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The 1996 U.S. Farm Act Increases Market Orientation. By C. Edwin Young and Paul C. Westcott, Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture, Agriculture Information Bulletin No. 726.

Abstract

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), which was signed into law in April 1996, is a milestone in U.S. agricultural policy. The 1996 Act, in effect through 2002, fundamentally redesigns income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and upland cotton. In so doing, it expands the market-oriented policies of the previous two major farm acts, which have gradually reduced the Government's influence in the agricultural sector through traditional commodity programs. Nonetheless, U.S. production of wheat, feed grains, and soybeans over the next 7 years is expected to be similar under the 1996 Act as under previous law. The links between government payments and producer planting decisions were already small under previous legislation, and 15-percent normal planting flexibility was generally sufficient to balance farmers' production choices among competing crops with relative price signals from the marketplace. Dairy policy changes dramatically under the 1996 Act which phases out price supports and consolidates milk marketing orders. The 1996 Act also alters the sugar and peanut programs. Aggregate net farm income is expected to be higher under the 1996 Act than it would have been with a continuation of past legislation, reflecting higher government payments. However, since government payments are now fixed, farm income could become more variable from year to year in response to supply and demand shocks. Marketing alternatives to manage risk will become more important for many farmers.

Keywords: Farm legislation, the 1996 Act, FACT Act, agricultural programs, farm income, production flexibility contracts, dairy, sugar, peanuts.

Acknowledgments

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Summary and Overview

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) provides new farm sector law for 1996-2002. The 1996 Act accelerates trends of the previous two major farm acts toward greater market orientation that have gradually reduced the Government's influence in the agricultural sector through traditional commodity programs. U.S. production of wheat, feed grains, and soybeans over the next 7 years is expected to be similar under the 1996 Act as would have occurred with extension of previous law. The main reason is that the 1996 Act furthers the process of reorienting key segments of U.S. agriculture toward the marketplace that had been well under way over the last 10 years. Under previous legislation, the links between government payments and producer planting decisions were weakened, and 15 percent normal planting flexibility was generally sufficient to balance farmers' production choices among competing crops with relative price signals from the marketplace.

The impacts reported here are based on a comparison of commodity market projections under the 1996 Act with USDA projections made in early 1996 assuming continuation of the previous agricultural legislation. A key feature of that reference scenario is that U.S. crop producers have been increasingly responding to market signals during the last 10 years and were projected to progress further in that direction. Farm commodity programs became more market-oriented with less government involvement through features such as (1) freezing program payment yields implemented under the 1985 Farm Act, and (2) planting flexibility with 15 percent nonpayment acres in 1990 legislation. With strong market demand in the future, deficiency payments, the use of Acreage Reduction Programs (ARPs), and loan program benefits were projected to decline, reducing the role of commodity programs and furthering the trend toward market orientation.

Impacts of the 1996 Act compared with continuation of previous legislation include:

- *Decisions regarding how the Conservation Reserve Program (CRP) is implemented could greatly determine overall impacts of the 1996 Act.* With elimination of annual supply management programs, the CRP, with up to 36.4 million acres, is the principal policy instrument that limits land availability and constrains crop production. Implementation decisions for targeting of environmental goals and selection of new CRP land through contract extensions, early-outs, and new enrollments will be crucial for determining the size, commodity mix, and regional distribution of the CRP.

- *U.S. agriculture will likely be more price-competitive in world markets in the long run under the 1996 Act*. Trade programs are targeted to place more emphasis on markets with greatest potential for U.S. export gains. Expiration of authority for ARPs and suspension of the Farmer-Owned Reserve benefit exports by no longer limiting production and marketings in times of large supplies. Wheat and barley exports could decline somewhat initially, relative to USDA's projections assuming continuation of the previous legislation, reflecting reductions in Export Enhancement Program (EEP) funding. These impacts are likely to be small, however, because export subsidies add little to total exports when prices are strong. Rice exports will decline because elimination of minimum planting requirements reduces supplies.

- *The 1996 Act may have significant farm-level and regional implications*. Production patterns are expected to shift to reflect differences in comparative advantage for the production of specific crops and to address agronomic, environmental, and conservation needs. The impacts of the program will vary across regions reflecting the mix of agricultural products, the degree of diversification, and production alternatives.

- *Under the 1996 Act, aggregate planting levels for wheat, feed grains, and soybeans are expected to be similar to those projected under continuation of past legislation.* Normal planting flexibility of 15 percent under past legislation generally allowed farmers to alter planting sufficiently to balance crop-commodity production and prices among crops. With greater planting flexibility under the 1996 Act, producers are likely to change the mix of crops produced on their farms, possibly altering regional production patterns. These acreage shifts have implications for planting decisions of other farmers as they respond to changes in relative market prices, with resulting planting choices bringing land use back toward a similar aggregate cropping mix.

- *The 1996 Act brought changes to the sugar and peanut programs.* Support for sugar was reduced through a 25-percent increase in marketing assessments and sugar loans becoming recourse in years when the tariff rate quota on sugar imports is at or below 1.5 million short tons. Elimination of sugar marketing allotments may create opportunities for more efficient sugar producers to expand production. Peanut production and prices are expected to decline with elimination of the minimum poundage quota and reduction in the price support for edible-use peanuts.

- *Dairy policy changed dramatically under the 1996 Act, which phases out price supports and consolidates milk marketing orders.* Net returns to the dairy sector are expected to decline in response to phasing out price supports which will lower prices and production. Consolidating milk marketing orders will expand the size of the area where dairy farmers compete, and thus have regional price impacts by raising prices for some farmers while reducing prices for others.

- Aggregate net farm income is higher under the 1996 Act than projected under previous legislation, with favorable market conditions for U.S. agricultural products. Income support payments under the 1996 Act are higher than projected deficiency payments would have been under a continuation of previous farm law. Offsetting the gain from higher government payments are declines in net income for dairy and peanut producers.

- *Government payments are fixed under the 1996 Act, so farm income could become more variable in response to supply and demand shocks.* In the past, deficiency payments varied inversely with market prices to provide some income stability to farmers. Under the 1996 Act, production flexibility contract payments remain fixed regardless of prices. As a result, farmers will face greater risk of income volatility, reflecting more directly market price variation.

- *Farmers will consider marketing alternatives to manage risk to buffer potentially greater income volatility under the 1996 Act*. When making production, marketing, and financial decisions, increased attention will be placed on risk management to deal effectively with year-to-year fluctuations in income. Net farm income is potentially more variable under the 1996 Act because government payments are no longer linked to market prices. Loan rates, although capped at 1995 levels for most crops, continue to provide some income protection, but at relatively low levels.

- *Estimated impacts of the 1996 Act could be different if the demand for U.S. agricultural products weakens significantly.* Farm income would be lower, since with lower commodity prices, production flexibility contract payments do not increase to offset revenue losses as deficiency payments did in the past. However, increased planting flexibility and elimination of annual supply management policies permit farmers to alter production practices to more fully respond to changes in demand.

The 1996 U.S. Farm Act Increases Market Orientation

C. Edwin Young and Paul C. Westcott

Introduction

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) was signed into law in April 1996, providing new farm sector law for 1996-2002. The 1996 Act is a milestone in the evolution of U.S. agricultural policy because it fundamentally redesigns income support programs and discontinues supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and upland cotton. This bulletin provides a general overview of major changes related to production agriculture resulting from the commodity provisions (Title I), the agricultural trade provisions (Title II), and the conservation provisions (Title III) of the 1996 Act. Impacts are based on a comparison of the 1996 Act with a continuation of the previous legislation as reported by USDA (1996a) in its long-term projections.[1] More specific results depend on underlying program implementation decisions, many of which are yet to be made.

The 1996 Act replaces a system of *deficiency payments*, based on the difference between a pre-set target price and the market price, with a system of fixed *production flexibility contract payments*. Further, these new payments are now largely decoupled, since there is virtually no link between payments and current plantings. The 1996 Act expands planting flexibility and lets authority expire for Acreage Reduction Programs (ARP's) and the 0,50/85-92 provisions.[2] In so doing, it accelerates the trend toward greater market orientation of the previous two major farm acts, which gradually reduced the Government's influence in the agricultural sector through traditional commodity programs over the past 10 years.

Pressure for farm program reform grew in recent years

- Farm programs originated in the 1930's and many provisions were outdated
- Program rules were restrictive
- Growing movement for less government intervention
- ARP's allowed foreign competitors to expand
- Federal budget costs were high and variable
- Strong markets meant less opposition to reduction in government payments

Agricultural and Budget Pressures Led to Fundamental Change in U.S. Agricultural Policy

Developments in the agricultural sector and the general economy combined to support fundamental change in U.S. agricultural policy (see box, "Pressure for farm program reform..."). New farm legislation was expected to continue trends toward increased market orientation. U.S. support for open and freer trade in the Uruguay Round of GATT and later the North American Free Trade Agreements complemented this expectation. Also, central to the

[1] The terms previous legislation and *previous law* in this report refer to U.S. agricultural laws in effect during 1995. These laws include provisions of the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation Charter Act of 1948, and the Agricultural Act of 1949 (the so-called permanent legislation), as amended by the Food, Agriculture, Conservation, and Trade Act of 1990 and the Omnibus Budget Reconciliation Acts of 1990 and 1993.

[2] The term 0,50/85-92 provisions refers to the 50/85 and 50/92 provisions for rice and cotton and the 0/85 and 0/92 provisions for wheat and feed grains that were in effect in various forms over the last 10 years. Under these provisions, farmers could idle all or part of their permitted acreage, putting the land in a conserving use, and receive deficiency payments for part of the acreage. A minimum planting requirement of 50 percent of maximum payment acreage applied for rice and cotton.

farm legislation discussions were budgetary issues regarding the level and variability of Federal expenditures for farm programs. These agricultural and budgetary pressures led to farm policy alternatives ranging from minor modifications of the 1990 farm legislation to elimination of agricultural programs.

Setting for Agricultural Commodity Programs Changed

Much of U.S. agricultural commodity policy dates back to programs established in the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation Charter Act of 1948, and the Agricultural Act of 1949 (the so-called permanent legislation). Originally, the programs were designed to stabilize and boost farm income as a means of economic recovery and development in the Depression and post-War eras. Agricultural policies have been amended since then to address additional objectives, such as export promotion and environmental quality.

When the permanent legislation was enacted, one-quarter of the U.S. population lived on farms and agriculture employed almost 40 percent of the labor force. Agriculture's direct contribution to GDP averaged around 7 percent in the 1930's. Farm household incomes averaged about one-third of nonfarm household income. Farms were generally small and owner-operated. Most farms were diversified and produced some of a small number of principal crop and livestock commodities. In the 1930's, about 60 percent of U.S. farms produced corn and 40 percent produced milk. Program benefits were dispersed widely throughout the sector, even though supports were tied to only a few commodities.

Today, agriculture contributes less to the general economy and even to rural America. Only about 2 percent of the U.S. total population lives on farms. Production agriculture's direct contribution to GDP is around 1.5 percent. Farm households, on average, have generally achieved income parity with all U.S. households, primarily through off-farm employment. Farm households depend more on income from off-farm sources than on income from farming. Farms are now larger and more specialized, with 20 percent of farm operations producing 80 percent of total U.S. agricultural output. Today, 26 percent of U.S. farms produce corn, while 7 percent produce milk. Farmers now compete directly with nonfarmers for inputs, such as capital. They also compete directly with farmers in other countries, with over 25 percent of the value of agricultural production exported and the equivalent of 8 percent of U.S. consumption imported.

Many farmers and policymakers felt that planting restrictions during the 1980's were particularly limiting. Program acreage bases and deficiency payments were based on historical plantings, creating an incentive for farmers to maintain historical production patterns. Some farmers wanted to change the mix and level of crops they produced in order to comply with conservation requirements and to respond to market conditions. Legislation enacted in 1985 began to address this concern. In addition, many argued that the annual acreage reduction programs, which idled U.S. farmland and thereby reduced U.S. crop production, provided an incentive for foreign competitors to expand their production, reducing U.S. agricultural exports.

Reducing the Federal Budget Deficit Strengthened Pressure for Reform

Increased concern over the Federal budget deficit strengthened pressure for agricultural policy reform. Farm program costs were high and benefits were concentrated both geographically and among large-scale producers. Federal commodity program outlays were also highly variable, ranging during the past decade from $7 billion in fiscal year 1995 to a record $26 billion in fiscal year 1986. As part of the effort to balance the Federal budget, these agricultural outlays were targeted for a 7-year cut of $13 billion from an early-1995 Congressional Budget Office (CBO) forecast of 1996-2002 outlays that assumed a continuation of past programs. This legislation was vetoed by the President in December 1995 and did not become law. Nonetheless, many features of the commodity program provisions of the vetoed legislation remained largely intact in the 1996 Act.

The 1995/96 market setting also contributed to the reform effort. High commodity prices weakened the case for continuing price and income support programs. Many called for less government intervention to free producers from government regulations, particularly planting restrictions, and to allow them to respond to market signals.

The 1996 Act Builds on Market-Oriented Trends of Past Legislation

Economic conditions in the U.S. agricultural sector in the early 1980's led to a new direction in agricultural programs (see box, "Market-oriented farm policies...") beginning with the Food Security Act of 1985 (1985 Act) . Previous farm legislation had been too rigid to

Market-oriented farm policies started in 1985

Key features of Food Security Act of 1985 and related 1985-90 legislation

- Target prices reduced
- Program payment yields frozen
- Loan rates based on percentage of past market prices
- Secretary given discretion to further reduce wheat and corn loan rates
- 50/92 provisions established, changed to 0/92 for wheat and feed grains starting in 1988
- ARP's based on stocks
- Marketing loans established for cotton and rice
- EEP initiated under CCC charter in early 1985 and included in 1985 Act
- CRP established

Key features of FACT Act of 1990 and related 1990-95 legislation

- 15 percent "normal flex acres" and 10 percent "optional flex acres" introduced
- Marketing loan provisions extended to oilseeds in 1991 and to wheat and feed grains in 1993
- 0/92 for wheat and feed grains changed to 0/85 starting in 1994
- 50/92 for rice and cotton changed to 50/85 starting in 1994
- Oilseeds and alternative crops could be planted on 0/85-92 land without loss of payments
- ARP's based on stocks-to-use ratios
- Secretary given additional authority to reduce wheat and corn loan rates
- Farmer-Owned Reserve revised
- NAFTA and Uruguay Round Trade Agreements negotiated in early 1990's

allow U.S. producers and exporters to adjust to changing world market conditions. Relatively high U.S. loan rates in the early 1980's provided a floor for U.S. and world market prices, which led to mounting grain surpluses in the United States, escalating program costs, increasing foreign production and trade competition, falling exports, and increasing farm financial stress.

The 1985 Act, in response, moved toward a more market-oriented farm policy that would enable farmers to better respond to market signals. The legislation inaugurated marketing loan provisions for upland cotton and rice, lowered loan rates and provided discretionary authority for their adjustment, reversed upward trends in target prices, and generally froze program yields.

The Export Enhancement Program (EEP) was included in the 1985 Act as a means of competing with export subsidies of other countries, particularly those of the European Community. EEP was initiated in early 1985 under existing Commodity Credit Corporation (CCC) authority to promote U.S. agricultural exports, and then was included in the 1985 Act.

The 1985 Act revived long-term land retirement by implementing the Conservation Reserve Program (CRP), with a goal of protecting fragile cropland and improving water quality by retiring 40-45 million acres of highly erodible and environmentally sensitive cropland from production for 10-15 years.

The Food, Agriculture, Conservation, and Trade Act of 1990 (1990 Act), as well as the Omnibus Budget Reconciliation Act of 1990, built on the market-oriented foundation laid by the 1985 Act. By 1990, conditions in the agricultural sector had improved. Broader initiatives were under way to promote freer trade and to move U.S. and world agriculture toward greater market orientation. Pressure to cut the Federal budget deficit also played an important role.

The main goals of 1990 farm legislation were to further market orientation, reduce government spending on agricultural programs, help maintain farm income through expanding exports, and protect the environment. To lower budget expenditures and increase market orientation, the 1990 legislation reduced payment acres and introduced planting flexibility. Producers could respond to market signals in their planting decisions because they could plant alternative crops on the new 15-percent normal flex

acres that were not eligible to receive income support payments. This resulted in a further reduction in the portion of production covered by government payments, continuing the trend started in the 1985 Act (Westcott, 1993). Marketing loan provisions were extended to wheat and feed grains starting in 1993 under GATT trigger provisions of 1990 farm legislation. EEP was retained to help counter the export subsidies of other countries.

1996 Act Redesigns U.S. Farm Programs

U.S. agricultural law encompasses a wide range of issues related to agriculture, including commodities, trade, conservation, nutrition assistance, agricultural promotion, credit, rural development, and research, extension, and education.[3] This bulletin discusses major changes related to production agriculture with the analysis focused on impacts from the commodity provisions (Title I), the agricultural trade provisions (Title II), and the conservation provisions (Title III) of the 1996 Act. The most important impacts result from policy changes in four main areas covering income-supported crops, price-supported commodities, trade, and conservation (see box, "Four areas of policy change...").

Supply Management/Income Support Changed for Contract Crops

The 1996 Act fundamentally changed U.S. agricultural programs by eliminating supply management, increasing planting flexibility, and changing income supports for "*contract crops*" (wheat, corn, grain sorghum, barley, oats, rice, and upland cotton).

The 1996 Act changes income supports by replacing the target price/deficiency payment program, which had been in place since the early 1970's, with a new program of decoupled payments for 7 years that are not related to most farm-level production decisions or market prices (see box, "Production flexibility contracts..."). To receive payments and be eligible for loans on contract commodities, a producer enters into a *production flexibility contract* for 1996-2002. That contract requires the participating producer to comply with conservation, wetland, and planting flexibility provisions, as well as to keep the land in agricultural uses. Land eligible to enter into a contract includes land enrolled in acreage reduction programs for any of the crop years 1991 through 1995, land considered planted under program rules (certified acreage), or land that had been enrolled in the CRP that had a crop acreage base associated with it. Farmers receive *production flexibility contract payments* for 7 years, 1996-2002 (see box, "Calculating production flexibility contracts..."). Payments are based on enrolled contract acreage and are not related to current plantings.

Cumulative outlays for 1996 Act contract payments for fiscal 1996-2002 are capped at slightly over $36 billion (fig. 1). Total contract payments will be lower, reflecting payment limitations. Payment levels are allocated among contract commodities according to percentages specified in the 1996 Act (fig. 2). These percentages are based on commodity shares of projected total deficiency payments for 1996-2002 from an early-1995 CBO baseline.

Annual contract payments under the 1996 Act are limited to $40,000 per person, a $10,000 reduction from the previous $50,000 limit on deficiency payments. Limits on marketing loan gains and loan deficiency payments are unchanged at $75,000 per person per crop year, and the three-entity rule is retained.

Also, planting flexibility increases under the 1996 Act. Under past law, there was a 15-percent limit on planting flexibility without affecting deficiency payments. A producer's deficiency payments were reduced if more than 15 percent of the farm's base acreage for a crop were planted to other crops, with an overall limit on flexibility of 25 percent of base acreage. Additionally, farmers were often required to idle a portion of their cropland under the annual ARP as a condition for receipt of deficiency payments. Under the 1996 Act, authority for ARP's expires. Participating producers are permitted to plant 100 percent of their contract acreage plus any other cropland acreage on the farm to any crop (with limitations on fruits and vegetables) with no loss in payments, as long as the producer does not violate conservation and wetland provisions.

The 1996 Act retains nonrecourse commodity loans, in a modified form. Farmers may receive a loan from the Government at a designated rate per unit of production (loan rate) by pledging and storing a quantity of a commodity as collateral. Loan rates for most crops continue to be based on 85 percent of the preceding 5-year average of farm prices, excluding the high- and low-price years. Maximum loan rates are specified in the new law for wheat, corn, upland cotton, soybeans, and minor oilseeds (fig. 3). The rice loan rate is set at $6.50 per hundredweight, its 1995 level. Corn, wheat, and upland cotton loan rates are capped at their 1995 levels, while soybean loan rates can vary between $4.92 (its 1995 loan rate) and $5.26 per bushel. Corn and wheat loan rates also may be further reduced based on stocks-to-use ratios. Loan rates for sorghum, barley, and oats are to be set taking into account their feed values relative to corn. Marketing loan provisions, allowing repayment of loans at the lower of the loan rate plus accrued interest or market prices, are retained, thus continuing some income protection at relatively low prices for the contract commodities and helping to limit

accumulation of government-owned stocks as a result of collateral forfeited through defaulted loans.

Programs for Price-Supported Commodities Altered

The 1996 Act also makes program changes for dairy, sugar, and peanuts. Benefits for producers of these commodities historically have been through price supports rather than through income supports. Support for dairy is phased out in the 1996 Act. Authority for sugar marketing allotments is repealed and price support levels are effectively reduced. Support for peanuts is reduced.

Dairy Price Support Phased Out. Price support for dairy is provided through government purchases of butter, nonfat dry milk, and cheese to prevent farm-level milk prices from falling below the designated price support level. Producers have paid for part of the cost of the program in recent years through a marketing assessment. Marketing assessments are eliminated beginning in 1996. Under the 1996 Act, dairy price supports are phased down from $10.35 per hundredweight in 1996 (the 1995 level) to $9.90 in 1999, and the program ends on January 1, 2000. Starting in 2000, a recourse loan program, in which loans must be repaid with interest, is implemented for butter, nonfat dry milk, and cheese at loan rates equivalent to $9.90 per hundredweight for milk to assist processors in the management of dairy product inventories.

U.S. dairy policy also includes a system of Federal milk marketing orders designed to facilitate the marketing of milk by specifying conditions under which milk handlers must operate within certain geographic areas. The current 33 marketing orders must be consolidated and reformed into 10-14 orders within 3 years.

The Dairy Export Incentive Program (DEIP) is extended through 2002 and expanded to include emphasis on market development. The Secretary is directed to use DEIP to the maximum extent permitted under the Uruguay Round GATT Agreement.

Sugar Program Modified. Sugar prices are supported through loans offered to sugar processors. The raw cane sugar loan rate continues at 18 cents per pound. Under the 1996 Act, the refined beet sugar loan rate also remains fixed, at its 1995 level. Nonrecourse loans are available when the tariff-rate quota for sugar imports exceeds 1.5 million short tons. Sugar program loans are recourse in years when the tariff-rate quota is at or below 1.5 million short tons, but these loans revert to nonrecourse loans if the tariff-rate quota is increased above 1.5 million short tons. Processors must pay a 1-cent fee on each pound of raw cane sugar and 1.07 cents on each pound of refined beet sugar forfeited to the CCC under the loan program. This effectively reduces the price at which it would be more profitable to forfeit than to sell sugar. Marketing assessments are paid on all processed sugar. The assessments are increased by 25 percent under the 1996 Act. USDA authority in past legislation to implement domestic sugar marketing allotments was suspended.

Peanut Program Made "No Net Cost." The peanut program is a two-tiered price support program. The 1996 Act revises the peanut program so that USDA can adjust the quota to prevent program costs from exceeding program revenues. The minimum national poundage quota is eliminated, requiring the quota to

Production flexibility contracts change supply management/ income support programs

- Farmer signs a 7-year contract to participate
- Contract eligible acreage includes:
  - » Land enrolled in ARP's for any of the crop years 1991-95
  - » Land considered planted to program crops for any of the crop years 1991-95
  - » Land leaving the CRP that had an acreage base
- Maximum amounts available for payments fixed and declining over time
- Payments based on enrolled contract acreage not current plantings
- Payment rates determined by dividing total allocation for commodity by eligible payment production
- Total planting flexibility except for some limitations on planting fruits and vegetables and for conservation compliance

[3] Provisions of the 1996 Act are summarized and compared with previous law in Young and Shields, 1996. An extensive description of each title in the 1996 Act is provided in Nelson and Schertz (eds.), 1996.

Four areas of policy change in the 1996 Act

Supply management/income support changed for contract crops

- Decouples most production decisions from program payments
- Eliminates income-stabilizing feature by removing link between government payments and farm prices
- Fixed payment yields retained
- Most planting restrictions eliminated, with expiring ARP authority, base acreage planting constraints eliminated, and planting flexibility expanded
- Federal income support payments fixed and reduced over time
- Maximum loan rates specified for many crops
- Marketing loan provisions retained
- Authority for loan extensions discontinued
- Farmer-Owned Reserve suspended
- Crop insurance not mandatory

Programs for price-supported commodities altered

- Dairy support price phased out, assessments eliminated, and marketing orders consolidated and reformed
- Sugar marketing allotments suspended, marketing assessments increased, and loans made recourse depending on tariff-rate import quota
- Peanuts becomes a "no-net-cost" program, with elimination of minimum national poundage quota, reduced loan rate for quota peanuts, and increased assessments to offset Federal expenditures

Trade provisions targeted

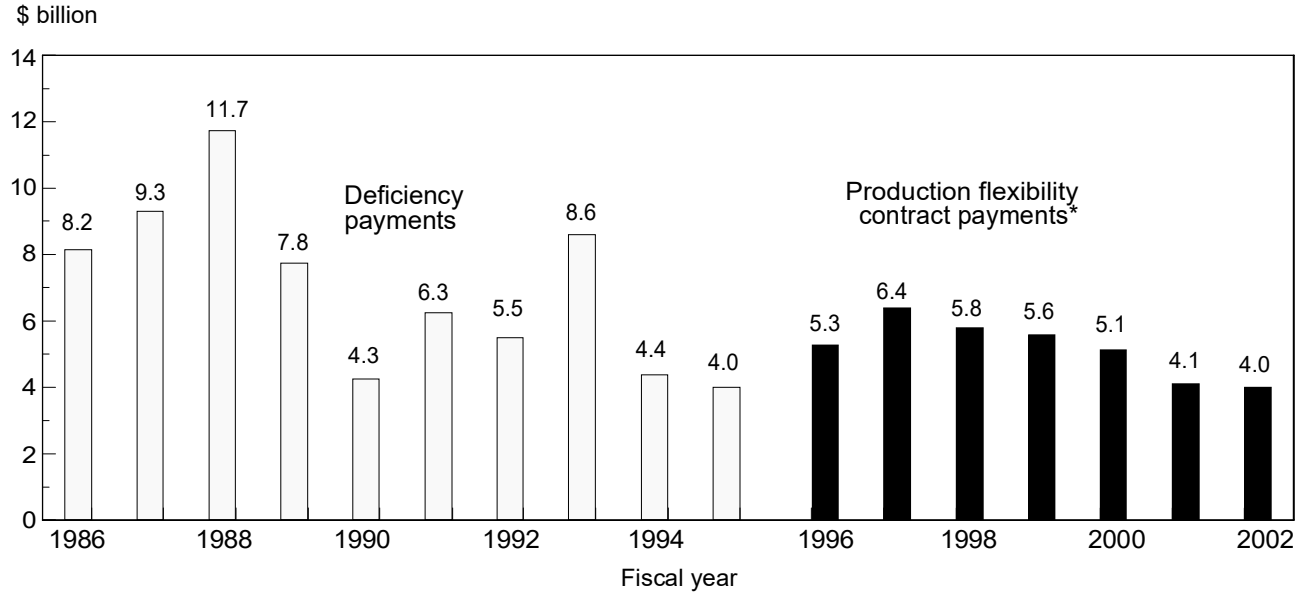
- Export promotion strategy to emphasize markets with greatest potential for U.S. export gains
- Emerging markets targeted
- High-value products emphasized
- CCC regulations governing stockholding and selling eased
- Market Promotion Program renamed Market Access Program and funding cut
- Food Security Commodity Reserve replaces Food Security Wheat Reserve
- EEP funding reduced in early years

Environmental programs consolidated and extended

- Environmental Quality Incentives Program consolidates cost share and technical assistance programs for crop and livestock producers
- CRP authorization extended, enrollment capped, with early termination of some contracts and authority to enroll new acreage
- Producers provided more flexibility in meeting conservation compliance and wetland provisions

Figure 1

Production flexibility contract payments fixed over 7-year Farm Act

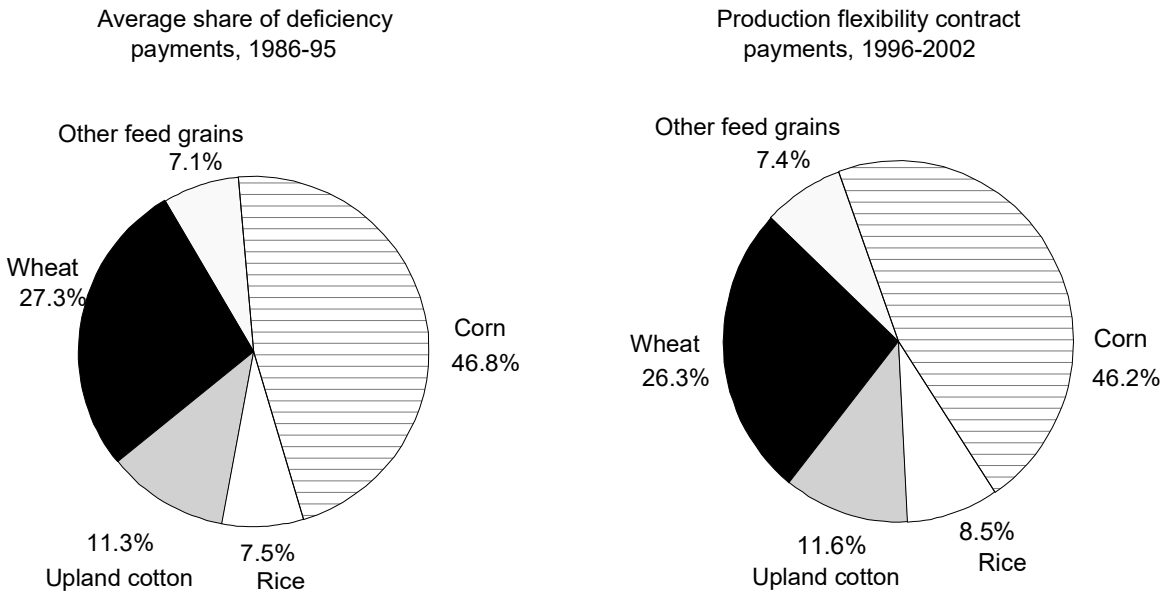


* Production flexibility contract payments have been adjusted for deficiency payments owed to farmers and repayments owed by farmers to the Government under the previous farm program (USDA, 1996b). Payment limitations may result in slightly reduced contract payments.

Compiled by Economic Research Service, USDA.

Figure 2

Distribution of production flexibility contract payments similar to historical shares of deficiency payments



Compiled by Economic Research Service, USDA.

Calculating Production Flexibility Contract Payments: An Example

For fiscal 1998, the total allocation for corn is 46.22 percent of total annual payments of $5.8 billion, or $2.68 billion (see table). The annual *payment rate* for corn equals total annual payments ($2.68 billion) divided by the sum of all individual corn payment contract quantities for the year. For corn, as for other program commodities, an individual farm's *payment quantity* equals 85 percent of the farm's corn contract acreage multiplied by the farm's program payment yield. Land eligible for *contract acreage* includes land enrolled in acreage reduction programs for any of the crop years 1991 through 1995, land considered planted to program crops (certified acreage) in any of those crop years, and land leaving the CRP that had an acreage base. Program payment yields are determined in the same manner as under previous legislation. Contract acreage and payment yields remain fixed throughout the contract period, adjusted for changes in CRP enrollment. An individual farmer's *production flexibility contract payment* is his or her payment quantity times the annual payment rate.

USDA (1996b) estimated that the fiscal 1998 minimum corn payment rate would be 36 cents per bushel. The actual payment rate will depend on corn acreage enrolled in production flexibility contracts and the program yields on the enrolled land. Assuming the minimum payment rate for purposes of illustration, a farmer with 100 corn contract acres under a production flexibility contract and a program yield of 105 bushels per acre would receive payments on 8,925 bushels (0.85 times 100 contract acres times 105-bushels-per-acre payment yield). Multiplying this payment quantity times the 36-cents-per-bushel payment rate gives the farmer $3,213 in fiscal 1998 corn contract payments. The farmer is free to plant any crop on the 100 acres, with some limitations on fruits and vegetables. Similarly, a farmer with 100 wheat contract acres would receive a payment of $1,934, based on an estimated 1998 payment rate of 65 cents per bushel and a 35-bushel-per-acre program payment yield.

In comparison, under the 1990 Act, the farmer would have received *deficiency payments*. Deficiency payments were based on a deficiency payment rate (the difference between a target price and higher of the market price or the loan rate) multiplied by 85 percent of base acres times program yield, assuming a 0-percent ARP. USDA (1996a) projected that the 1998 deficiency payment rates would have been 15 cents per bushel for corn and 40 cents per bushel for wheat under continuation of the 1990 legislation. With no ARP, payment quantities would be the same as under the 1996 Act, so our farmer would have received corn deficiency payments of $1,339 and wheat deficiency payments of $1,190. To receive the full deficiency payment, the farmer was required to plant at least 85 percent of the acreage base to the program crop. On the remaining 15 percent of base acreage, the farmer was free to plant any program crops, soybeans, minor oilseeds, or industrial crops designated by the Secretary or could elect to put that land in a conserving use.

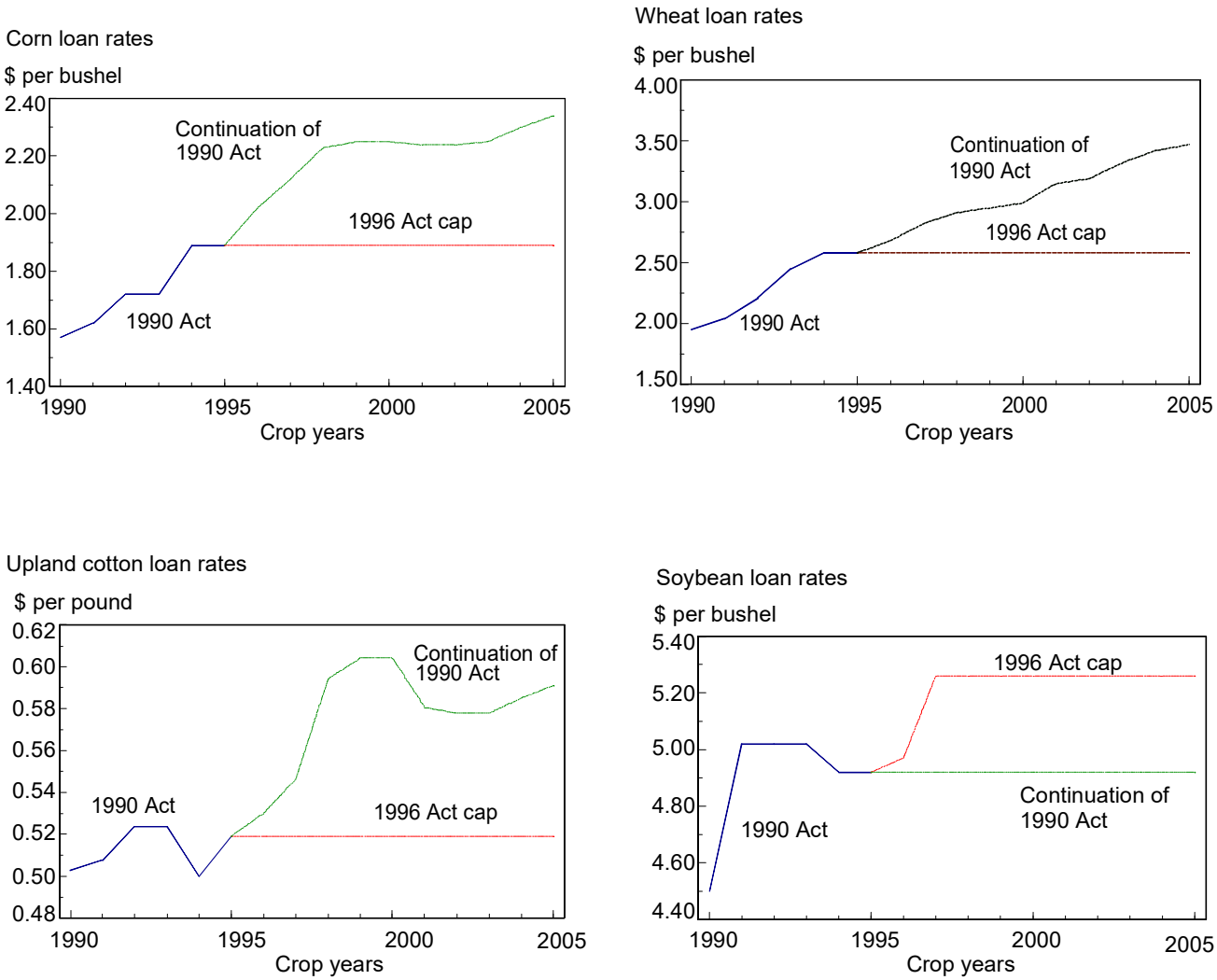
Production flexibility contract payments for corn and wheat, fiscal 1998

Category	Corn	Wheat
Total 1996 Act contract payments, fiscal 1998	$5.8 billion	$5.8 billion
1996 Act commodity share	46.22%	26.26%
Commodity payments	$2.68 billion	$1.52 billion
Estimated minimum payment rate[1]	$0.36 per bushel	$0.65 per bushel
Example farm (100 enrolled acres)		
Production flexibility contract acres	100 acres	100 acres
Payment yield	105 bushels per acre	35 bushels per acre
Payment quantity[2]	8,925 bushels	2,975 bushels
Estimated minimum payment rate[1]	$0.36 per bushel	$0.65 per bushel
Production flexibility contract payments	$3,213	$1,934

[1] Source: USDA, 1996b. Production flexibility contract payment rates may differ depending on actual program participation.
[2] Payment quantity equals 0.85 times production flexibility contract acres times payment yield.

Figure 3

Loan rates capped under 1996 Act



Continuation of 1990 Act estimates from USDA, 1996a.
Compiled by Economic Research Service, USDA..

be set equal to projected domestic edible and related uses. Carryover to subsequent years of undermarketings of quota from earlier years is eliminated. Marketing assessments for peanuts are set at 1.15 percent of the loan rate for the 1996 crop and 1.2 percent for the 1997-2002 crops, shared by producers and purchasers. Marketing assessments must be increased to offset any program losses to the CCC.

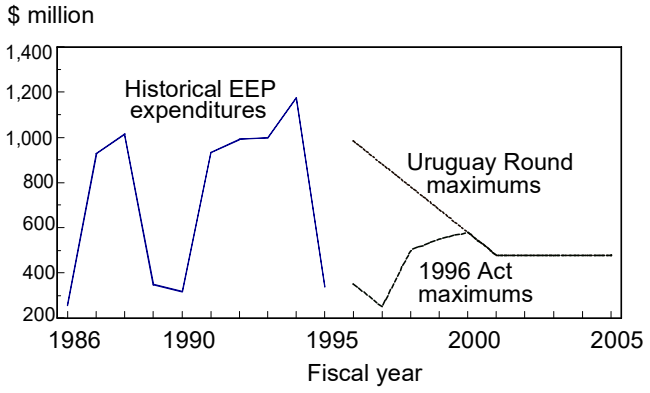
The loan rate for quota peanuts under the 1996 Act is set at $610 per short ton, down from $678 in 1995. Under previous legislation, the quota support rate was adjusted annually to reflect changes in costs of production. At the farm level, quota marketings plus a seed peanut allocation are eligible for the quota price support loan rate. Above-quota "additionals" to be used for the crush and export markets receive a lower loan rate, set by the Secretary to ensure no losses to the CCC.

Major Trade Provisions Made More Focused

Trade and food aid programs in the 1996 Act are focused more heavily on market development, including an emphasis in some programs on emerging markets with high potential for U.S. export growth. Additionally, increased emphasis is placed on expanding high-value and value-added product exports. Annual EEP expenditures are capped (fig. 4). Total EEP funding during fiscal 1996-1999

Figure 4

EEP expenditures to be below GATT maximums for several years



Compiled by Economic Research Service, USDA.

is reduced more than $1.6 billion below the maximum levels permitted under the Uruguay Round GATT Agreement. During fiscal 1996, the United States has made limited use of EEP due to high world commodity prices, with spending well below the levels allowed under the Uruguay Round Agreement. As long as prices remain high, the United States is likely to continue to make limited use of EEP.

The Market Promotion Program is renamed the Market Access Program and funding authority is capped at $90 million annually for fiscal 1996-2002. The bill authorizes P.L. 480, Title I agreements with private entities in addition to foreign governments. Other changes broaden the range of commodities available for P.L. 480 programs, provide greater program flexibility, and improve the operation and administration of the program. The Food Security Commodity Reserve, formerly the Food Security Wheat Reserve, includes up to 4 million metric tons of grain to meet humanitarian food aid needs and was expanded to include rice, corn, and sorghum in addition to wheat.

Major Conservation Provisions Consolidated and Extended

The 1996 Act addresses a wide range of environmental and conservation programs. Many conservation programs were simplified to make them more consistent and workable. An Environmental Quality Incentives Program (EQIP) is authorized at $1.3 billion over 7 years to provide technical, educational, and cost-share assistance and incentive payments to crop and livestock producers in implementing structural and management practices to protect soil and water resources. At least half of the fund is allocated to livestock practices. EQIP is to be operated to maximize the environmental benefits per dollar spent.

The primary conservation program is the Conservation Reserve Program (CRP), which is reauthorized in the 1996 Act. Under the voluntary CRP, farmland owners submit bids to retire highly erodible, environmentally sensitive cropland from production for 10-15 years. Farmers receive a cost-share payment to establish permanent cover and annual rental payments on accepted contracts for retiring the land and maintaining specified conservation practices. Funding for the CRP was changed in the 1996 Act from appropriations to the CCC budget. Under the 1996 Act, maximum CRP area is set at 36.4 million acres, the 1995 level of enrollment. Farmers can remove less environmentally sensitive land from the program prior to contract expiration if it has been enrolled for at least 5 years and if the contract was entered into before 1995. Land in expiring CRP contracts or in contracts terminated prior to expiration is eligible to be enrolled in production flexibility contracts when leaving the CRP if that land had an acreage base. The 1996 Act permits the Secretary to re-enroll current land at contract expiration and to enroll new land into the CRP to replace acreage leaving the CRP through expired contracts or early termination.

Aggregate Impacts of the 1996 Act Relatively Small

The 1996 Act accelerates market orientation of the previous two major farm acts, which have gradually reduced the Government's influence in the agricultural sector through commodity programs. As producers increasingly respond to signals from the marketplace rather than to commodity programs, agricultural production becomes more efficient. The trend toward fewer but larger farms is expected to continue. The sector will be highly competitive, with successful producers having strong technical and managerial skills. Fixed government payments could make farm income more variable in response to supply and demand shocks, so alternative marketing arrangements, such as marketing contracts and integrated ownership, are likely to be used more to manage risks.

The following discussion presents some of the potential impacts of the 1996 Act on the farm sector. The analysis incorporates impacts on the farm sector from the commodity provisions (Title I), the agricultural trade provisions (Title II), and the conservation provisions (Title III) of the 1996 Act. Impacts are based on a comparison with the February 1996 USDA long-term projections to 2005 (USDA, 1996a) that assume an extension of the 1990 Act and the Budget Reconciliation Acts of 1990 and 1993 (box 6).

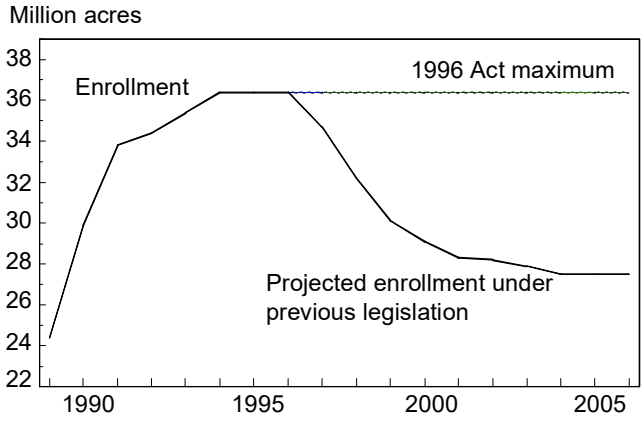
CRP Enrollment Affects Land Available for Crop Production

The amount of cropland enrolled in the CRP plays a significant role in determining the projected impacts of the 1996 Act on U.S. agriculture. Many of the expected changes in planted acreage depend on CRP enrollment, particularly for wheat, feed grains, and soybeans. In 1995, over 245 million acres were planted to contract crops and soybeans. About 4.9 million acres were idled under the ARP and 15 million acres under 0,50/85-92. In comparison, about 36.4 million acres were idled under the CRP. Thus, the CRP represents a significant source of potential harvestable cropland in the United States.

Under the 1996 Act, landowners can remove less environmentally sensitive land from the CRP prior to CRP contract expiration if the contract was entered into prior to 1995 and the contract is at least 5 years old. Additionally, the CRP is extended with Secretarial authority to re-enroll current land at contract expiration and to enroll new land to replace land exiting the program.

Figure 5

Conservation Reserve Program enrollment projected to decline



Previous legislation enrollment from USDA, 1996a.
Compiled by Economic Research Service, USDA.

USDA has authority under the 1996 Act to establish targets for the level of CRP enrollment and the composition of the land enrolled. In addition, farmers will decide whether they want to keep land in the CRP or to farm it and receive production flexibility contract payments on eligible land. Thus, considerable uncertainty exists regarding future CRP enrollment. USDA (1996a) projected CRP enrollment to decline from 1995's enrollment of 36.4 million acres to around 28 million acres by 2002 (fig. 5), based on a continuation of previous law. Depending on program implementation decisions regarding CRP provisions of the 1996 Act, similar levels of total enrollment could occur, but the composition by crop of enrolled area could change depending on the environmental criteria selected for enrolling new acreage and extending previous contracts.

The composition of land enrolled in the CRP is expected to include more environmentally sensitive land under the 1996 Act. Landowners with older CRP contracts and with less environmentally sensitive land have the option of exiting the CRP early. CRP enrollment trends in recent years included more land with higher potential to pollute surface and ground water. Contract extensions and new enrollments under the 1996 Act likely will build on these recent trends. CRP enrollment could increase slightly in regions such as the Corn Belt where water quality is an issue, drawing from land typically planted to corn and soybeans. Conversely, CRP enrollment could decline in regions such as the Northern Plains where soil erosion is the primary environmental issue and

wheat and barley are typically grown. The use of wildlife factors as criteria in selecting land for enrollment in the CRP will limit regional enrollment shifts from the Northern Plains.

U.S. Agriculture More Price-Competitive in Export Markets in the Long Run

Initially, the 1996 Act makes U.S. agriculture less price-competitive in world markets, but price competitiveness increases in the longer run. Cuts in EEP funding under the 1996 Act through FY 1999 will initially reduce wheat, barley, and poultry exports, although impacts are small. Export subsidies add little to total exports when prices are high, so EEP funding cuts with tight grain market conditions have limited wheat and barley export impacts. Corn exports expand to capture a portion of the reduced barley trade. EEP poultry exports represent a very small share of total U.S. poultry exports, so poultry impacts are minimal.

In the longer run, the overall price competitiveness of U.S. agricultural exports increases. Reorienting trade programs toward market development and emerging markets with high potential for U.S. export gains may enhance the effectiveness of those programs. Further, in times of large supplies, U.S. price competitiveness benefits from elimination of authority for ARP's and from suspension of the Farmer Owned Reserve, programs that restricted production, limited marketings, and raised prices under previous legislation.

A notable exception is that U.S. rice will be less competitive in global markets. With lower U.S. rice production under the 1996 Act, rice exports fall because strong domestic rice demand pushes the U.S. rice price premium over world prices higher than projected assuming continuation of previous legislation.

Independent of the 1996 Act, favorable world economic growth and freer trade under the World Trade Organization support gains in trade and U.S. exports (fig. 6). Income growth—particularly in the Pacific Rim, Central and South America, the Middle East, and North Africa—enhances the demand for agricultural goods. Funding for export promotion, credit assistance, and food aid programs is expected to continue to be an important factor maintaining agricultural exports. The 1996 Act also targets trade programs to make them more flexible and to emphasize high-value products, further supporting gains in U.S. exports.

USDA (1996a) projected the value of total U.S. agricultural exports to rise substantially, approaching $80 billion by 2005. High-value products are projected to gain a larger share of total agricultural exports, rising to about two-thirds of total export value. These trends are expected to continue under the 1996 Act, with lower growth in bulk exports reflecting reduced rice exports.

Aggregate Crop Production Similar Under 1996 Act

The 1996 Act increases farmers' planting flexibility by eliminating ARP's, base acreage planting constraints, and limits on normal and optional flex acreage. Production patterns under the 1996 Act are likely to shift somewhat at the farm level and regionally to reflect differences in comparative advantage for the production of specific crops and to address agronomic, environmental, and conservation needs. These acreage shifts have implications for planting decisions of other farmers as they respond to changes in relative market prices in their cropping choices. The impacts of the 1996 Act will vary across regions reflecting the mix of agricultural products, the degree of diversification, and the availability of production alternatives.

Regional production patterns in the past reflected comparative advantage and led to the regional distribution of historical acreage bases. While comparative advantages may have shifted somewhat, for many areas the changes are relatively minor. Corn Belt States, for example, have an advantage in producing corn and soybeans, so corn and soybean production is likely to remain in this region. Rainfall levels limit production in much of the Northern Plains to crops with low water requirements, such as wheat, barley, and minor oilseeds. Thus, crop production in that region will likely remain in those crops.

The national level of acreage planted to most major field crops will be similar under the 1996 Act to what would have occurred under prior law. Plantings are projected to rise 10 to 15 million acres over the next 10 years, compared with average plantings during the past 5 years under the previous law, in response to growing world demand and less acreage enrolled in the CRP (fig. 7).

Under prior law, the role of government programs had been declining, with the links between government payments and producer planting decisions already small. No government payments were received for the 15-percent normal flexibility acreage. For wheat and feed grains, the 0/85-92 option meant

USDA's February 1996 Long-term Agricultural Projections to 2005

USDA annually prepares 10-year projections of the agricultural sector, representing a Departmental consensus on a long-run scenario for the sector. The latest projections, released in February 1996 (USDA, 1996a), assumed that provisions of the Food, Agriculture, Conservation, and Trade Act of 1990, as amended, remained in effect through 2005.

The long-term projections are a conditional scenario with no shocks and are based on specific assumptions regarding the macroeconomy, the weather, and international developments. The projections cover agricultural commodities, agricultural trade, and aggregate indicators of the sector, such as farm income and food prices. The February 1996 projections are not intended to be a Departmental forecast of what the future will be, but instead a description of what would be expected to happen with an extension of 1990 agricultural law, as amended, and with very specific external circumstances. As such, the February 1996 scenario provides a point of departure for discussing the effects of the 1996 Act.

Key Features of February 1996 Projections

Trends of the last 10 years toward greater market orientation in agriculture continue in the February 1996 long-term projections, gradually reducing the Government's influence in the sector through traditional commodity programs. Global economic growth, combined with liberalized trade under the GATT agreement, supports strong growth in global trade and U.S. agricultural exports. After falling from high levels in the initial years, crop prices rise back toward target prices and deficiency payments are reduced. This agricultural policy and market setting continues a gradual phase-down of the role of Government commodity programs. Thus, the sector responds more to signals from the marketplace and less to Government commodity programs, resulting in agricultural production becoming economically more efficient.

The Conservation Reserve Program (CRP) in the long-term projections is assumed to fall from 1995 levels of about 36.4 million acres to about 27.5 million acres in 2005. The CRP assumptions reflect a combination of assumptions for early termination of contracts expiring in 1996, a new enrollment in 1997 to add approximately 1.6 million acres, and contract extensions and modifications at maturity.

Annual quantity and expenditure levels for the Export Enhancement Program are assumed to be in compliance with GATT reductions, which require that by 2000 subsidized exports be reduced by 21 percent in volume and 36 percent in budget outlays from 1986-1990 levels.

Productive capacity for crops is projected to rise due to increases in resource and input use and in productivity. For most crops, yields are projected to rise at or near their long-term trends. However, the balance between productive capacity and projected demands tightens significantly as the land base is pressured. With only a small reduction in the CRP, increases in land used for crop production draw mainly on lower annual ARP levels, reduced use of the 0/85-92 provisions, and use of other recently unplanted acres. Long-term trends in supply/demand balances imply strengthening nominal prices for crops, with prices for wheat and feed grains rising above their target prices. Real prices for crops are projected to continue their long-term downward trend.

that producers were largely making decisions to plant based on market signals.

At the national level, 15-percent normal planting flexibility was generally sufficient to balance farmers' production choices among competing crops with relative price signals from the marketplace. Some individual producers may have been constrained from expanding production of program crops by their crop acreage bases. And other producers may have been constrained in their planting of alternative crops by the 15-percent limit on planting flexibility without loss of deficiency payments or the 25-percent overall limit on flexibility. However, other producers were only partially using planting flexibility and could adjust their use of flexibility to respond to any relative price imbalances resulting from planting constraints faced by other producers.

Under the 1996 Act, most planting constraints from agricultural policy are eliminated, so individual producers will be able to more fully make planting choices based on expectations of market returns. Individual producers who may have been constrained in their cropping choices under previous farm law by crop acreage bases may now expand their plantings of program crops. Producers who were constrained in their planting of alternative crops by limits on

planting flexibility may now, with a few exceptions, switch more acreage to other crops. But planting choices of those producers now will have different implications for remaining producers in their use of flexibility to respond to relative price signals, with resulting planting choices bringing land use back toward a similar aggregate cropping mix.

Thus, aggregate planting levels for wheat, feed grains, and soybeans are expected to be similar or slightly lower under the 1996 Act as under previous law. Changes in plantings for these crops are largely related to overall changes in the size and mix of the CRP.

Upland cotton acreage could be slightly higher under the 1996 Act, mostly reflecting expiration of ARP authority, but limited by a number of offsetting factors. Plantings for rice are lower under the 1996 Act because of elimination of the minimum planting requirement and increased planting flexibility.

Prices for most field crops under the 1996 Act will be unchanged from or marginally higher than what would have occurred under previous legislation, with two exceptions. First, wheat and feed grain prices initially may be somewhat reduced as lower EEP funding decreases grain exports. Second, rice prices are expected to be higher under the 1996 Act in response to lower production.

If crop surpluses develop in the future due to excellent growing conditions or to weaker export demand, expected market conditions could be different under the provisions of the 1996 Act than under previous legislation. Previously, when crop surpluses occurred, USDA could use ARP's to reduce crop production and raise prices. While expiration of ARP authority is expected to have relatively little impact assuming normal weather, ARP's might have been implemented in the future in some market situations with continuation of previous legislation.

Wheat, feed grains, and soybeans. Wheat, feed grains, and soybean acreage and production will be greatly influenced by the size and composition of the CRP, which affects the availability of cropland for plantings. If CRP enrollment is targeted toward land with greater potential for environmental damage, such as in the Corn Belt, the amount of land available to produce corn and soybeans could be reduced. As a result, corn and soybean production would be lower and prices higher relative to what they would have been under past legislation.

Once CRP policy is determined, plantings will largely reflect domestic and export demand as reflected in prices. Generally, therefore, plantings for these crops are expected to expand over the next 7 years in response to increasing demand, particularly in export markets. This increase in acreage is not much different than had been expected under a continuation of previous farm law since the underlying longrun demand growth is not affected by the 1996 Act.

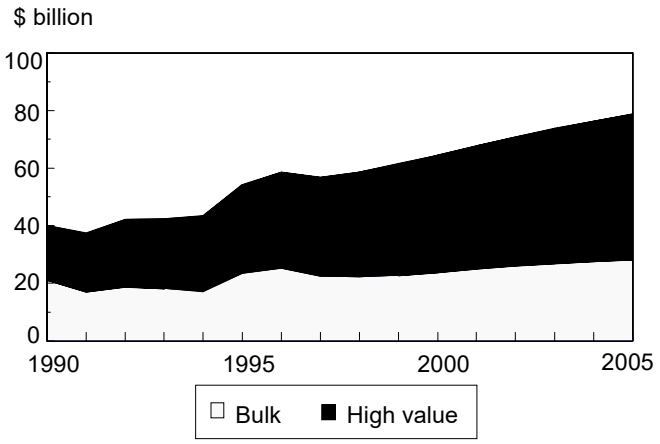
In the near term, however, the 1996 Act will reduce export demand for U.S. wheat and feed grains through the reduction in EEP funding. Over half of EEP expenditures have supported wheat and wheat flour exports. More than 80 percent of U.S. barley exports, on average, have been exported under EEP since its inception. As a result, reduced EEP funding in 1996-99 lowers wheat and barley exports somewhat and places some downward pressure on wheat and barley prices. For wheat, strong world demand limits the decline in exports. Additionally, with marginally lower prices, exports to nonsubsidized markets increase slightly, partly offsetting the reduction in EEP exports to subsidized markets.

In response to lower prices, wheat and barley acreage under the 1996 Act initially could be lower than under previous legislation. Lower domestic wheat and barley prices also reduce the demand for wheat and barley imports during the first few years. Additionally, with lower wheat and barley prices, feed use of wheat and barley expand to partially offset the loss of EEP-induced exports. Feed use of corn declines, reflecting the relatively lower wheat and barley prices. This lowers corn prices and allows corn exports to expand to regain part of the lost barley exports.

Rice. The provisions of the 1996 Act are expected to reduce the incentives to produce rice. Under the 50/85 provisions of previous legislation, rice producers who planted at least 50 percent of their rice maximum-payment acreage were eligible to receive 85 percent of maximum deficiency payments. Under the 1996 Act, there is no minimum planting requirement. Without the minimum planting requirement and 50/85 deficiency payments, some rice farmers probably will plant less rice. Rice production is expected to decline in regions like southwest Louisiana and Texas where production costs are high and where many producers used the 50/85 provisions.

Figure 6

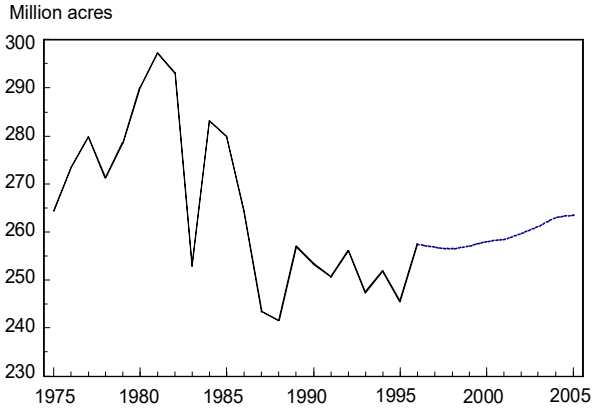
Growth projected for U.S. agricultural exports



Compiled by Economic Research Service from USDA, 1996a.

Figure 7

Planted area for 8 major crops to rise from levels in the early 1990's



Compiled by Economic Research Service, USDA.

Some rice acreage is expected to be idled or to flex to other crops with lower production costs as rice producers seek to diversify. As a result, area planted to rice could decline by about 15 percent. A reduction of this magnitude will raise U.S. rice prices and cause a minor reduction in domestic rice consumption. Higher domestic prices will cause a widening differential between domestic and world rice prices, thereby reducing U.S. competitiveness in export markets and lowering U.S. rice exports. With reduced U.S. exports, world rice prices will rise, lowering the likelihood of Federal program costs associated with rice marketing loans, especially with the loan rate fixed at $6.50 per hundredweight.

Upland Cotton. Upland cotton acreage could be slightly higher, reflecting a number of offsetting factors. The elimination of ARP's would free additional cotton land for production, as cotton was the only program crop projected by USDA (1996a) to be subject to a positive ARP under continuation of past legislation. Further, cotton is the only crop that had a net gain in acreage under planting flexibility during 1991-95, suggesting favorable market-based producer returns compared with other crops. Offsetting much of this potential for increased cotton plantings, some cotton acreage could move to other crops as some producers diversify to guard against perceived variability in cotton production and market income.

Dairy. The 1996 Act modified the dairy programs by phasing out price supports and consolidating and reforming Federal milk marketing orders. Growth in milk production is expected to slow in response to the lower prices and reduced net returns to dairy farming. Consolidating milk marketing orders will expand the size of areas where dairy farmers compete, and thus have regional price impacts by raising prices for some farmers while reducing prices for others. Dairy prices in some locations may be affected by regional impacts of order consolidation more than by the reduction in national price supports. The 1996 Act requirements to use DEIP to the maximum levels permitted under the Uruguay Round Agreement is not expected to cause a significant expansion of dairy product exports, since under a continuation of previous legislation DEIP funding was assumed to be the maximum permitted under the Uruguay Round. Net income in the dairy sector is projected to fall under the 1996 Act relative to projections of net income under past legislation as cash receipts will be lower after 1996 reflecting the phase-out of support. However, elimination of the dairy assessment will partly offset this loss. Dairy producers will benefit from modest increases in forage availability due to planting flexibility; also, feed costs will remain nearly unchanged under the new act.

Beef, Pork, and Poultry. Impacts on the livestock sector, excluding dairy, are expected to be minimal. Feed costs under the 1996 Act are expected to be similar to those under previous legislation, and forage availability may increase modestly due to planting flexibility. Reductions in EEP funding will have a minimal impact on poultry exports. Maximum subsidized poultry volume under the Uruguay Round Agreement represents less than 2 percent of total projected poultry exports.

Sugar. Elimination of authority for sugar marketing allotments may create opportunities for more efficient beet sugar producers to increase production. Small expansion of sugarbeet production in regions such as North Dakota's Red River Valley is likely, raising beet's share of total sugar output. Production in high-cost areas will continue to decline. Production of raw cane sugar is expected to be similar to what would have occurred under previous law. This continues trends that were occurring under past legislation. However, any expansion in beet production will likely be constrained by the possibility that recourse loans will be in effect in years the tariff-rate quota on sugar imports is at or below 1.5 million short tons raw value. Sugar imports are expected to be above 1.5 million short tons in most years. With the continued ability of the Government to affect supply by controlling imports, sugar prices are not expected to change.

Peanuts. Elimination of the minimum poundage quota for marketings eligible for quota support and reduction of the quota support rate will depress peanut prices and lead to a reduction in plantings. Lower production and prices for peanuts under the 1996 Act will reduce the farm value of U.S. peanut production, lowering revenue for peanut producers. Peanut production is centered in the Southeast, with nearly half of U.S. peanut production in Georgia. Quota marketings can be leased or sold. The value of quotas and quota leases is also expected to decline. Consumers will benefit from lower prices for peanuts, increasing domestic food use of peanuts.

Fruits and vegetables. The 1996 Act will have negligible effects on fruits and vegetables because planting limitations on contract acreage are similar to planting flexibility restrictions of previous farm legislation.

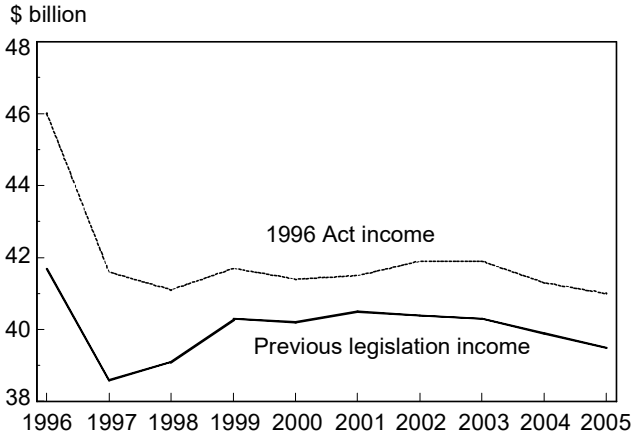
Sectorwide Impacts Mixed

Higher Government Payments Increase Net Farm Income

Net farm income is expected to be somewhat higher under the 1996 Act than projected under a continuation of previous agricultural law (fig. 8). This largely reflects higher government payments to farmers as production flexibility contract payments exceed projected deficiency payments under prior farm law (fig. 9). Changes in the timing of payments to farmers will provide an additional boost to farm income in the first year of the program—pushing 1996 net incomes up about $4 billion. The rise in net farm income, however, will be less than the increase in government payments. Lower net farm incomes for dairy and peanut producers and higher production expenses will partly offset higher government payments. Dairy sector cash receipts will be lower under the 1996 Act due to the phase-out of price supports, but dairy net income reductions will be smaller because the elimination of the dairy assessment will be a partial offset. Peanut receipts will also drop, reflecting the lower marketings eligible for quota support and reduced quota price supports. Production expenses will rise mostly due to increased rents to nonoperator landlords, reflecting the landlord share of higher government payments.

Adjustments in rental and lease arrangements likely will alter individual producer returns. When new or updated rental arrangements are negotiated, some landowners may demand rents of at least the full value of production flexibility contract payments, since the land may be idled in a conserving use with the landowner eligible to receive the full production flexibility contract payment. However, as long as the land can provide additional net returns, it is likely to remain in production.

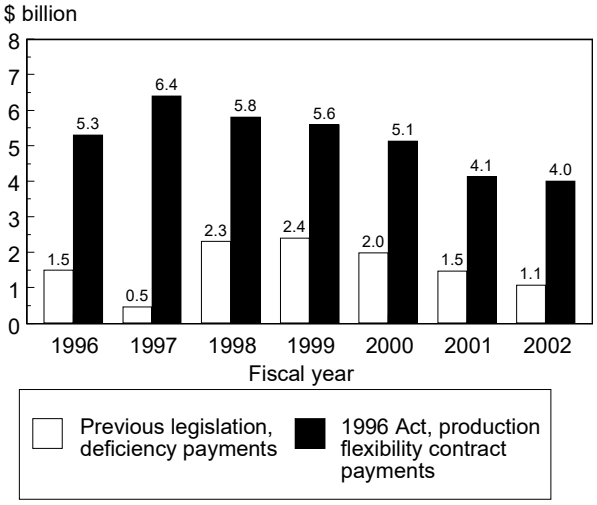
Figure 8
Net farm income higher as 1996 Act contract payments exceed projected deficiency payments under previous legislation



Net farm income projections under the 1996 Act assume that production flexibility contract payments continue after 2002.

Compiled by Economic Research Service, USDA.

Figure 9
Production flexibility contract payments exceed projected deficiency payments



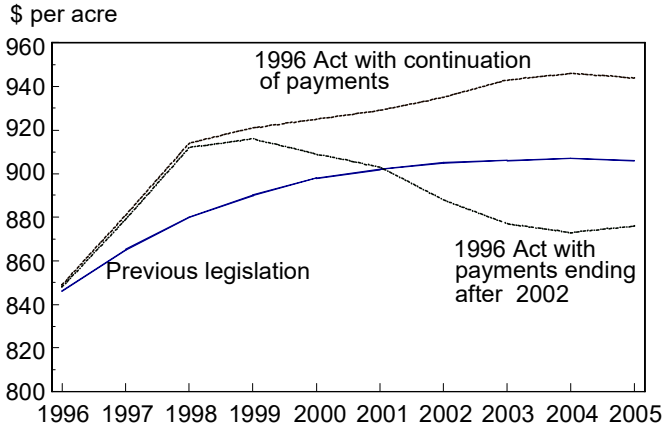
Compiled by Economic Research Service, USDA.

Farmers will continue to make adjustments in moving to a market economy under the new farm legislation. Relative market prices will become more important in determining cropping practices. The effects of market risk on net farm income increase under the 1996 Act. Net farm income will be potentially more variable because government payments are no longer linked to market prices. Loan rates, which remain but at relatively low levels (fig. 3), continue to provide some income protection. To counter potentially greater income volatility, many farmers will give increased attention to risk management when making production and marketing decisions. Many farmers will refine or develop new skills in the use of futures and options markets, forward contracting, and other marketing arrangements.

Farmland Values Reflect Higher Government Payments

Farmland values will be higher, reflecting the capitalization of larger expected total returns to the land (fig. 10). Increased variability in net returns could also affect farmland values, although the effects

Figure 10
Farmland values depend on expectations of future program payments



Source: Economic Research Service, USDA.

of nonagricultural factors such as urban pressure on farmland values could mitigate the adjustments. Producers' expectations regarding farm income will adjust quickly to the new farm law, so most adjustments in farmland values will occur in the initial years.

Expectations of future farm programs after 2002 will increasingly affect farmland values. If commodity income support payments continue beyond 2002, farm income and farmland values will be enhanced. However, if payments are eliminated or greatly reduced beyond 2002, net farm income would decline and farmland values would fall.

Farm Financial Conditions Improve

Increases in farm income under provisions of the 1996 Act will improve the financial viability of many individual farmers. However, farmers who produce commodities where government support is reduced, such as dairy, rice, and peanuts, may change their farm operations to limit impacts on their financial conditions.

Relatively high commodity prices combined with higher government payments during the initial years under the 1996 Act will provide an opportunity for farmers who receive production flexibility contract payments to improve their longer term financial conditions through debt repayment, investment in improved production equipment and technologies, and establishment of cash reserves.

Higher farmland values will enhance farmers' ability to obtain credit. The farm business debt-to-asset ratio was projected at about 15 percent in 2002 with a continuation of previous legislation. This ratio should improve under the 1996 Act. The debt-to-asset ratio will remain well below the 1985 high of 23 percent. Increased income variability will somewhat reduce farmers' creditworthiness. Credit availability, however, should not be a significant problem.

Despite overall improved farm income, some producers will leave the sector. Among farms that remain financially viable, there will be continued pressure to (1) increase the size of farm operations as a means of increasing farm income, or (2) reduce the size of farm operations so that labor can be allocated to off-farm opportunities. These factors will continue the longrun trend of farm consolidation, as larger more efficient producers acquire assets of marginal farms. The productive assets will likely remain in the agricultural sector.

Regional Impacts Vary

Participation in farm commodity programs and the relative profitability of farming vary from one region to another. Areas with production concentrated in commodities such as dairy, rice, and peanuts may face greater adjustments than other regions. Also, farmers in regions with higher dependence on production of crops eligible for contract payments under the 1996 Act will face adjustments of moving more fully to market orientation. Multiple-cropping opportunities available in some regions may ease adjustments for some farmers.

Regional impacts on farm income will in part reflect the distribution of production flexibility contract payments. Regional adjustments in farmland values will reflect regional variation in net incomes, as well as the relative importance of agricultural and nonagricultural returns in the determination of farmland values.

Environmental Impacts Mixed

Environmental programs are more targeted under the 1996 Act, which should lead to improved effectiveness. Additionally, more farmers are expected to sign production flexibility contracts than typically participated in annual commodity programs in the past, increasing the land covered by conservation compliance. Elimination of nearly all planting restrictions under the 1996 Act will permit farmers to adopt more crop rotations, which can benefit the environment as well as present opportunities for longer term gains in productivity.

With elimination of planting restrictions, planted area is likely to be higher during periods of large supplies than it would have been if ARP's had been implemented. Soil erosion and chemical runoff are generally higher with increased planted area. Per-acre soil and chemical runoff losses may be higher as more marginal acreage is brought into production.

Total CRP enrollment is expected to be similar to that projected under previous legislation. However, increased enrollment of more environmentally sensitive cropland in the CRP results from use of higher environmental criteria for new or extended contracts. This will shift enrollment toward regions with water quality problems, such as the Corn Belt, and likely will include more land that had been planted to corn and soybeans. Declines in CRP acreage in the Northern Plains States may reduce benefits associated with protection of threatened wildlife populations.

Government Outlays Increase

Government income support payments for major field crops will decline under the 1996 Act compared with historical levels of deficiency payments. However, production flexibility contract payments will be greater than projected deficiency payments would have been (fig. 9).

Under the 1996 Act, maximum EEP expenditures in 1996 through 1999 total $1.65 billion, about half of the Uruguay Round limits. Dairy program costs will be cut as dairy price supports are phased down from 1996 through 1999 and terminated thereafter. Costs of the peanut program will drop. The 1996 Act increases sugar marketing assessments, which will increase Federal revenues.

Retail Food Prices Largely Unchanged

Consumer food prices will be marginally lower under the 1996 Act. Retail prices for dairy products will average about 1 percent lower. Prices for peanuts and peanut products will be slightly lower, while consumer rice prices will be higher. Prices for other grains and oilseeds will be essentially unchanged, as will grain-based food prices, such as meats, cereals, and bakery products.

Increased Role for Marketplace to Manage Volatility Under the 1996 Act

Historically, agricultural markets have been variable as weather conditions vary and as policies and economic conditions change around the world. As market conditions vary, an important difference with the new farm program is that market forces will primarily determine supply, use, and prices, with minimal influence from government programs.

1996 Act Transfers Income Variability Risk from Government to Farmers. When agricultural surpluses occurred in the past, government programs tempered price and income adjustments. When prices fell, deficiency payments increased, providing some income stability to farmers. Market income risk due to price variability was partially carried by the Government and deficiency payments varied from year to year.

In contrast, under the 1996 Act, production flexibility contract payments remain fixed regardless of market prices. As a result, the Government carries little risk while farmers in general will face greater risk of income volatility, reflecting market price variation more directly.[4]

Marketing loan programs for rice, cotton, oilseeds, wheat, and feed grains continue in the new farm law, allowing repayment of commodity loans at less than the loan rate. However, loan rates for wheat, feed grains, and cotton under the 1996 Act are lower than would likely have occurred with extension of previous legislation, and world rice prices are higher. Thus, marketing loan benefits to farmers will be less likely to occur for these crops, shifting more price and income risk to farmers and reducing potential government costs.

Marketing Alternatives Available for Farmers to Manage Risk. To manage the risk shifted to farmers, some contract crop producers are likely to consider marketing alternatives to offset a portion of the potentially higher income variability. Previously, a portion of this risk was managed through deficiency payments. Individual farmers will develop a risk management strategy best suited for their farms (see box, "Farm strategies to manage risk"). Some farmers will expand their use of futures and options markets, possibly using new instruments such as yield contracts. Others will alter their marketing practices either by increasing storage to take advantage of higher prices during the marketing year or in

[4] There can be exceptions for individual farmers, such as a producer whose crops failed during high-priced years. Without a crop, this farmer will have no market receipts from crop sales. Under past legislation, crop insurance payments would have partly offset the loss, but deficiency payments would have been low, leaving the farmer with low farm income. Under the 1996 Act, the fixed production flexibility contract payments would tend to stabilize this farmer's income.

subsequent years, or by contracting in advance for the sale of their commodity. Around 10 percent of grain farmers typically use production and marketing contracts, compared with over 90 percent of broiler producers. Other alternatives include integrated ownership and involvement with more value-added processing beyond the farmgate. Finally, some producers will accept the risk and elect not to change their production and marketing strategies.

Production flexibility contract payments combined with strong farm prices during the next few years will provide farmers with the opportunity to reduce debt and to increase equity to mitigate potential income volatility. Even though the 1996 Act does not require producers to purchase crop insurance, many producers are expected to continue to use crop insurance for yield protection and to possibly expand coverage using newly available revenue insurance options.

Planting flexibility under the 1996 Act will permit farmers to alter their production practices to reduce risk. Some field crop producers are expected to look for ways to diversify their production practices under the 1996 Act. For example, some Northern Plains wheat acreage could move to other crops such as minor oilseeds and sugarbeets to diversify production and to include more fallow in crop rotations. Additionally, some Corn Belt land could shift from corn to soybeans in increased use of crop rotations. Such shifts serve as risk management tools and as means of increasing longer term productivity.

Alternatively, some producers may elect to intensify their farm operations by producing fewer crops best suited for their land. Potential volatility could then be addressed through the use of commercial risk management instruments such as crop insurance and marketing options shown in the box, "Farm strategies to manage risk."

Selection of appropriate production and risk management strategies will likely alter the information, analytical, and education needs of farmers. Farmers will select the appropriate strategies to improve farm production efficiency, risk management, and marketing based on cost-benefit analyses of various alternatives using market and other information. Some farmers will rely more heavily on analyses reported in trade journals and through the Extension Service, while others will conduct their own analyses. Many farmers are already involved in these types of activities, but the 1996 Act should accelerate the process and increase the importance of sound farm-level decisionmaking.

Farm strategies to manage risk

- Hedge or use futures markets
- Forward-contract crop sales
- Spread sales out over the year or across years
- Reduce debt/increase savings and equity
- Produce commodities with less variable yields, prices, and income
- Diversify production
- Integrate ownership
- Purchase crop and/or revenue insurance
- Add value beyond farmgate
- Use market information and analysis
- Increase education

Glossary Of Agricultural Policy Terms

- ***Acreage reduction program (ARP)***—A voluntary land retirement system for wheat, feed grains, cotton, or rice in which participating farmers idled a crop-specific, nationally-set portion of their crop acreage base. Farmers participating in this program were eligible for benefits such as Commodity Credit Corporation (CCC) loans and deficiency payments, although no payments were made on the idled ARP land. The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) did not reauthorize authority for ARP's.

- ***Additional peanuts***—Peanuts sold from a farm in any marketing year in excess of the amount of quota peanuts sold from that farm. Additional peanuts are eligible only for the lower of the two peanut price support levels. The level is determined by the Secretary, taking into consideration the demand for peanut oil and meal, expected prices of other vegetable oils and protein meals, and the demand for peanuts in foreign markets. Under the 1996 Act, loans for additional peanuts remain available.

- ***Base acreage***—A farm's crop-specific acreage of wheat, feed grains, upland cotton, or rice eligible to enroll in commodity programs under previous legislation. Base acreage equals land planted for harvest to the crop, plus any land enrolled in ARP's, plus land considered planted to the crop in 0,50/85-92 or under permitted normal flex or optional flex acreage shifts during a specified period of time. A farmer's crop acreage base is reduced by the portion of land placed in the Conservation Reserve Program, but is increased by CRP base acreage leaving the CRP.

- ***Commodity Credit Corporation (CCC)***—A federally owned and operated corporation within the U.S. Department of Agriculture created to stabilize, support, and protect agricultural prices and farm income through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC.

- ***Commodity loan rates***—Price per unit (pound, bushel, bale, or hundredweight) at which the CCC provides nonrecourse loans to farmers to enable them to hold program crops for later sale. Commodity loans under the 1996 Act can be recourse for sugar and will become recourse for dairy in 2000.

- ***Conservation Reserve Program (CRP)***—A major provision of the Food Security Act of 1985 designed to reduce erosion and protect water quality on up to 45 million acres of farmland. Under the program, enrolled landowners agree to convert environmentally sensitive land to approved conserving uses for 10-15 years. In exchange, the landowner receives an annual rental payment as well as an initial cost-share payment for up to 50 percent of the cost of establishing permanent vegetative cover. The 1996 Act authorizes a 36.4 million acre CRP, its 1995 level.

- ***Contract acreage***—Enrolled 1996 commodity base acreage under the 1996 Act for wheat, feed grains, upland cotton, and rice, generally fixed for 1996 through 2002. A farmer may voluntarily choose to reduce contract acreage in subsequent years. Land leaving the CRP may be entered into a production flexibility contract if the land had an acreage base.

- ***Contract crops***—Crops eligible for production flexibility payments: wheat, corn, sorghum, barley, oats, rice, and upland cotton.

- ***Crop year***—Generally, the 12-month period from the beginning of harvest.

- ***Dairy Export Incentive Program***—A program that offers subsidies to exporters of U.S. dairy products to assist in competition with other nations. Payments are made by the Commodity Credit Corporation on a bid basis either in cash or through certificates redeemable for commodities. The program was originally authorized by the 1985 Act and reauthorized by the 1990 Act. The 1996 Act extends the program through 2002.

- ***Decoupled payments***—Payments to farmers that are not linked to current production decisions. When payments are decoupled, farmers make production decisions based on expected market returns.

- ***Deficiency payments***—Direct government payments made to farmers who participated in an annual commodity program for wheat, feed grains, rice, or cotton, prior to 1996. The crop-specific deficiency payment rate was based on the difference between the target price and the higher of the loan rate or the national average market price during a specified time. The total payment was equal to the payment rate, multiplied by a farm's eligible payment acreage and the program payment yield established for the particular farm. In recent years, farmers could receive up to one-half of their projected deficiency

payments at program signup. If actual deficiency payments, which were determined after the crop year, were less than advance deficiency payments, the farmer was required to reimburse the Government for the difference, except for 0,50/85-92 payments.

- ***Export Enhancement Program (EEP)***—Started in May 1985 under the Commodity Credit Corporation Charter Act to help U.S. exporters meet competitors' prices in subsidized markets. Under the EEP, exporters are awarded bonuses, enabling them to compete for sales in specified countries.

- ***Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) (P.L. 104-127)***—The omnibus food and agriculture legislation signed into law on April 4,1996 that provided a 7-year framework (1996-2002) for the Secretary of Agriculture to administer various agricultural and food programs. The 1996 Act fundamentally redesigns income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and upland cotton. The 1996 Act also makes program changes for dairy, sugar, and peanuts. Additionally, trade programs are more targeted and environmental programs are consolidated and extended in the 1996 Act.

- ***Federal Crop Insurance Program***—A subsidized insurance program providing farmers with a means to manage the risk of crop losses resulting from natural disasters. With the Federal Crop Insurance Reform Act of 1994, coverage is classified as "catastrophic" (CAT) or "additional." CAT coverage guarantees 50 percent of a farmer's average yield, at 60 percent of the price election, for a nominal processing fee. The 1996 Act continues the Federal Crop Insurance Program, but eliminates the requirement that producers purchase crop insurance to be eligible for farm program benefits and the dual delivery of Federal and private crop insurance in areas that have adequate access to private crop insurance providers.

- ***Federal milk marketing orders***—A regulation issued by the Secretary of Agriculture specifying minimum prices and conditions under which milk can be bought and sold within a specified area. The orders classify and fix minimum prices according to the products for which milk is used. The 1996 Act consolidates the Federal milk marketing orders into 10-14 orders, down from 33.

- ***Food, Agriculture, Conservation and Trade Act of 1990 (1990 Act) (P.L. 101-624)***—The omnibus food and agriculture legislation signed into law on November 28, 1990, that provided a 5-year framework (1991-95) for the Secretary of Agriculture to administer various agricultural and food programs.

- ***Food Security Act of 1985 (1985 Act) (P.L. 99-198)***—The omnibus food and agriculture legislation signed into law on December 23, 1985, that provided a 5-year framework (1986-90) for the Secretary of Agriculture to administer various agricultural and food programs.

- ***Food Security Commodity Reserve***—Formerly the Food Security Wheat Reserve, a special wheat, corn, grain sorghum, and rice reserve of up to 4 million metric tons to be used for humanitarian purposes. The reserve, created by the Agriculture Act of 1980 (P.L. 96-494), is generally used to provide famine and other emergency relief when commodities are not available under P.L. 480. The 1996 Act expands the reserve to include corn, grain sorghum, and rice in addition to wheat and makes other administrative changes.

- ***General Agreement on Tariffs and Trade (GATT)***—An agreement originally negotiated in 1947 to increase international trade by reducing tariffs and other trade barriers. The agreement provides a code of conduct for international commerce and a framework for periodic multilateral negotiations on trade liberalization and expansion. The Uruguay Round Agreement established the World Trade Organization (WTO) to replace the GATT. The WTO officially replaced the GATT on January 1, 1995.

- ***Loan deficiency payments***—A provision begun in the 1985 Act to provide direct payments to producers who, although eligible to obtain price support loans for wheat, feed grains, upland cotton, rice, or oilseeds and thereby receive marketing loan gains, agree not to obtain loans.

- ***Market Access Program (MAP)***—Formerly the Market Promotion Program. Participating organizations include nonprofit trade associations, state regional trade groups, and private companies. Fund authority is capped at $90 million annually for fiscal 1996-2002.

- ***Marketing allotments***—Provides each processor or producer of a particular commodity a specific limit

on sales for the year, above which penalties would apply.

- ***Marketing assessments***—Require producers, processors, or first purchasers to pay a fee per unit of domestic production sold in order to share program costs with the Government.

- ***Marketing loan program***—Allows producers to repay nonrecourse price support loans at less than the announced loan rates whenever the world market price or posted county price for the commodity is less than the commodity loan rate.

- ***Marketing orders***—Federal marketing orders authorize agricultural producers to promote orderly marketing by influencing such factors as supply and quality, and to pool funds for promotion and research. Marketing orders are initiated by the industry, and are approved by the Secretary of Agriculture and by a vote among producers. Once approved, a marketing order is mandatory.

- ***Marketing year***—Generally, the 12-month period from the beginning of a new harvest.

- ***Nonrecourse loan program***—Provides operating capital to producers of wheat, feed grains, cotton, peanuts, tobacco, rice, and oilseeds. Dairy processors (until 2000) and sugar processors are also eligible for nonrecourse loans. Farmers or processors participating in government commodity programs may pledge a quantity of a commodity as collateral and obtain a loan from the CCC at a commodity-specific, per-unit loan rate. The borrower may repay the loan with interest within a specified period and regain control of the commodity, or forfeit the commodity to the CCC after the specified period as full settlement of the loan with no penalty. For those commodities eligible for marketing loan benefits, producers may repay the loan at the world price (rice and upland cotton) or posted county price (wheat, feed grains, and oilseeds).

- ***Normal flex acreage***—Provision of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) requiring a mandatory 15-percent reduction in payment acreage. Under this provision, producers were ineligible to receive deficiency payments on 15 percent of their crop acreage base (not including any acreage removed from production under any production adjustment program). Producers, however, were allowed to plant any crop on this acreage, except fruits, vegetables, and other prohibited crops. Normal flex acreage no longer exists under the 1996 Act.

- ***Oilseeds***—Soybeans, sunflowerseed, canola, rapeseed, safflower, mustard seed, and flaxseed.

- ***The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508)***—Signed November 5, 1990. This law amended the 1990 Act and included agricultural provisions to address budgetary concerns for 1991-95. It included a mandatory reduction of 15 percent of payment acreage, and assessments on certain other crop loans and incentive payments.

- ***Optional flex acreage***—Under the planting flexibility provision of the 1990 Act, producers could choose to plant up to 25 percent of the crop acreage base to other CCC-specified crops (except fruits and vegetables) without a reduction in crop acreage bases on the farm, but receive no deficiency payments on this acreage. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) made a 15-percent reduction in payment acreage mandatory. The remaining 10 percent was optional flex acreage. Optional flex acreage was eligible for deficiency payments when planted to the program crop. Optional flex acreage no longer exists under the 1996 Act.

- ***Peanut poundage quota***—A supply control mechanism authorized by the Agricultural Adjustment Act of 1938 (P.L. 75-430) to regulate the marketing of domestically consumed peanuts when supplies are or could become excessive. Under the 1990 Act, each year's national peanut poundage quota was set equal to estimated domestic use of peanuts for food products and seed, subject to a minimum 1.35 million tons. The 1996 Act redefined the national poundage quota to exclude seed use and eliminated the 1.35 million ton minimum. The 1996 Act also permits the sale, lease, and transfer of a quota across county lines within a State up to specified amounts of quota annually. Government entities and out-of-state farmers cannot hold quotas.

- ***Permanent legislation***—Legislation that would be in effect in the absence of all temporary amendments (farm acts). The Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 serve as the basic laws authorizing the major commodity programs. Technically, each new farm act amends the permanent legislation for a specified period.

- ***Previous legislation***—As used in this report, previous legislation refers to U.S. agricultural laws in effect during 1995. These laws include provisions of the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation Charter Act of 1948, and the Agricultural Act of 1949 (the so-called permanent legislation), as amended by the Food, Agriculture, Conservation, and Trade Act of 1990 and the Omnibus Budget Reconciliation Acts of 1990 and 1993.

- ***Production flexibility contract payments***—The payments to be made to farmers for contract crops in 1996 through 2002 under the 1996 Act. Payments for each crop are allocated each fiscal year based on budgetary levels and crop-specific percentages in the 1996 Act.

- ***Production flexibility contract payment rate***—The amount paid per unit of production to each participating farmer for eligible payment production under the 1996 Act.

- ***Production flexibility contract payment quantity***—The quantity of production eligible for production flexibility contract payments under the 1996 Act. Payment quantity is calculated as the farm's program yield (per acre) multiplied by 85 percent of the farm's contract acreage.

- ***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.

- ***Program payment yield***—The farm commodity yield of record (per acre), determined by a procedure outlined in legislation. Previous law allowed USDA to update program yields at the average of the preceding 5 years' harvested yield (dropping the high and low years). This provision has not been implemented in recent years as program yields continue to be frozen at 1985 levels.

- ***Public Law 480 (P.L. 480)***—Common name for the Agricultural Trade Development and Assistance Act of 1954, which seeks to expand foreign markets for U.S. agricultural products, combat hunger, and encourage economic development in developing countries. Title I of P.L. 480, also called the Food for Peace Program, makes U.S. agricultural commodities available through long-term dollar credit sales at low interest rates for up to 30 years. Donations for humanitarian food needs are provided under Title II. Title III authorizes "food for development" grants.

- ***Recourse loan program***—A provision that allows farmers or processors participating in government commodity programs to pledge a quantity of a commodity as collateral and obtain a loan from the CCC. The borrower must repay the loan with interest within a specified period. Under the 1996 Act, a recourse loan program will be implemented for butter, nonfat dry milk, and cheese beginning in 2000. Loans for sugar are recourse when the tariff-rate import quota is at or below 1.5 million short tons, but these loans revert to nonrecourse loans if the tariff-rate import quota is increased above 1.5 million short tons.

- ***Revenue insurance***—A program that would provide farmers with guaranteed minimum revenue. The 1996 Act mandates a revenue insurance pilot program for crop years 1997-2000 under which producers of feed grains, wheat, soybeans, and other crops may elect to insure against loss of revenue.

- ***Target prices***—Price levels established by past law for wheat, corn, grain sorghum, barley, oats, rice, and upland cotton. Prior to 1996, farmers participating in annual Federal commodity programs received deficiency payments based on the difference between the target price and the higher of the national market price during a specified time period, or the loan rate. Target prices were not reauthorized by the 1996 Act.

- ***Tariff-rate quota (TRQ)***—System by which a certain quantity of imports, called a quota amount, receives a low tariff, and imported quantities above that quota level are assessed a higher tariff.

- ***Uruguay Round***—The Uruguay Round of Multilateral Trade Negotiations (UR) under the auspices of the GATT; a trade agreement designed to open world agricultural markets. The UR agricultural agreement covers four areas: export subsidies, market access, internal supports, and sanitary and phytosanitary rules. The agreement is implemented over a 6-year period, 1995-2000.

- ***0,50/85-92 provisions***—Refers to the 50/85 and 50/92 provisions for rice and cotton and the 0/85 and 0/92 provisions for wheat and feed grains that were in effect in various forms from 1986 through 1995. Under these provisions farmers could idle all or part of their permitted acreage, putting the land in a conserving use, and receive deficiency payments for

part of the acreage. A minimum planting requirement of 50 percent of maximum payment acreage applied for rice and cotton.

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