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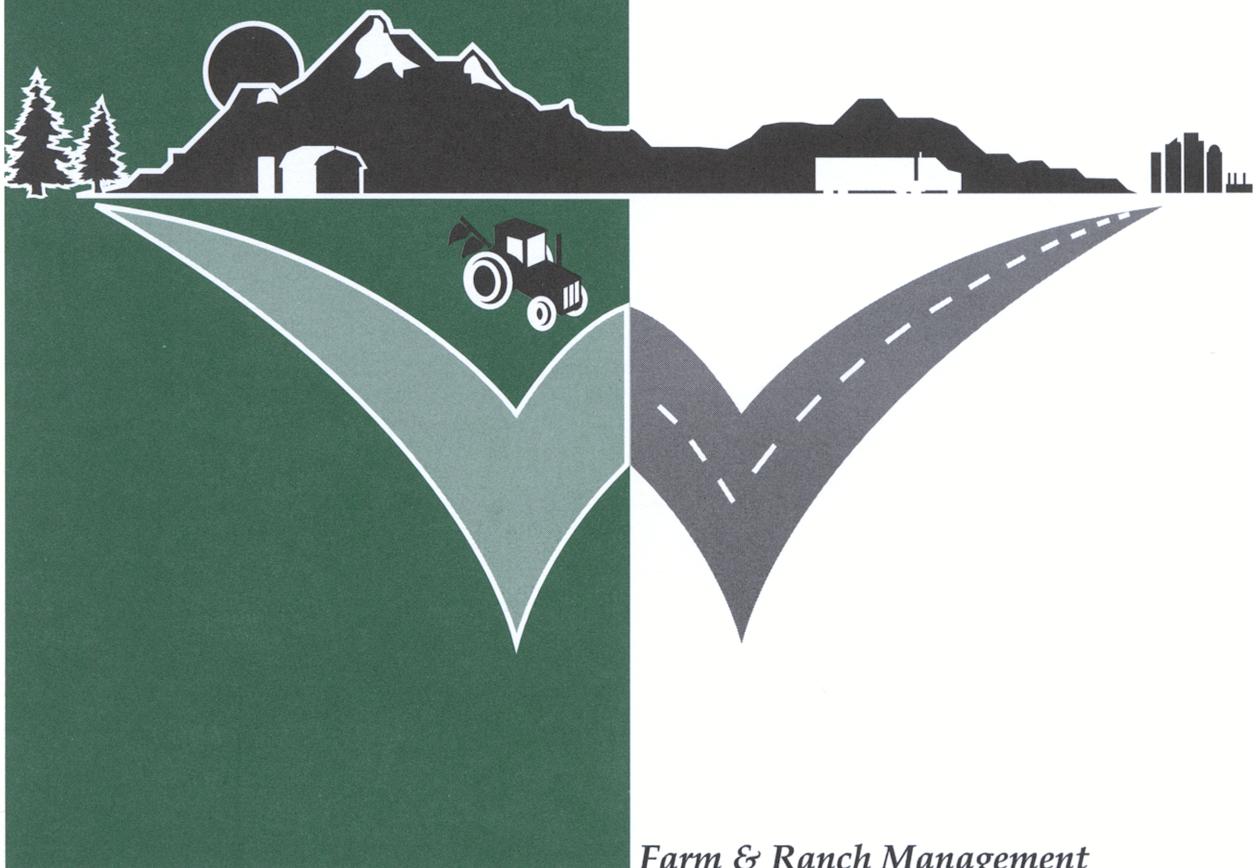

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The 2002 Farm Bill: What Does It Mean for Western Agriculture?

By James W. Richardson[1]

The 2002 farm bill is finally complete. The conferees worked long and hard to hammer out a farm bill from the House bill (H.R. 2646 -- Farm Security Act of 2001) and the Senate bill (S. 1731 -- Agriculture, Conservation, and Rural Enhancement Act of 2002). Both bills had provisions that would have directly and indirectly impacted western agriculture; some made it through, while some did not. There are similarities between the bills, but they are most noteworthy in their differences on issues such as payment base for crops, payment limitations, and conservation spending. It is interesting now to look back on the differences between the bills and the final bill to see how the West faired.

The Senate bill was a 5-year bill while the House bill was a ten-year bill. Both bills spent the full amount budgeted for agriculture; so they both would have cost the same. A major issue is how this expenditure is allocated. The House proposed to increase funding for conservation slightly while spending most of the increased budget allocation on traditional program crops. On the other hand, the Senate proposed spending considerably more of the increased budget allocation on conservation titles, so less new money was spent on traditional program crops. In the end Congress passed a seven-year bill that spent all it was authorized to and both traditional crops and conservation titles received more money.

Overall it appears that agriculture in the Western states was largely ignored in writing the farm bill. Problems faced by cotton and rice farmers in California, wheat and barley producers in Washington, Montana, and Colorado, sheep ranchers in the Mountain states, and sugar beet producers in Wyoming and Montana were directly addressed in the farm bill debate while most of the rest of the farmers and ranchers in the West were ignored. Some may agree with this statement, but it oversimplifies the farm bill. The farm bill is written for the whole country, not specifically for each region. Although the bill does not directly provide price and income supports for western cattle raisers it does affect their incomes through its affects on feed grain supplies and prices.

The purpose of this paper is to discuss how the House and Senate farm bills would likely have affected western agriculture and how the final bill will affect the West. Selected parts of the farm bill are described and their impacts on western producers and landowners are discussed. The paper is organized into three parts: resource issues, commodity programs, and livestock provisions.

Resource Issues

Conservation Security Program (CSP)

The Senate bill proposed a conservation security program (CSP) that is not found in the old farm bill or in the House bill. The CSP provided incentive payments for farmers to undertake conservation practices on all agricultural lands. The final farm bill includes a CSP title that specifically names both farming and ranching operations. Conservation plans consistent with local needs would be developed between landowners and the local Natural Resource and Conservation Service (NRCS) offices. Annual payments to land owners for their conservation activities would depend on the types of actions proposed in the conservation plans.

Under the lowest level of participation (Tier I), producers implementing new conservation practices or expanding existing activities could receive five annual payments of up to $20,000 per year. Under the highest level of participation (Tier III, up to $45,000 per year) producers must fully implement conservation practices that enhance environmental quality, long-term sustainability, improve profitability and quality of life.

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The CSP is available to all owners of private working lands, thus opening the door for ranchers in the West to participate in a new farm program. Cattle ranchers in the West who have not been eligible for income supports (e.g. deficiency payments) in past farm programs could benefit from this provision by filing a conservation plan to improve the environmental quality on their private lands. This seems well suited to Western landowners who could qualify for cost sharing to protect environmentally sensitive areas, streams, and threatened and endangered species.

Conservation Reserve Program (CRP)

The Senate and House bills both proposed expanding the CRP. The Senate required that new CRP land must have been in crop production for three of the previous six years. The House would have allowed re-enrollment of CRP lands with erosion control, wildlife, and water quality having equal priority. The farm bill caps the CRP at 39.2 million acres and establishes a number of restrictions on eligible land. The CRP program has been widely used by western landowners. The final bill may make it easier for western landowners to re-enroll expiring contracts as well as enroll new acres under the wildlife and water quality protection provisions.

Water and Wetlands Policies

One of the pilot programs in the Senate bill was the water benefits program (WBP). The WBP authorized funds to help farmers save irrigation water by changing crops and improving irrigation efficiencies, or leasing water rights to states. A ground and surface water conservation program was authorized in the final farm bill as part of the EQIP title. The Secretary shall provide cost sharing to landowners who take on practices to conserve water that will result in net water savings. Although the title is watered down from the Senate's original version, it does provide funds for producers who change their water delivery systems, crop mix, and increase their water efficiency. The bill earmarks special funds to the Klamath Basin, California, and Oregon.

The Senate proposed a wetlands reserve enhancement program to develop wetland restoration programs with state and local governments and with private organizations. The House would have permitted enrolled acres to increase 150,000 per year while the Senate bill permitted 250,000 additional acres to be enrolled annually. The Senate version won out on this issue with the Secretary being instructed to enroll 250,000 acres per year in the program. Western landowners who have qualified wetlands may benefit from expansion of this program.

Environmental Quality Incentives Program (EQIP)

Past legislation permitted $200 million per year to be spent on EQIP. The final farm bill contained a $5.1 billion allocation over 2002-2007. The new funding level will result in a considerable increase in funds available to NRCS to help farmers and ranchers undertake EQIP activities all across the country. To the extent that EQIP allows states to deal with their own unique problems rather than fit under national standards, western landowners will benefit from the program. Such a large increase in funding is likely to make NRCS even more short-handed and create long delays in approving and funding landowner requests.

NRCS is directed in the bill to allocate 60% of the funds to livestock producers and 40% to crop producers. EQIP funds can be used for cost sharing by livestock producers to construct facilities and structures used to manage animal wastes. These funds are limited to one $450,000 EQIP contract per producer. Western rancher/feeder operations may find this program a source of funds for complying with new animal waste management guidelines. Smaller operations will likely benefit more from this program than large feedlots due to the rule limiting one contract per producer.

Grazing Lands

Both the House and Senate bills authorized funds to better utilize local technical, educational, and related programs to conserve and enhance private grazing land in all states. The final farm bill recognizes the severe lack of technical assistance to farmers and ranchers who graze livestock yet grazing land constitutes nearly half of the non-federal lands in the country. A similar amount was authorized, but never appropriated under the past farm bill, to add a conservation of private grazing land program to NRCS. For the new farm bill, funds are again authorized as a line item in the NRCS budget. Western landowners could benefit from such a program if funds get appropriated and NRCS directs them to a grazing lands program.

The Senate's proposal to create a 2 million acre Grassland Reserve survived to the final bill. Grassland reserve lands can qualify for 10, 15, 20, and 30-year agreements/easements. Enrolled acres with approved NRCS conservation plans could qualify for haying and grazing after the normal nesting and chick-rearing season. Funds of $245 million over the life of the bill are allocated to grassland reserve program. Many landowners in the western states could benefit from these programs while increasing the productive capacity of their grasslands.

Wildlife Habitat

The past farm program authorized a wildlife habitat incentives program. Both the House and Senate bills would have increased funding for the program. In the final farm bill funds are earmarked ($15 million in 2002 increasing to $85 million per year in 2005-07) to cost share with landowners on plant and animal habitat protection programs of 15 years or longer. Landowners in the West faced with increased restrictions on land use due to wildlife encroachment should benefit by receiving payments to accommodate wildlife and possibly benefit from wildlife tourism.

Commodity Programs

Return of Target Prices

The 1996 farm bill eliminated target prices and deficiency payments and initiated production flexibility contract payments paid on frozen base acres and farm program yields. The 2002 farm bill will see the return of target prices but they will be called counter cyclical prices (CCP) with CCP payments. The CCP payments will be decoupled from current production so little increase in the supply of feed grains and wheat can be expected from this part of the farm bill. Grain and cotton farmers in the western states will receive a safety-net type of income support from this program.

The farm bill allows farmers to update their base acres using the average of planted and considered planted acres of program crops for 1998-2001, or they can update base acres just for oilseeds (soybeans and minor oilseeds), or they can retain their current base acres. The CCP payments will be paid based on their own farm program yields. Producers who have experienced yield increases since 1985 will likely benefit from the opportunity to update their program yields for the CCP payments. Program yields have been frozen at their 1985 levels since that date.

Marketing Loan Program

The marketing loan program was extended to wheat and feed grains under the 1996 farm bill. Both the House and Senate extend the marketing loan provisions in their 2002 farm bills. The Senate bill offered higher loan rates than the House. Setting the marketing loan rates was an area of considerable negotiation. Cotton and rice are the only program crops that did not benefit from higher loan rates over the past farm bill. The marketing loan program provides an income safety net for producers, while allowing prices to seek their market clearing levels. This feature in the farm program has prevented the government from acquiring large stocks of grains and made US grains and fiber more competitive in international markets. For livestock producers in the West, this program has meant lower feed grain

prices and cheaper costs of gain in the feedlot. Loan rates in the Senate bill could result in slightly larger increases in feed grain and oilseed supplies than the House.

Fixed or Direct Payments

The 1996 farm bill introduced decoupled or production flexibility contract payments that declined over the life of the bill. Both the Senate and House proposed to continue these payments, renaming them "direct payments." The House set the payment rates at levels higher than their 2001 values and held them constant over the life of the bill. The Senate started with a higher level and decreased the payment rate over time. In the final bill, all direct payment rates are higher than the old farm bill and remain constant over the seven-year life of the bill. Fixed payment rates are stated in $/bu. or $/lb. terms so they are the same for all regions.[2] To the extent that wheat yields are greater in parts of the West, these producers will receive larger payments per acre than producers in the Plains.

Extension to New Crops

The marketing loan will be extended to sunflowers, dry peas, lentils, and small chickpeas. Pulse crop growers in the Great Plains and Pacific Northwest will directly benefit from these changes in the program. An expansion of acreages for these crops is likely given marketing loan rates higher than recent prices. Other program benefits such as CCP payments and direct payments are not extended to pulse crops.

Payment Limitations

One of the most contentious issues between the House and Senate bills was the payment limitation provision proposed in the Senate bill. The House bill continued the use of the 3-entity rule, which allows a farmer and spouse to receive the equivalent of two payment limits. The Senate removed the 3-entity rule by proposing payments be limited by direct attribution to a single social security number plus $50,000 for a qualified spouse.

Direct attribution would have resulted in the payment limitation adversely affecting producers of high valued crops such as, cotton and rice producers in California, and not significantly affecting payments for wheat and feed grain producers. Additionally cotton and rice are adversely affected by the Senate bill disallowing the use of generic marketing certificates to repay marketing loans. The final farm bill retained the three entity rule, allowed the use of generic certificates to repay marketing loans, and dropped the direct attribution requirement.

Livestock Provisions

Wool and Mohair

The farm bill reinstates wool and mohair as program commodities by establishing marketing loans for these commodities. The marketing loan for these commodities would provide western flocks an income safety net without the risk of the government accumulating large stocks of wool and mohair. The previous program for wool, a non-recourse loan, resulted in government accumulation of large stocks after world prices became depressed. The final bill sets a payment limitation of $40,000 per person for wool and mohair marketing loan gains and loan deficiency payments, which will reduce the benefits to large-scale producers in the West.

Dairy

The Senate bill offered a market loss assistance payment to dairy farmers. The payment was based on the difference between average milk price for the quarter and the same quarter's average price for the

[2] Counter cyclical payment rates equal CCP minus fixed payment rate minus the higher of the loan rate or the market price, so the fixed payment rates are unaffected by the CCP payments.

past five years. In the final farm bill a national dairy market loss payment was extended to all dairy producers on their base production that was less than the 2.4 million pounds per year limit.

Large-scale producers would be made worse off by this program because lower milk prices resulting from increased supplies of milk, more than offset their limited milk deficiency payments. Smaller dairy farms across the country get the full benefit of the market loss payments inducing them to increase their production of milk.

Honey

The 2002 farm bill reinstated the honey program by adding it to the commodities eligible for a marketing loan and loan deficiency payments. The honey program was beneficial to western beekeepers in the past. The marketing loan for honey would provide producers an income safety net program without the potential problem of the government accumulating large stocks of honey.

Summary

The 2002 farm bill expanded the number of stakeholders who benefit from the farm program, a stated objective of some policy makers in Washington. The inclusion of new crops (minor oilseeds and lentils), reinstatement of wool, mohair, and honey, and expansion of the conservation title helps Congress achieve that objective. Broadening the farm program base has not gone unnoticed by the traditional program commodity groups. Grain, rice, and cotton producer groups are concerned that their share of the federal expenditures for income supports would be cut.

Agricultural producers in the West could be net beneficiaries from the 2002 farm bill. Large rice and cotton farms in California will likely be hurt by the lower payment limits. Large dairy farms throughout the West will likely be made worse off by the dairy market loss payment for milk. However, benefits to land owners who have not traditionally benefited from farm programs will be eligible for payments and/or cost sharing to undertake conservation and water quality programs being mandated on them. Depending upon the magnitude of these programs it is likely that Western agricultural producers will be net gainers from the 2002 farm bill.