would be calculated for each farm enrolled in the program. Payments would be calculated for each year from 1996 to 2002 using the following formula:

	Contract Acreage
times	Farm Program Payment Yield
times	0.85
times	Annual Contract Payment Rate
equals	Annual Production Flexibility Contract Payment

The Contract Acreage for each farm is equal to the farm's 1996 established Crop Acreage Base for each program crop. The Farm Program Payment Yield is equal to the program payment yield established for the 1995 crop on the farm.

The Contract Payment Rate for each program crop will be calculated by the USDA as the total budget allocation for each program crop divided by the total quantity of production of that crop enrolled in the program. Estimates of the contract payment rates are shown in Table 1. All payments will be made each year regardless of the market price.

Annual contract payments will be made not later than September 30 of each year. Participants could choose to receive advance payments of 50 percent of the total annual contract payment. Advance payments would be paid on June 15 of 1996 and December 15 of all subsequent years. Both bills require the Secretary of Agriculture to establish adequate safeguards in the division of payments to protect the interests of operators who are tenants or sharecroppers.

Planting Flexibility Provisions

The House and Senate farm bills allow greater planting flexibility on Contract Acreage. Participants who sign a Production Flexibility Contract are permitted to plant any commodity or crop except fruits and vegetables on Contract Acreage. There are no planting restrictions on any non-contract acres on the farm.

The House bill permits double-cropping of fruits and vegetables on Contract Acreage if the region in which a farm is located is determined by the Secretary to have a history of double-cropping these crops. The Senate bill requires that an individual farm, rather than a region, have a history of double-cropping fruits and vegetables. Producers interested in double-cropping fruits and vegetables on Contract Acreage should consult their local Farm Service Agency office for final details on these provisions.

Alfalfa may be harvested on Contract Acreage, but producers will not receive contract payments on those acres of alfalfa that exceed 15 percent of the Contract Acreage. Unlimited haying and grazing is permitted on up to 15 percent of the Contract Acreage on the farm. Haying and grazing on the remaining 85 percent of the Contract Acreage is prohibited during a five-month period from April 1 to October 31 established by the State Committee. The Secretary may allow unlimited haying and grazing in the case of a natural disaster.

Nonrecourse Marketing Assistance Loans

The House and Senate bills provide nonrecourse marketing assistance loans for feed grains, wheat, cotton, rice and oilseeds. Any participant entering into a Production Flexibility Contract will be eligible for nonrecourse marketing loans for all loan commodities produced on the farm. Each bill establishes a maximum loan rate (equal to 1995 levels) and conditions under which the Secretary of Agriculture may reduce loan rates.

The loan rate for corn is to be maintained at not less than 85 percent of a simple moving average of the price received by producers in three of the previous five marketing years (highest and lowest prices excluded). The maximum loan rate for corn during the life of the bill is specified at $1.89 per bushel. The Secretary is permitted to lower the loan rate if carryover stocks are greater than 12.5 percent of total use in the previous marketing year. Loan rates for other feed grains will be established by the Secretary based on the feed value of these grains relative to corn.

The loan rate for wheat is to be maintained at not less than 85 percent of a simple moving average of the price received by producers in three of the previous five marketing years (highest and lowest prices excluded). The maximum loan rate for wheat during the life of the bill is specified at $2.58 per bushel. The Secretary is permitted to lower the loan rate if carryover stocks are greater than 15 percent of total use in the previous marketing year.

The House and Senate bills both provide nonrecourse marketing assistance loans for soybeans and other oilseeds. The soybean loan rate is established at $4.92 per bushel in the House bill. The Senate bill requires that the loan rate for soybeans be maintained at not less than 85 percent of a simple moving average of the price received by producers in three of the previous five marketing years (highest and lowest prices excluded). The maximum loan rate for soybeans during the life of the bill is specified at $5.26 per bushel and the minimum loan rate is specified at $4.92 per bushel.

As nonrecourse marketing loans, these loans can be repaid at the lesser of the loan rate or the prevailing market price determined by the Secretary. If producers repay the loan at the market price rather than the loan rate, the difference between the loan rate and the prevailing market price will be the marketing loan gain. Producers who choose to forego the loan will be eligible to receive a loan deficiency payment equal to the difference between the loan rate and the prevailing market price.

Payment Limitations

Production Flexibility Contract payments, marketing loan gains, and loan deficiency payments will be subject to payment limitations. Payments made under a Production Flexibility Contract will be subject to a payment limitation of $40,000 per person. Marketing loan gains and loan deficiency payments will be subject to a payment limitation of $75,000 per person.

Sugar Program Provisions

The House and Senate farm bills contain similar provisions on the sugar program. Each bill retains the loan rate on raw cane sugar at 18 cents per pound and the loan rate on refined beet sugar at 22.9 cents per pound. These loans will be provided as recourse loans. If the U.S. quota on sugar imports is greater than 1.5 million tons, these loans would be made available as nonrecourse loans. Marketing allotments for sugar established under the 1990 farm bill would be eliminated.

Both bills establish forfeiture penalties designed to discourage the forfeiture of sugar to the Commodity Credit Corporation under a nonrecourse loan program. Cane sugar forfeited to the CCC would be assessed a penalty of one cent per pound. Beet sugar forfeited to the CCC would be assessed a penalty that bears the same relative relationship as the cane sugar and processed beet sugar marketing assessments.

Both bills contain marketing assessments on cane sugar and processed beet sugar. The assessments would be paid by the first processor of sugar and would equal 1.1 percent of the value of the loan rate on raw cane sugar in 1996 and 1.1794 percent of the value of the loan rate on refined beet sugar in 1996. From 1997 until 2003, the assessment on raw cane sugar would be 1.375 percent of the value of the loan rate, and the assessment on refined beet sugar would increase to 1.47425 percent.

The House version also includes a requirement that the sugar loan rate be reduced if the European Union and other sugar exporting countries reduce their domestic and export subsidies beyond the reductions negotiated in the Uruguay Round of the GATT. The Senate bill does not contain this provision, and these differences must be resolved by the Conference Committee.

Conservation Provisions

Though the House and Senate bills contain many similar provisions for conservation programs, there are significant differences between the conservation titles of the two bills. Both HR 2854 and S 1541 extend authority for the Conservation Reserve Program (CRP) until the year 2002. The Senate bill limits CRP enrollment to a maximum of 36.4 million acres, while the House bill limits CRP enrollment to 36.52 million acres. The Senate version allows new CRP contract enrollments to be redirected toward priority conservation, watershed, and environmentally sensitive lands. The House version does not redirect enrollments to priority areas. The House version allows some producers to terminate their CRP contracts on written notice by the producer, but the Senate version has no such provision.

The House version of the Wetlands Reserve Program (WRP) effectively eliminates any new WRP acreage enrolled in permanent easements, but does allow 30-year and 10-year leases. The Senate version does allow permanent easements for new WRP acreage.

Both bills provide funding for livestock operators through the Environmental Quality Incentive Program (EQIP) in the Senate bill and the Livestock Environmental Assistance Program (LEAP) in the House bill. These programs provide cost-sharing assistance for animal waste management and other environmental protection investments. The House version makes the program available to all livestock operators, but the Senate bill limits the program to small and medium-size operations.

The Senate bill also contains provisions for watershed programs, flood risk reduction programs, and farmland protection programs. The House version contains none of these provisions. Given the differences that exist in the conservation provisions of the House and Senate bills, the resolution of these differences will be a major task for the Conference Committee before a bill can be completed.

Summary

While many differences exist in the House and Senate bills, the similarities in these two bills give an indication of the final shape of the bill. Much work remains to be done on resolving differences in conservation programs, dairy programs, nutrition programs, and other programs. Both bills contain similar Production Flexibility Contract provisions that would represent a major revision of existing commodity programs. Operators and landowners considering participation in the new program should consider the following:

- Contract payments will provide less down-side price risk protection than the target price program.
- Planting flexibility provisions will allow greater freedom in making planting decisions than existing programs.
- Rules must still be written to clarify the distribution of payments between landowners and tenants.
- Both bills require landowners and farm operators to sign a Production Flexibility Contract in 1996 if any contract payments are to be received from 1996 to 2002.
- Both bills continue the Conservation Reserve Program and provide environmental cost-sharing programs for producers, but differences in program details must still be resolved.

Table 1. Estimated Production Flexibility Contract Payment Rates Under HR 2854 and S 1541.

	1996	1997	1998	1999	2000	2001	2002
				Cents Per Bushel			
Corn	0.27	0.52	0.41	0.39	0.36	0.29	0.28
Wheat	0.92	0.64	0.68	0.65	0.59	0.47	0.46
Grain sorghum	0.34	0.53	0.47	0.44	0.40	0.32	0.31