Briefing Rooms [ARCHIVE]

Farm and Commodity Policy

Contents:

- **Farm and Commodity Policy Briefing Room**
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Overview

The 2002 Farm Act (1.13 MB) builds on previous policy and institutionalizes an improved income stabilization policies for farmers through a new countercyclical income stabilization program. Government payments provide an important source of income to the farm sector, but U.S. farm policy has undergone significant changes over the last 15 to 20 years. Beginning with the 1985 Farm Act and continuing with farm legislation in 1990 and 1996, a series of fundamental changes in commodity and other agricultural policies moved the sector toward market-oriented decisions. Against a background of low commodity prices that spurred enactment of five supplemental emergency assistance packages, the new farm bill adds income stabilization provisions, among other new programs, to already existing policies.

ERS analysts evaluate the economic effects on producers, consumers, taxpayers, and rural communities of current farm legislation and alternative policy instruments and programs. This briefing room provides a background on farm policy and an explanation of the various programs. Also included is access to ERS analyses of the impacts of farm policy, commodity-specific farm programs, and commodity trade policy, highlighting the impacts of the 2002 farm act.

Features

The Effects of Failure to Enact a New Farm Bill: Permanent Law Support For Commodities and Lapse of Other USDA Programs (March 2008) describes what would happen to commodity programs authorized by the Farm Security and Rural Investment Act of 2002 if new farm legislation bill is not enacted before the 2002 Act expires, a so called reversion to "permanent law."

Effects of Reducing the Income Cap on Eligibility for Farm Program Payments (September 2007) evaluates the effects of changing the current $2.5-million income cap on eligibility for farm program payments to $200,000. This change would increase the number of farm households subject to the cap, but the share of recipients affected would still be small. Based on IRS tax data for 2004, about 1.2 percent of all farm sole proprietors and about 2 percent of crop share landlords would potentially be subject to the proposed lower cap.

Relaxing Fruit and Vegetable Planting Restrictions (May 2007) finds that market effects would likely be limited and confined to specific regions and commodities. Eliminating these planting restrictions for commodity program participants might enable some producers to switch from program crops to fruit and vegetables in such areas as California, the upper Midwest and the coastal plain in the Southeastern States. For the full report, see Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets be Affected? (November 2006).

Recommended Readings

The 2002 Farm Act: Provisions and Implications for Commodity Markets (November 2002) provides an initial assessment of the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years. Results indicate that commodity market impacts are fairly small. Net farm income is projected higher than under a continuation of the 1996 Farm Act, largely reflecting an increase in government payments.

The 2002 Farm Bill: Provisions and Economic Implications (May 2002) presents an overview of the Act and a side-by-side comparison of 1996-2001 farm legislation and the 2002 Act. For selected programs, links are provided to additional analyses of key changes, program overview, and economic implications.

Commodity Backgrounders (2005, 2007) addresses considerations in domestic agricultural policy deliberations, including market conditions, policy proposals, trade agreements, and the interactions between policy and markets for selected commodities.

- Cotton
- Dairy
- Fruit and Vegetables
- Feed Grains
- Peanuts
- Rice
- Soybeans
- Sugar
- Wheat

See all recommended readings...

Recommended Data Products

Farm Program Acres allows downloading and mapping of county-level farm program and planted acreage data for nine major program crops (corn, grain sorghum, barley, oats, wheat, rice, cotton, peanuts, and oilseeds).

Farm Programs, Price Supports, Participation, and Payment Rates [Provisions.xls in zip file] contains program parameters for individual commodities.

CCC Net Outlays by Commodity and Function provides total Commodity Credit Corporation expenditures by commodity.

U.S. and State farm income data includes calendar-year data on direct government payments.

- Direct Government Payments, History
- Latest Forecast

Price Support Loan and LDP Activity Reports includes data on year-to-date and the previous 4 years of marketing loan and loan deficiency payment expenditures.

National and County Commodity Loan Rates provides county and national marketing loan rates.

Season-Average Price Forecasts provides three Excel spreadsheet models that use futures prices to forecast the U.S. season-average price and counter-cyclical payment rate for corn, soybeans, and wheat. Users can view the model forecasts or create their own forecast by inserting different values for futures prices, basis values, or marketing weights.

WTO Agricultural Trade Policy Commitments Database is a queriable database on implementation of World Trade Organization (WTO) commitments organized for comparison across countries.

Calculation of the U.S. WTO Aggregate Measure of Support [USAMS1997.xls in zip file] provides an example of how the U.S. Aggregate Measure of Support was calculated for 1997.

U.S. WTO Domestic Support and Support Reduction Commitments [TotalUSA.xls in zip file] summarizes the U.S. domestic support notifications to the WTO.

Recent Research Developments

ERS is evaluating the impacts of farm commodity programs on farm income and production decisions. The research focuses on incentives created by counter-cyclical payments and the interactions of these payments with other elements of agricultural programs, such as direct payments, marketing loan benefits, and crop insurance. This project extends research on assessment of the Farm Act and on decoupled payments. Contact: Edwin Young.

Glossary

Agricultural policy terms and definitions...

Questions and Answers

Frequent questions and answers about current and future programs...

Related Links

USDA Farm Service Agency, Commodity Operations. Commodity programs.

U.S. House of Representatives Committee on Agriculture. Farm legislation and legislative proposals.

U.S. Senate Committee on Agriculture, Nutrition & Forestry. Farm legislation and legislative proposals.

See all related links...

Maps and Images

Geographical Distribution of Farm Program Characteristics provides county-level maps on the distribution of base acres, Conservation Reserve Program acres, and commodity program payments.

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

Web administration: webadmin@ers.usda.gov

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Basics of U.S. Agricultural Policy

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Commodity Policies
Agri-Environmental Programs
Food Assistance Programs
Rural Development Programs

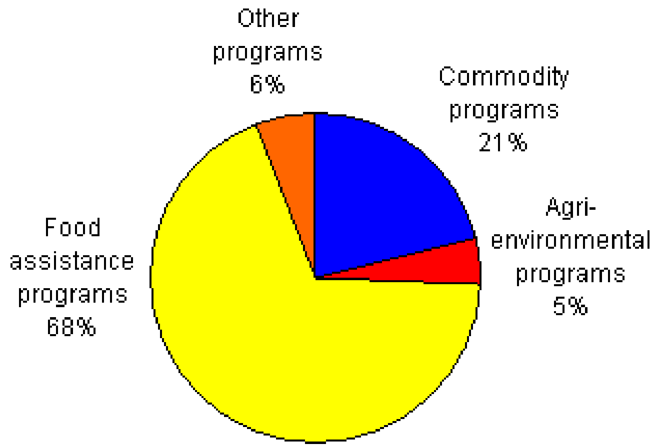
The United States supports its agricultural sector through a variety of programs. These programs provide both direct and indirect support to producers and consumers and to the sector in general. The core programs are price and income support programs for grains, oilseeds, fiber, dairy, and sugar. These programs are intended to help farmers stabilize their incomes in the face of the many risks of farming. Other programs help producers market products more effectively and farm in ways that preserve or enhance the environment. U.S. agricultural policy also includes programs to help rural communities build better infrastructure for business development, help low-income Americans purchase food, and help provide food to programs that serve children and the elderly.

The primary legal framework for agricultural policy is set through a legislative process that occurs approximately every 5 years. The U.S. Congress writes farm legislation, with the participation of the President and the administration, but many interested parties take part in the policy debate. Farmers, producer organizations, agribusinesses, consumer and environmental organizations, rural community leaders, and taxpayer groups share their preferences at open meetings and through the media, so that their interests may be considered by Congress when the new legislation is prepared (see Background and Issues for more information). The current farm law (the Farm Security and Rural Investment Act of 2002 (2002 Farm Act)) remains in force through 2007, but public discussion of what programs should be included in the next law is underway.

The basic framework of current U.S. agricultural policy dates back to the 1930s. The first farm price and income support programs were established as an emergency response to post-World War I economic distress in agriculture that had worsened with the onset of the Great Depression. These programs have been adjusted over time as policymakers have responded to agricultural productivity growth, market integration, and structural change in the farm sector, but they continue to focus on a traditional set of commodities, primarily field crops, dairy, sugar, and until recently, tobacco. (The U.S. tobacco price support program ended in 2005.) Other livestock and specialty crops, including fruits and vegetables, receive only limited direct support.

Policy initiatives beyond the traditional focus on agricultural commodities have been concerned with areas in which the public well-being is at stake: rural communities, natural resources and the environment, and food assistance and nutrition. While some of these programs were launched in the 1930s, others received their big push in the 1960s and 1970s, and still others emerged only in the last two decades.

U.S. agricultural policy funds more than commodity programs



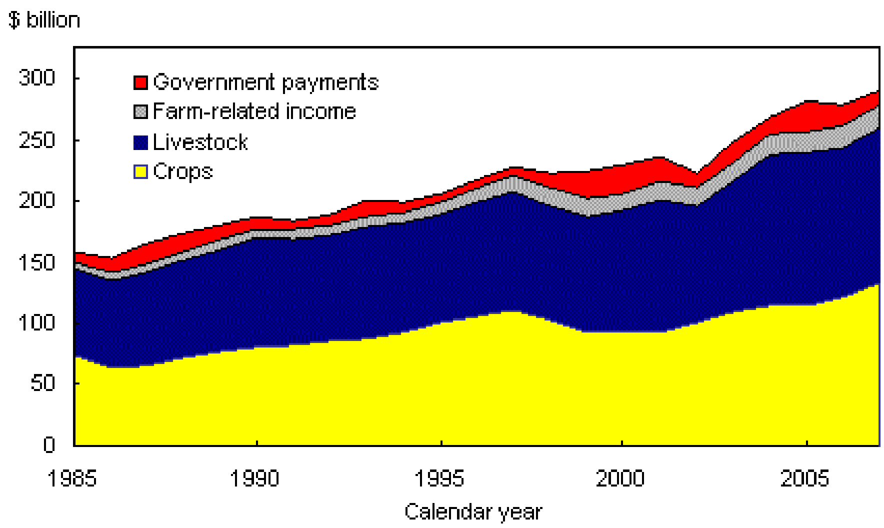
Other programs include trade, credit, rural development, research, forestry, and energy. Shares are based on 2002 Farm Act projected spending, 2002-11.
Sources: USDA, Economic Research Service calculations using Congressional Budget Office, March 2002 Baseline and May 2002 Farm Act Score.

See What Were the Estimated Costs of the 2002 Farm Act in May 2002? for details.

Commodity Policies

U.S. commodity policy includes both price and income support programs, but the balance between these two types of policies has shifted over time. Especially over the last 15-20 years, U.S. commodity policy has moved toward greater market orientation to facilitate participation by American producers in expanding global markets. As a result, the traditional reliance on price support and government intervention in markets has given way to a greater reliance on income support, with increasing production flexibility for farmers. The United States also employs trade measures that may support prices, but with the exception of a few commodities, they are a minor part of U.S. commodity policy.

Government payments as a share of gross cash income



Source: USDA, Economic Research Service, Farm Income Data, http://www.ers.usda.gov/Data/FarmIncome/, February 2007.

Income Support Programs

Income support measures in U.S. farm policy assist in stabilizing producer incomes by providing payments directly to farmers from the government rather than influencing prices in the market. These programs include *direct payments and counter-cyclical payments*, which are paid to producers based on their historical production of particular commodities; *milk income loss contract payments*, which provide limited support to dairy producers; and *marketing assistance loans* and *loan deficiency payments*, which are paid on current production when prices go below a predetermined threshold. Payments based on historical production of commodities were introduced in 1996 to reduce market and trade distortions created by earlier programs. Because previous programs generally required farmers to continue planting particular commodities to secure their right to payments, these programs interfered with farmers' ability to make planting decisions based on anticipated market returns.

Direct payments (DP) provide income support to producers who have historically produced wheat, feed grains (corn, sorghum, barley, and oats), rice, upland cotton, oilseeds (including soybeans, sunflower, canola, crambe, rape, safflower, sesame, mustard, and flax), and peanuts. Payments are based on historical yields and area planted, and payment rates were fixed by the 2002 Farm Act. Payments total about $5 billion annually. Farmers are given almost complete flexibility in deciding what crops to plant on the acreage that receives direct payments. Because these payments are not related to current market prices or most farm-level production decisions, they do not have a direct effect on a producer's cropping decisions (i.e., they are "decoupled"). Similar payments called production flexibility contract (PFC) payments were available in 1996-2001 for producers with historical production of wheat, feed grains, rice, and upland cotton. (Payments for oilseeds and peanuts were added under the 2002 Act.)

Counter-cyclical payments (CCP) are also paid on historical yields and area planted for the same historically produced commodities as DPs. CCPs were established to provide an additional level of income support when market prices for these commodities are low. Unlike direct payments, which are paid irrespective of current market conditions, CCPs are paid only when prices for the covered commodity (wheat, feed grains, rice, upland cotton, oilseeds, and peanuts) falls below trigger levels set in the 2002 Farm Act. Like direct payments, however, CCPs are based on historical areas and yields, so producers can receive payments when prices are low for commodities they historically produced even if they are not currently producing them.

Milk income loss contract (MILC) payments provide price-based support for dairy producers. A monthly direct payment is made to dairy farm operators if the monthly price of milk for certain uses falls below a set price. Payments are limited to the first 2.4 million pounds of milk per year per operation (about the level of production of 135 cows). U.S. dairy farms producing fewer than 2.4 million pounds of milk per year account for less than 30 percent of total milk production.

Marketing assistance loans and loan deficiency payments are available for producers of wheat, rice, corn, grain sorghum, barley, oats, upland cotton, soybeans, sunflower seed, canola, rapeseed, safflower, mustard seed, flaxseed, peanuts, mohair, wool, honey, small chickpeas, lentils, and dry peas. Commodity loan programs allow producers of specified crops to receive a 9-month nonrecourse loan from the government by pledging production as loan collateral. These loans provide marketing options by allowing producers to avoid having to sell their crops at harvest when prices tend to be lowest. Nonrecourse loans also can support prices by allowing producers to forfeit their crop to the government without penalty if the market price at repayment is below the loan rate plus interest. Producers are essentially paid the government loan rate for their crops, and government-held stocks can be kept off the market, reducing supplies until prices rise. Beginning with programs for cotton and rice in the mid-1980s, however, most commodity loans now incorporate "marketing assistance loan provisions" that discourage forfeiture and allow loan programs to operate as income support rather than price support programs.

Marketing assistance loan provisions allow repayment of commodity loans at less than the original loan rate plus accrued interest when the market price is below that level, producing a benefit termed a "marketing loan gain." Providing the marketing loan gain discourages forfeitures and thereby reduces the potential effect of supporting market prices through removal of supplies into government-controlled stocks. Alternatively, producers may elect to receive a direct payment equivalent to the marketing loan gain, called a loan deficiency payment (LDP), in lieu of participating in the loan program.

Price Support Programs

Price support programs, although declining in importance in U.S. commodity policy, remain an important feature of programs for *dairy* and *sugar*.

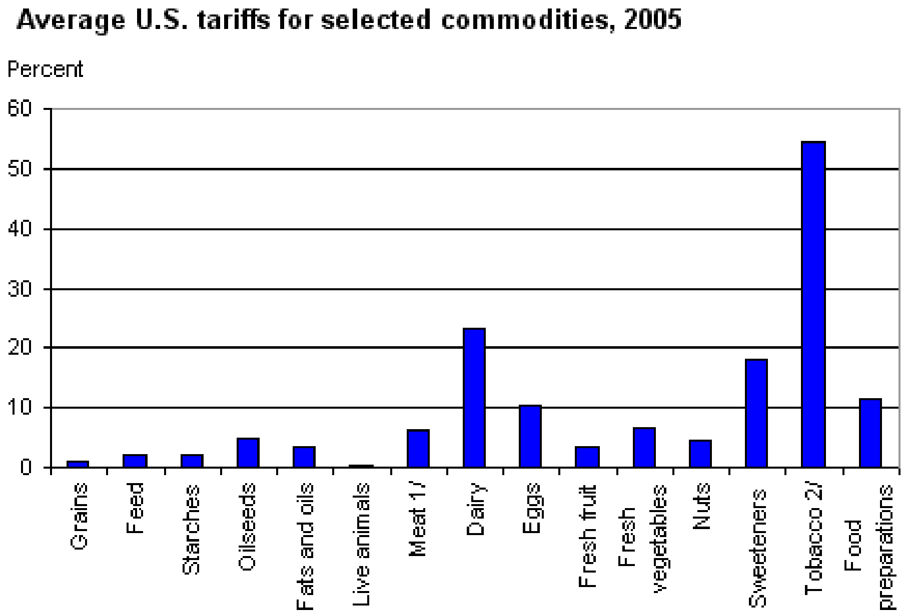
Dairy price support is operated through the milk support purchase program. The Commodity Credit Corporation will buy at support purchase prices any butter, cheddar cheese, or nonfat dry milk that is offered to it and meets specifications. The support purchase prices are set to ensure that the price of manufacturing milk averages at least the milk support price of $9.90 per hundredweight. The Secretary of Agriculture has authority to adjust the product purchase price if deemed necessary.

Sugar price support policy includes three main elements: a tariff-rate quota (TRQ) system (see discussion of tariffs and tariff-rate quotas in following section), a domestic marketing allotment program, and a price support loan program. The TRQ and the domestic marketing allotments control domestic supply to support market prices; the price support loan is a nonrecourse commodity loan that allows producers to forfeit their commodity under loan if the price falls below the loan rate (18 cents per pound) plus interest. Unlike most commodity programs, sugar loans are made to processors and not to producers, since sugar requires processing before it can be stored. To qualify for loans, sugarcane and sugar beet processors must agree to make a minimum payment to producers.

Commodity-Related Trade Measures

Some producers also receive higher market prices through trade measures like *tariffs and tariff-rate quotas* and *export subsidies* that affect commodity prices at U.S. borders.

Tariffs and tariff-rate quotas support commodity prices by limiting imports of lower priced products. The United States has among the lowest average tariffs on agricultural products of all World Trade Organization (WTO) members, with average bound tariffs on agricultural goods of 12 percent. Exceptions to these low tariffs include products like dairy, sweeteners, and tobacco. The United States has only a few agricultural tariffs in excess of 100 percent, and a relatively small number of TRQs, which apply primarily to imports of peanuts, tobacco, beef, dairy, sugar, cotton, and some of their related products.



Uses average tariff or *ad valorem* equivalent.
1/ Fresh and frozen beef, pork, poultry. 2/ Unmanufactured tobacco.
Source: ERS calculations using the Agricultural Market Access Database (AMAD) and WTO member-submitted data.

The United States makes limited use of export subsidies through two programs, the Dairy Export Incentive Program (DEIP) and the Export Enhancement Program (EEP). Under these programs, exporters are awarded cash payments or commodity certificates redeemable for government-owned commodities, enabling an exporter to sell these commodities to specified countries at prices below those of the U.S. market. Since 1996, EEP has been used in only 3 years for small amounts of poultry exports. DEIP was used regularly at the WTO-negotiated ceiling for skim milk powder, cheese, and, to a lesser extent, butter but has not been used since 2004.

Other Commodity-Based Programs

Producers may also receive support through *subsidized crop and revenue insurance* and *ad hoc disaster and market loss assistance programs*, which provide payments to producers in the event of weather or market-related losses, and *trade adjustment assistance for farmers*, which provides assistance to producers who can show they have suffered losses through competition from lower priced imports.

Crop and revenue insurance, made available to producers of a variety of crops and some livestock at subsidized rates, makes indemnity payments to producers based on current losses from weather- or market-related causes. Unlike other commodity programs, crop insurance is operated through private companies, which sell crop insurance directly to farmers. The government subsidizes a portion of the insurance premiums paid by producers and of the operating costs of the private insurance companies.

Ad hoc disaster and market loss assistance programs provide direct payments to producers to partially offset financial losses due to severe weather and other natural disasters or stressful economic conditions, such as low commodity prices or pest and animal disease outbreaks. Future purchase of crop insurance has sometimes been required of producers who receive ad hoc disaster assistance benefits.

Trade adjustment assistance for farmers, first available in 2004, provides technical assistance and cash benefits to farmers, ranchers, fish farmers, and fishermen who have been adversely affected by competition from imports. To become eligible, a group of producers must demonstrate that producer prices during the most recent marketing year have been not more than 80 percent of the national average price during the previous 5 marketing years. USDA's Foreign Agricultural Service also must certify that increased imports of like or competitive products "contributed importantly" to the decline in prices. In addition, applicants must show that their net income for the crop year is less than their net income for a prior comparison year. The net income requirement has been the major reason why program outlays have remained well below authorized levels.

Agri-Environmental Programs

Government conservation programs over the last seven decades have been responsible for the widespread reduction of soil erosion. More recently established environmental programs address new challenges arising from the changing structure of agricultural production. These challenges include demands for improved water and air quality, enhanced wildlife populations, water conservation, open space, carbon sequestration, and energy production and conservation. The two largest agri-environmental programs are the Conservation Reserve Program (CRP) and the Environmental Quality Incentives Program (EQIP), both established within the last two decades. The newest agri-environmental program is the Conservation Security Program (CSP), established under the 2002 Farm Act.

The Conservation Reserve Program (CRP) is a voluntary program through which farmland owners bid to retire highly erodible and other environmentally sensitive cropland from production for 10-15 years. Farmers receive payments for retiring the land, which also cover the costs of establishing the required permanent cover crop and maintaining specified conservation practices.

The Environmental Quality Incentives Program (EQIP) offers financial and technical assistance to help livestock and crop producers implement soil, water, and related natural resource conservation practices on working lands. EQIP contracts provide incentive payments and cost-shares for a maximum term of 10 years.

The Conservation Security Program (CSP) provides payments to farmers to reward good conservation performance and encourage the implementation and maintenance of conservation practices on working lands. To participate, producers must develop a conservation plan identifying the resources and practices to be covered under the program. CSP contracts provide a "stewardship" payment based on the level of existing conservation effort and an "enhancement" payment for implementing additional practices designated in the conservation plan.

For more information, see the Conservation Policy Briefing Room.

Food Assistance Programs

USDA administers three core programs that provide nutrition assistance to low-income Americans: the Food Stamp Program, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and child nutrition programs. The oldest of these—the National School Lunch Program—was established more than 60 years ago.

The Food Stamp Program is the Nation's largest nutrition program for low-income Americans and a source of demand for the products of American farmers and food industries. The program provides monthly benefits that participants may use to buy approved food items from authorized foodstores. The program serves over 25 million low-income Americans on average each month.

The Special Supplemental Nutrition Program for Women, Infants, and Children provides nutritious foods to supplement diets, nutrition education, and referrals to health care and other social services for low-income women, infants, and children up to age 5 who are at nutritional risk. The program serves over 8 million participants per month, including almost half of all infants born in the United States.

USDA administers four major domestic food assistance programs intended to provide access to adequate nutrition for low-income children and seniors. The National School Lunch Program, the School Breakfast Program, the Child and Adult Care Food Program, and the Summer Food Service Program together account for almost a quarter of USDA's domestic food assistance outlays.

For more information, see the Food Assistance and Nutrition Programs Briefing Room.

Rural Development Programs

Since the 1930s, USDA rural development programs have focused primarily on upgrading the Nation's rural infrastructure

—housing, electricity, and telecommunications; education; transportation; and water and sewage treatment utilities. More recently, policy initiatives have encouraged development of renewable energy sources and bringing innovations in information network technology to rural areas. Although agriculture remains a core industry in rural America, industrial restructuring has increasingly shaped the needs of rural communities. Hence, nonfarm economic and community development have also become a concern of rural policymakers and practitioners.

For more information, see the Rural Development Strategies Briefing Room.

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Background and Issues

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Since before the founding of the United States, farmers received support through a series of markedly different policy approaches. Policy has at different times focused on distribution of the Nation's vast land resources, on increasing the productivity and standard of living of American farmers, and on assisting farmers in marketing their products. From the 1930s, U.S. farm policy focused on price and income supports. Until 1996, farm policy relied in part on supply management in the form of acreage limits and storage programs.

Agricultural policy in the past 15-20 years has broadened considerably to include agricultural trade issues, food safety, food assistance, and conservation and environmental concerns, in addition to the more traditional focus on commodities. Beginning in 1985, agricultural commodity policy underwent significant changes that have moved toward greater market orientation and reduced government involvement. Farmers' planting and business decisions were to be guided more by market developments than by the terms and expectations of commodity policies. See farm policy background, program provisions, and history for selected reports from 1977 Farm Act through the 2007 farm bill debate.

Policy in recent years has also addressed environmental and conservation issues and food safety. Concern with liberalizing world trade and competing in world markets has reinforced efforts to reduce government support and increase the flexibility of farmers to make production and marketing decisions on the basis of supply and demand conditions.

Debate over support to agricultural producers involves a diverse group of stakeholders with different and sometimes conflicting goals. The range and importance of interest groups concerned with agriculture is expanding, even while the direct contribution of farming to national gross domestic product is declining over time. Increased personal incomes in the United States have increased the demand for safe and healthful food products and for "public goods" such as environmental quality and preservation of rural landscapes.

Selected concerns of agricultural policy interest groups	
Small family farmers	
Limited-resource farmers	Income support; credit; education
Farming as primary occupation, low sales (< $100,000)	Price and income support; credit; education
Farming as primary occupation, high sales ($100,000-$249,999)	Price and income support; price stability; credit; education; risk management
Retirement	Income support not tied to production; higher land values
Residential/lifestyle	Freedom to pursue lifestyle

Other family farmers	
Large farms (sales $250,000-$499,000)	Higher and more stable prices; freedom from government regulations; risk management
Very large farms (sales $500,000+)	Higher and more stable prices; freedom from government regulations; risk management
Agribusiness	
Nonfamily farms	Higher and more stable prices; freedom from government regulations; risk management
Processors	Adequate high-quality supplies; low input prices; high processed product prices; strong export markets
Throughput companies	Adequate consistent-quality supplies; strong export markets
Taxpayers	
National	Low program costs; low administrative costs
Regional	Higher local tax revenue from increased incomes and higher land prices
Consumers	Low food prices, food safety; adequate food supplies; variety of food types; healthful food
Environmentalists	
Conservationists	Prevention of soil erosion Preservation of farmland
Water quality advocates	Agricultural practices that limit migration of agrichemicals from farms to surface and ground water
Wilderness advocates	Maintenance of open space
Animal rights advocates	Humane treatment of animals
Rural communities	
Long-time residents	Maintenance of traditional communities and rural lifestyle; employment opportunities; open space preservation; viability of rural communities
New residents	Open space; odor control; rural landscapes
Tourists	Rural landscapes; recreational/heritage activities
Social welfare advocates	
Civil rights advocates	Adequate economic opportunities for minorities; opportunities for minority farmers
Anti-poverty advocates	Provision of minimum income levels for rural residents
Agrarians	Maintenance of viable agriculture, small scale agriculture

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Government Payments and the Farm Sector

Contents:

- Farm and Commodity Policy Briefing Room
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- Background and Issues
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Government Payments and the Farm Sector: Who Benefits and How Much?

Government payments encompass all payments to the farm sector. Under the provisions of the 2002 Farm Act, direct government payments include payments for commodity programs such as direct payments, counter-cyclical payments, and marketing loan benefits (marketing loan gains, loan deficiency payments, and certificate gains). Also included are other payments such as emergency and disaster payments, tobacco transition payments, and conservation program payments.

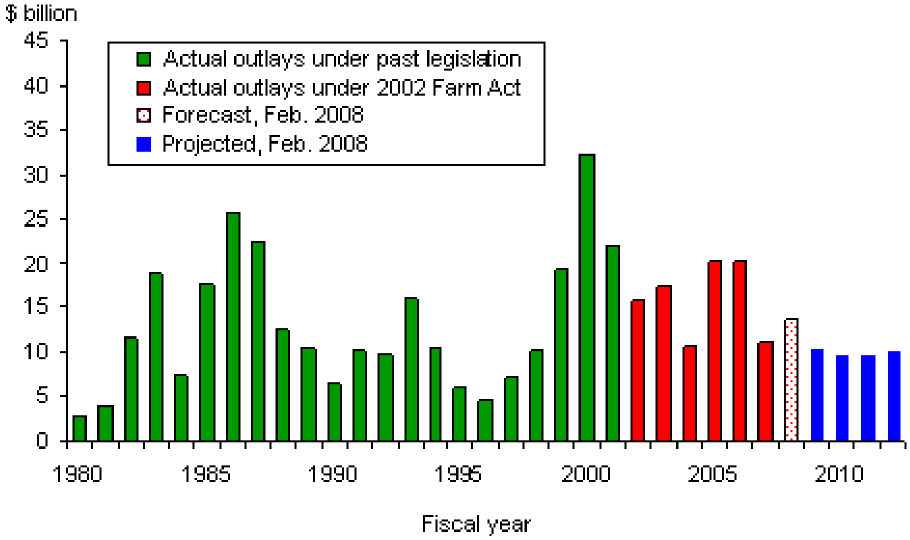
Based on USDA's annual Agricultural Resource Management Survey (ARMS), receipt of direct government payments is concentrated:

- About 44 percent of all farms received government payments in calendar year 2006.
- Payments averaged $12,687 for those operations receiving payments, accounting for about 8 percent of gross cash income and 39 percent of net cash income in 2006 for those farms.
- The largest 10.6 percent of farms in terms of gross receipts received 55.9 percent of all government payments in 2006.

Heterogeneity within the farm sector results in an unbalanced distribution of government payments. Among the factors influencing the allocation of government payments are farm size (acreage), location, types of commodities produced, and operator and household characteristics.

See Glossary for agricultural policy terms and definitions. For additional information on government payment programs, see Program Provisions.

Commodity Credit Corporation (CCC) net outlays*

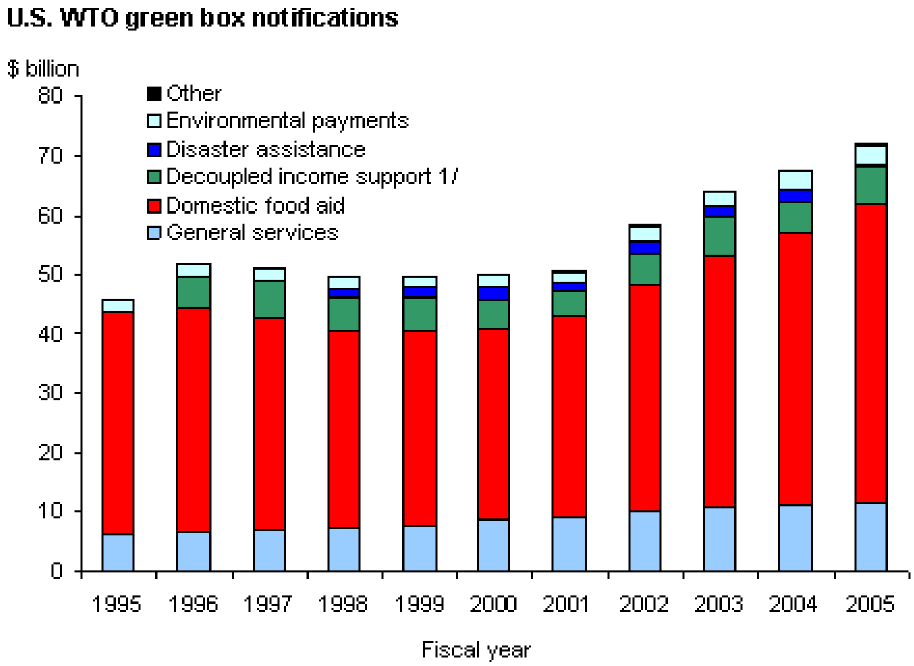


* The Commodity Credit Corporation (CCC) is a federally owned and operated corporation within USDA created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC.

Sources: Compiled by USDA, Economic Research Service from USDA, CCC Budget, February 2008.

The direct government costs of commodity support do not include the costs to consumers of programs that restrict supplies and raise food costs, such as the sugar and dairy programs. Also excluded are certain USDA, Natural Resource Conservation Service conservation payments that are not paid through USDA, Commodity Credit Corporation.

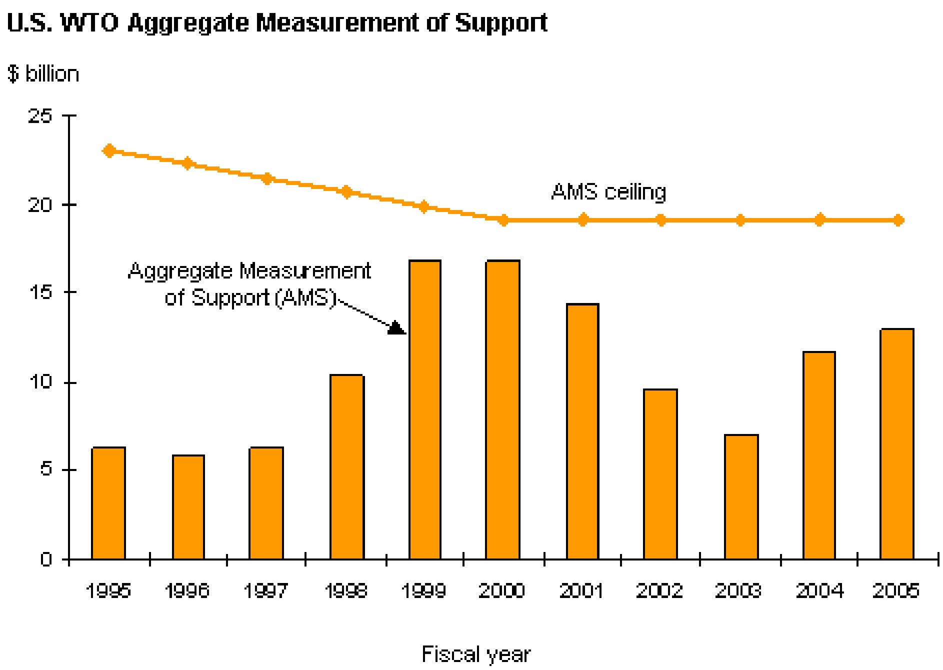
- Farm program payments under the provisions of the 2002 Farm Act averaged about $16 billion per fiscal year.
- Fiscal year 2000 expenditures reached record highs due to low crop prices and payment of market-loss assistance payments for the 1999 and 2000 crops.
- CCC expenditures rose to over $20 billion in fiscal years 2005-06 in response to low commodity prices and a jump in disaster and emergency assistance.
- Expenditures are projected to average $11 billion over the next 5 fiscal years as increased demand for corn-based ethanol production continues to result in higher prices for corn and competing crops, reducing price-contingent marketing loan benefits and counter-cyclical payments.



1/ Includes peanut and tobacco quota buyouts.
Source: Compiled by USDA, Economic Research Service from WTO Notifications, as of February 2007.

Beginning in 1995, World Trade Organization (WTO) constraints added a new dimension to domestic farm policy. Under WTO rules, certain programs are considered nontrade-distorting green box policies and are unlimited.

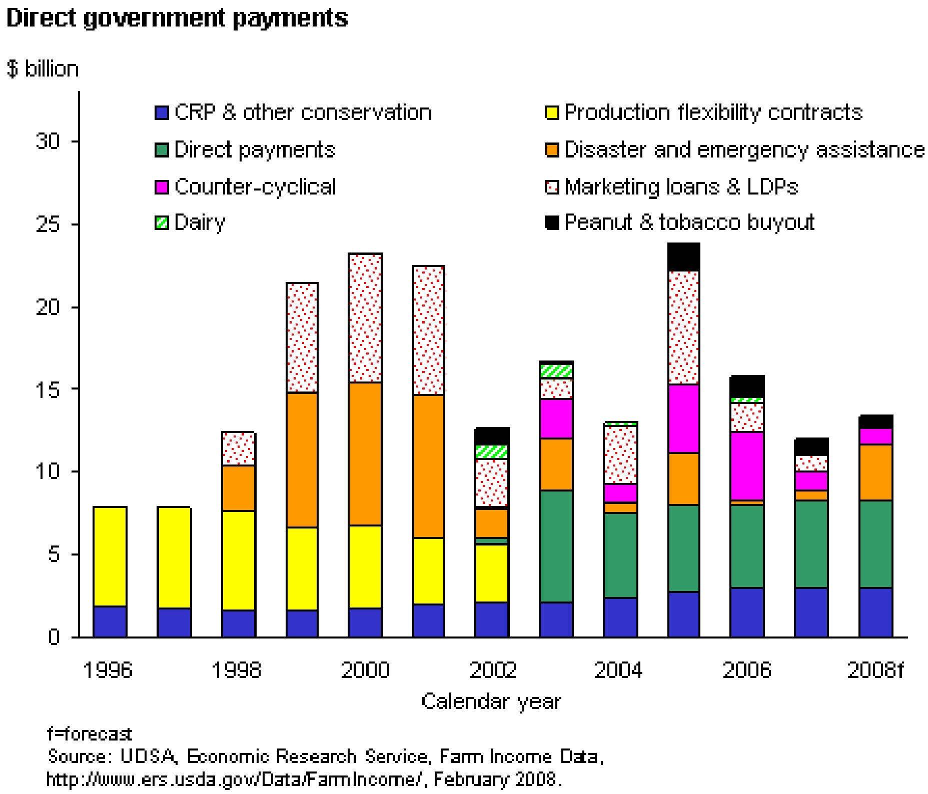
U.S. green box expenditures increased from $46.1 billion in 1995 to $71.8 billion in 2005. The majority of green box payments are for food and nutrition assistance programs, not for payments to farmers.



Source: Compiled by USDA, Economic Research Service from WTO Notifications, as of February 2007.

The United States agreed to limit farm-sector support that is considered trade-distorting—referred to as "amber box," or the Aggregate Measurement of Support (AMS). The U.S. amber box limit started at $23.1 billion in 1995 and declined to $19.1 billion beginning in 2000. Actual U.S. amber box support declined in 1995-97, but by 1999 it had risen to within 15 percent of its limit. The rise stemmed from an increase in price-sensitive loan deficiency payments (LDPs) and marketing loan gains (MLGs) as market prices sagged in 1998-2001. See U.S. WTO Domestic Support Reduction Commitments and Notifications for more information.

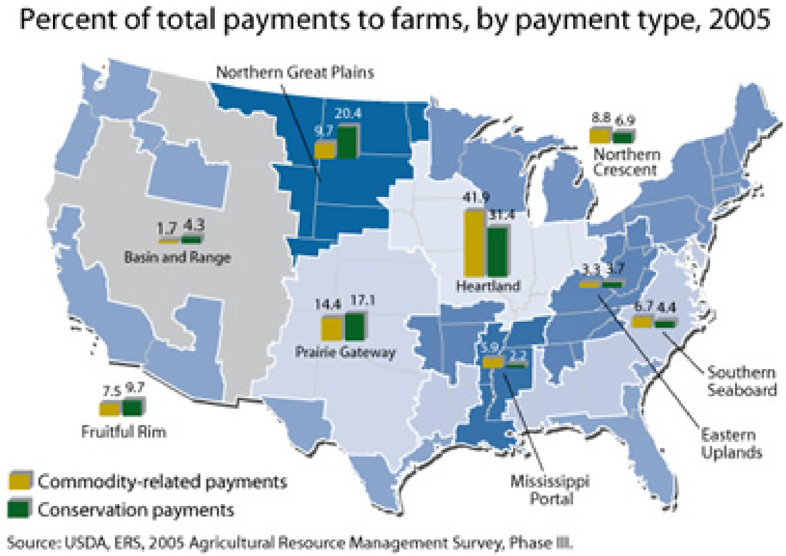
The 2002 Farm Act included a WTO "circuit breaker" provision that gave the Secretary of Agriculture the authority to, "to the maximum extent practicable," adjust expenditures to avoid exceeding WTO allowable limits for amber box levels. However, this circuit breaker provision has never been invoked.



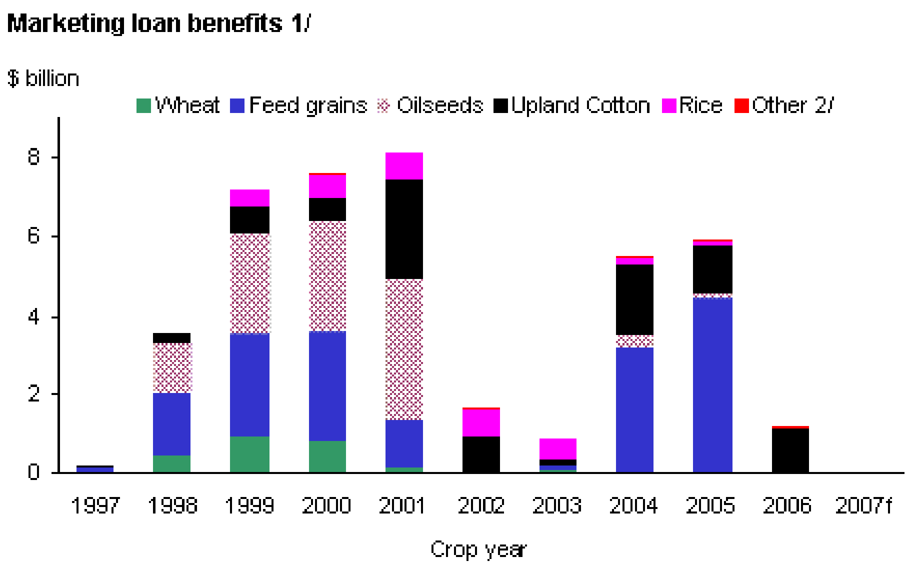
Government program payments for commodity and conservation programs to the farm sector have increased since 1997, averaging $18.0 billion over 1999-2007. Direct government payments are forecast to grow slightly to about $13.4 billion in calendar year 2008 due to an increase in disaster and emergency assistance.

- The 2002 Farm Act replaced PFC payments with fixed direct payments. These payments are based on historic acreage and yields and are considered "decoupled," that is, not based on current production or prices. Direct payments are forecast at $5.27 billion for 2008.
- Under the 1996 Act, PFC payments decreased according to a payment schedule for major field crops, from a high of $6.4 billion in calendar year 1997 to $4 billion in calendar year 2001.
- Low commodity prices led to significant increases in LDPs and MLGs in 1998-2001 and again in 2005. The marketing assistance loan program, reauthorized in the 2002 Farm Act, prevents the buildup of publicly owned stocks (major field crops) by providing alternatives to defaulting on commodity loans. LDPs and MLGs provide farmers with per unit revenue insulation when prices are low.
- Counter-cyclical payments authorized in the 2002 Farm Act help stabilize farm revenues. Counter-cyclical payments rose in 2005-06, reflecting lower commodity prices.
- Marketing loan benefits and counter-cyclical payments are projected lower in 2008 as increased demand for corn-based ethanol production continues to result in higher prices for corn and competing crops.
- Ad hoc emergency assistance has played a prominent role in U.S. agricultural policy. Direct government payments to producers have partially offset financial losses due to severe weather and other natural disasters (e.g., hurricane, drought, flood), or stressful economic conditions (e.g., low commodity prices, events such as condemnation of milk or animals, or bankruptcy).
- Conservation Reserve Program payments have remained fairly constant since the early 1990s. Payments are tied to environmentally sensitive land retired from production for 10-15 years; about 34 million acres are enrolled in the program.
- Conservation payments tied to working agricultural lands increased under the 2002 Farm Act, with expansion of programs such as the Environmental Quality Incentives Program and Wetlands Reserve Program and introduction of new programs

such as the Conservation Security Program.



In 2005, farms in the Heartland received the largest share of both commodity-related and conservation payments. Heartland farms' 42-percent share of commodity program payments was roughly in line with the region's 50-percent share of production of program crops.



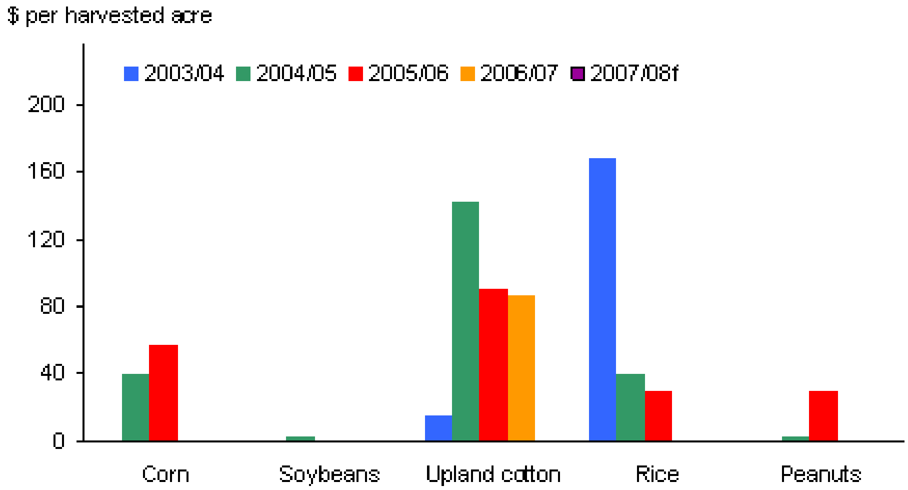
f=forecast
1/ Includes marketing loan gains, certificate gains, and loan deficiency payments as of February 2008.
2/ Includes peanuts, small chickpeas, lentils, dry peas, honey, wool, and mohair.
Source: Compiled by USDA, Economic Research Service from USDA, Farm Service Agency data.

Loan rates were fixed in the 2002 Farm Act. Marketing loan program coverage was expanded to include peanuts, small chickpeas, lentils, dry peas, wool, mohair, and honey. Marketing loans are available for 18 commodities.

- Marketing loan benefits (marketing loan gains and loan deficiency payments) accrue to farmers when commodity prices are at or below the loan rates.
- An MLG occurs when a producer who has taken out a marketing assistance loan repays the loan at a lower rate. This is permitted when the prevailing market price or posted county price falls below the original loan rate.
- LDPs allow eligible farmers to receive direct payments in lieu of obtaining loans. The LDP rate is the difference between the prevailing market price or posted county price, and the commodity loan rate.

- Marketing loan benefits for crop year 2007/08 are forecast to be near zero due to high commodity prices.

Marketing loan benefits by crop year 1/

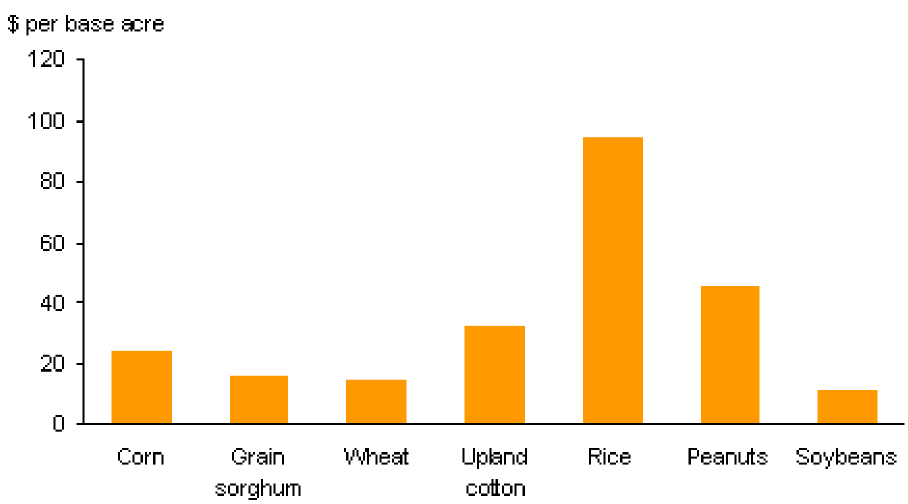


f=forecast
1/ Includes marketing loan gains, certificate gains, and loan deficiency payments as of February 4, 2008.
Sources: Compiled by USDA, Economic Research Service from USDA, Farm Service Agency and USDA, National Agricultural Statistics Service data.

Comparing marketing loan benefits across commodities on a per-harvested-acre basis adjusts for the large differences in the amount of land devoted to individual commodities.

- Marketing loan benefits are not necessarily paid in every year.
- On a per acre basis, rice had the largest marketing loan benefit of almost $170 per harvested acre in 2003/04.
- In 2004/05, cotton payments were the highest at about $135 per harvested acre.

Direct payments for crop year 2007/08



Sources: Compiled by USDA, Economic Research Service, from USDA, Farm Service Agency and USDA, National Agricultural Statistics Service data.

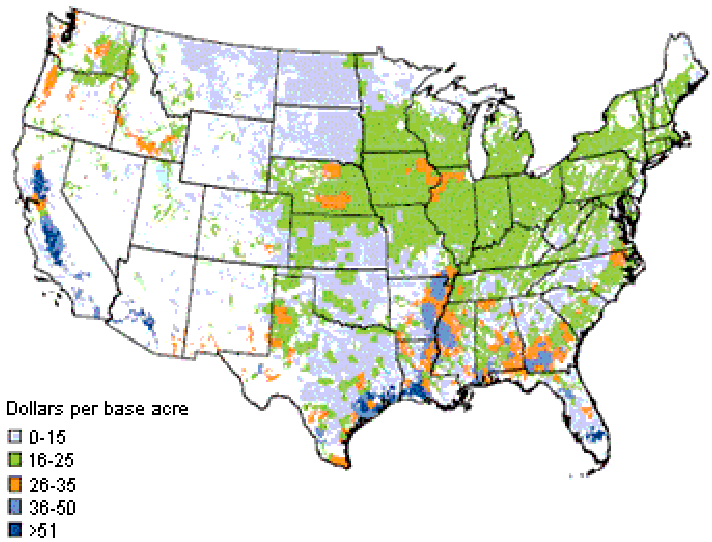
Direct payments replaced PFC payments in the 2002 Farm Act. These payments are paid on a fixed-acreage base with fixed payment yields. Coverage was expanded to include:

- Soybeans,

- Minor oilseeds, and
- Peanuts.

Direct payments are not linked to current production. Producers are free to plant most crops on base acreage, with some limitations on planting fruit and vegetables. Producers can even elect to leave the land idle. Thus, these payments are considered to be minimally production- and trade-distorting.

Per acre value of direct payments for crop year 2005/06

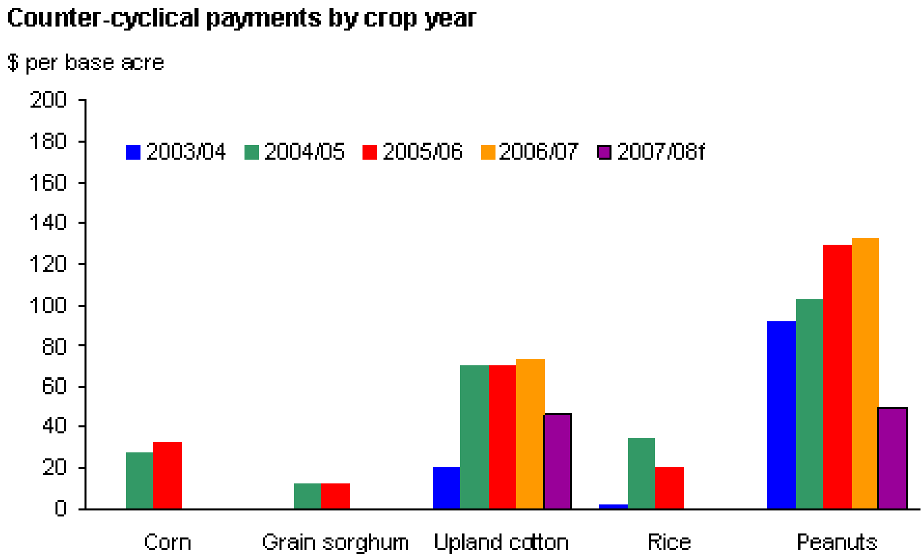


Source: Compiled by USDA, Economic Research Service from USDA, Farm Service Agency data.

The value of direct payments varies by commodity and location. The legislated payment rates are commodity dependent. In addition, program yields reflect historic production levels associated with base acreage.

- Direct payments for oats average about $1 per acre, while payments for rice average close to $100 per acre.

- Payments are concentrated in major producing areas. They are highest in California, where rice and cotton are important, in the Southeastern Coastal Plain, where cotton and peanuts are produced, and along the lower Mississippi River, where cotton and rice are produced. Payments per acre are also high in the Corn Belt, where corn and soybeans are the predominant crops.

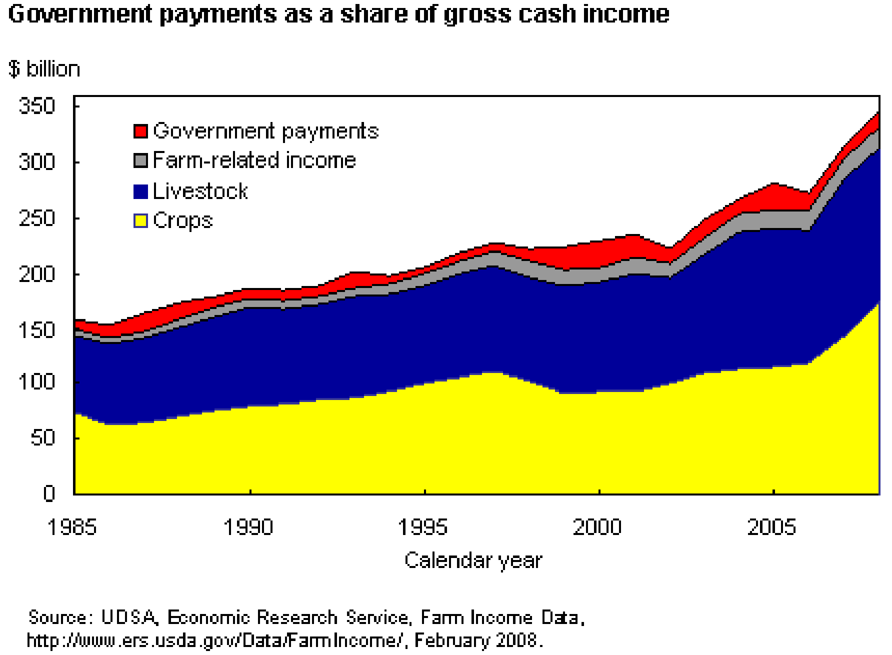


f=forecast
Note: Neither wheat nor soybeans has received counter-cyclical payments.

Sources: Compiled by USDA, Economic Research Service from USDA, Farm Service Agency and USDA, National Agricultural Statistics Service data.

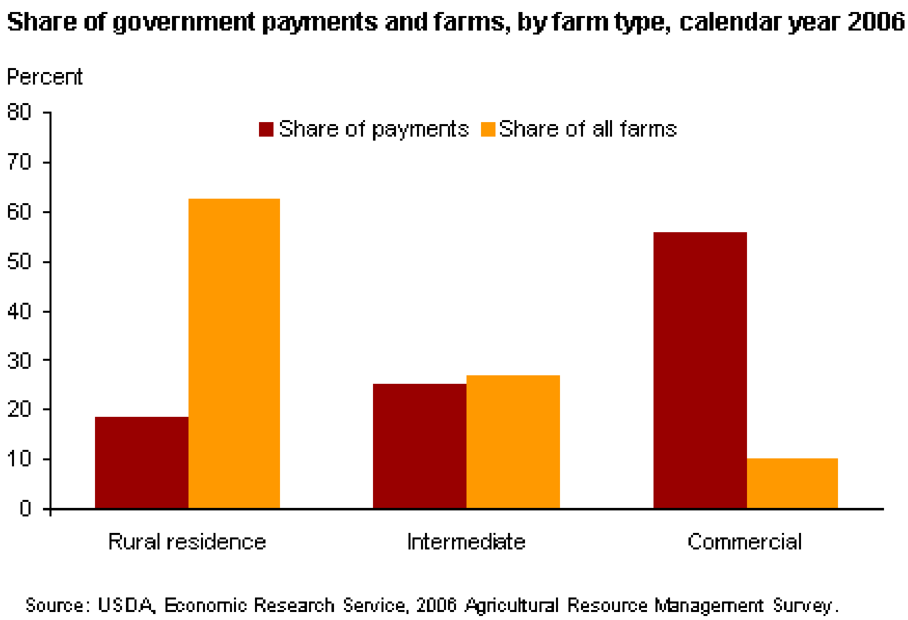
Counter-cyclical payments (CCPs) are a new program introduced in the 2002 Farm Act. They are paid on a fixed acreage base —the same as for direct payments.

- The payment rate for CCPs equals a so-called "target price," minus the direct payment rate, minus the higher of the market price or the loan rate. Thus, when market prices fall, the payments increase.
- In crop year 2003/04, payments were made only for upland cotton, rice, and peanuts and in 2006/07 payments were made only for cotton and peanuts. Prices for the other commodities were above the target price less the direct payment rate, so no payments were made. It is expected that in crop year 2007/08, payments will again be made only for cotton and peanuts.
- Because CCPs are linked to market prices, the payments may indirectly affect production by reducing revenue risk. Further research is necessary to fully understand how farmers react to CCPs.
- As is the case with direct payments, farmers do not have to produce a crop to get the payment.
- Peanuts receive the highest payment per base acre followed by upland cotton, rice, and corn, depending upon the year.



Gross cash income includes cash income from farm receipts and government payments; expenses are subtracted from gross cash income to calculate net cash income. Off-farm sources of income are not included in this measure.

Across all farm types, government payments represent a small portion of gross cash income (5.6 percent in 2006, down from 7.6 percent in 2005), indicating that the marketplace is the primary source of farm earnings.



ERS's farm typology distinguishes between farm types based on level of sales and the occupations of operators.

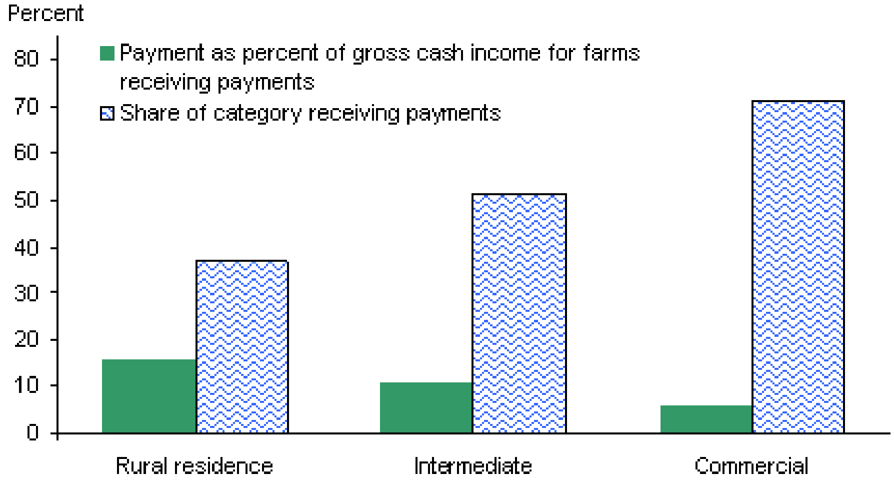
- Commercial farms have annual sales of $250,000 or more.
- Farms with annual sales below $250,000 are divided into:
  - Intermediate farms, whose operators report agriculture as a full-time occupation, and
  - Rural residence farms, which include retirement and residential/lifestyle farms.

Data used for analysis by farm type are from USDA's Agricultural Resource Management Survey (ARMS). The most current year of available data is 2006.

- Many farms across the various types receive some level of government payments; however, the distribution of payments does not reflect the number of farms within each farm type.

- Large commercial farms make up 10.6 percent of all farms, yet they received 55.9 percent of government payments in 2006. This is a direct result of commodity programs targeting certain types of commodities, which are often grown on large farms and in large volumes.

Distribution of farms receiving government payments, by farm type, calendar year 2006

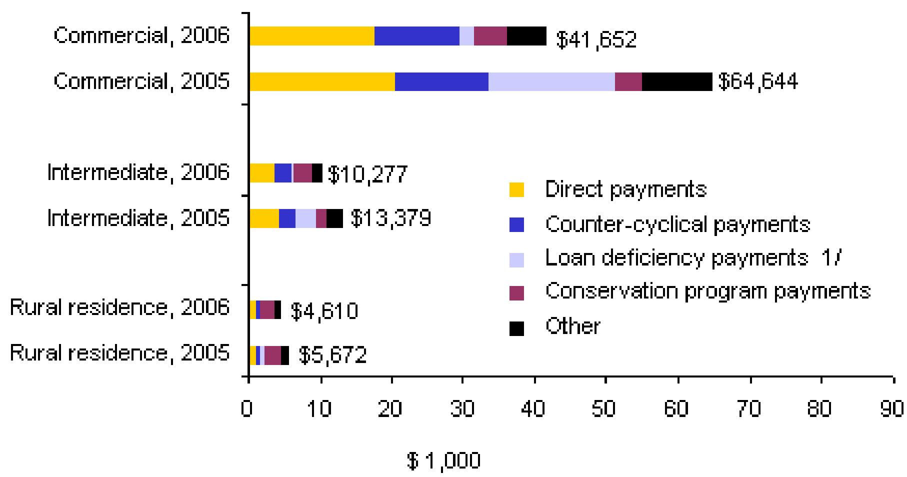


Source: USDA, Economic Research Service, 2006 Agricultural Resource Management Survey.

- While almost 37 percent of rural-residence farms received government payments in 2006, about 16 percent of gross cash income for these farms came from government payments.

- About 71 percent of commercial farms received government payments, but payments represented only 6 percent of their gross cash income.

Average government payments, by farm typology, for farms that received payments in calendar years 2005 and 2006



1/ Does not include marketing loan gains and certificate exchange gains, which are included in "Other."
Source: USDA, Economic Research Service, 2005 and 2006 Agricultural Resource Management Survey.

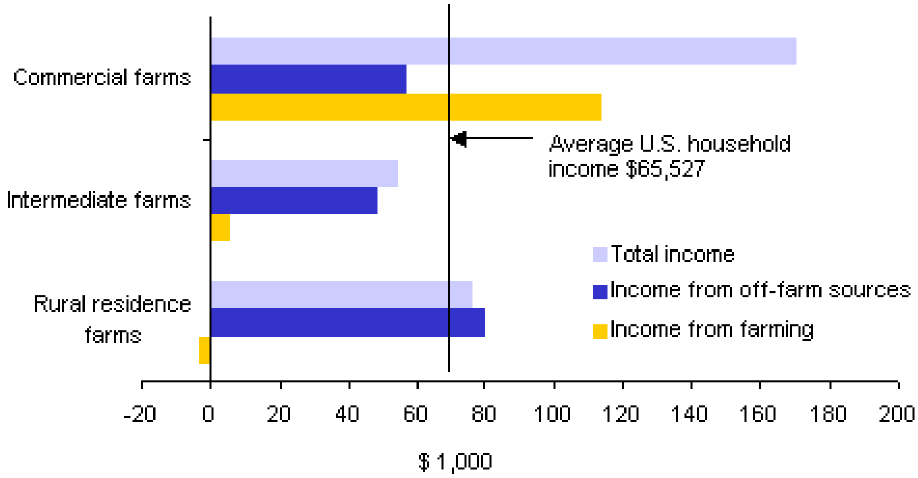
- Commercial farms experienced a larger percentage reduction in government payments from 2005 to 2006 than intermediate and rural residence farms.

- In 2006, direct payments were the largest payment category for commercial and intermediate farms, while conservation payments were the largest payment type for rural residence farms.

- The average payment for commercial farms in 2006 was $41,642, which was 6 percent of average gross cash income in that category.

- The average payment for rural residence farms in 2006 was $4,610. Government payments account for a higher share of farm income for this group than for other groups.
- The "Other" category includes emergency and disaster payments, milk income loss payments, peanut buyout payments, and tobacco transition payments.

Sources of operator household average income by typology group, calendar year 2006



Source: USDA, Economic Research Service, 2006 Agricultural Resource Management Survey.

- Commercial farms obtained about 67 percent of their total household income in 2006 from farming activities.
- Households operating family farms (intermediate farms) on average had small, but positive earnings from farming in 2006. Intermediate farms produced 15 percent of U.S. agriculture's value.
- In 2006, rural residential farmers produced 7 percent of U.S. agriculture's value. Average income from farming activities was negative $3,232 for this group, although some farms within the group had positive income. Average off-farm income for this group was the highest of the farm typology groups.
- Average total income for commercial farms and rural residence farms exceeded the average household income of all U.S. households.

See Farm Income and Costs: Farms Receiving Government Payments for additional information.

For more information, contact: Government payments team **(Jim Stout, Edwin Young, and Anne Effland)**

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Updated date: March 27, 2008

United States Department of Agriculture
Economic Research Service
The Economics of Food, Farming, Natural Resources, and Rural America

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

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- Farm and Commodity Policy Briefing Room
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- **2002-07 Program Provisions**
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

The 2002 Farm Act (1.13MB) provides a framework for farm and commodity programs for fiscal years 2002-07. The act amends various existing laws and adds some new programs. However, commodity policy also reflects applicable provisions of underlying permanent legislation and recent supplemental legislation and appropriations acts. Unless current legislation suspends or revises the permanent provisions of the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation Charter Act of 1948, and the Agricultural Act of 1949, they are automatically in force and are the basis of current programs. New farm legislation will likely be written in 2007 when many provisions of the 2002 Farm Act expire. This chapter is divided into sections that describe the basic features for the primary farm and commodity programs. For basic features of the primary farm and commodity programs, see below.

- Direct Payments (Wheat, Feed Grains, Rice, Cotton, and Oilseeds)
- Counter-Cyclical Income Support Payments (Wheat, Feed Grains, Rice, Cotton, and Oilseeds)
- Marketing Assistance Loan and LDP Programs (Wheat, Feed Grains, Rice, Cotton, and Oilseeds)
- Special Cotton Provisions
- Dairy Programs
- Peanut Program
- Sugar Program
- Tobacco Program
- Fruit and Vegetable Marketing Orders
- Crop Yield and Revenue Insurance
- Natural Disaster and Emergency Assistance Programs
- Conservation and Environmental Programs
- Major Trade Programs

Side-by-Side Comparison of Old and New Legislation

- 1996-2001 Commodity Provisions

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Direct Payments

Under this new program, farmers and eligible landowners receive annual fixed direct payments (DPs). The amount of the payment is equal to the payment rate of the applicable base crop multiplied by the payment acres times the payment yield for the farm. For example the payment for an individual corn farmer is

$$DP_{corn} = (\text{Payment rate})_{corn} \times (\text{Payment yield})_{corn} \times [(\text{Base acres})_{corn}\ 0.85 \times]$$

To receive payments on crops covered by the program (wheat, corn, grain sorghum, barley, oats, rice, upland cotton, soybeans, other oilseeds, and peanuts), a producer enters into an agreement for 2002-07.

Farmers must select an option for designating base acres:

1. Choose base acres equal to contract acreage for the commodity that would otherwise have been used for 2002 PFC payments plus average oilseed plantings in crop years (CY) 1998-2001, so long as base acres do not exceed available cropland, or
2. Update base acres to reflect the 4-year average of acres planted, plus those prevented from planting due to weather conditions, during CY 1998-2001.

Each producer must select an option to apply to all covered commodities for both fixed decoupled payments and for counter-cyclical income support payments. Base acres for peanuts can be determined separately, so long as total base acres do exceed available cropland. Payment acres are equal to 85 percent of the base acres.

Owners of farms will have a one-time opportunity to select a method for determining base acreage. An owner who fails to make an election shall be considered to have selected 2002 PFC contract acres and, for oilseed base, the 4-year average of oilseed plantings.

Farmers are given almost complete flexibility in deciding which crops to plant. Participating producers are permitted to plant all cropland acreage on the farm to any crop, except for some limitations on planting fruits and vegetables. The land must be kept in agricultural uses (which includes fallow) and farmers must comply with certain conservation and wetland provisions.

Payment yields are unchanged for those crops previously covered under the PFC program. For soybeans and other oilseeds, which were added to the program, payment yields are the farm's average yields for 1998 to 2001, multiplied by the national average yield for 1981-85, divided by national average yield for 1998-2001. Peanut payment yields are based on the farm's average yields for 1998 to 2001.

Direct payment rates		
Commodity	**Units**	**Payment rate**
Wheat	Bushel	$0.52

Corn	Bushel	$0.28
Grain sorghum	Bushel	$0.35
Barley	Bushel	$0.24
Oats	Bushel	$0.024
Upland cotton	Pound	$0.0667
Rice	Hundredweight	$2.35
Soybeans	Bushel	$0.44
Other oilseeds	Pound	$0.008
Peanuts	Ton	$36.00

Direct payments for the 2002 crop are to be made as soon as practicable after enactment of the Farm Act. For crop years (CY) 2003-07, payments are to be made no sooner than October 1 of the year the crop is harvested. Advance payments of up to 50 percent can be made beginning December 1 of the calendar year before the year when the covered commodity is harvested.

The payment limit on direct payments is $40,000 per person, per crop year, and the three-entity rule is retained. Under the three-entity rule an individual can receive a full payment directly and up to a half payment from two additional entities. Producers with adjusted gross income of over $2.5 million, averaged over each of 3 years, are not eligible for payments unless more than 75% of adjusted gross income is from agriculture.

For More Information...

- The 2002 Farm Act: Provisions and Implications for Commodity Markets
- Updating Base Acres and Payment Yields

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Counter-Cyclical Income Support Payments

Under this new program, counter-cyclical payments (CCPs) are available for covered commodities whenever the effective price is less than the target price. The payment amount is equal to the product of the payment rate, the payment acres, and the payment yield.

For example the payment for an individual corn farmer is determined as

$$\text{Payment rate}_{corn} = (\text{Target price})_{corn} - (\text{Direct payment rate})_{corn} - (\text{Higher of commodity price or loan rate})_{corn}$$

$$CCP_{corn} = [(\text{Base acres})_{corn} \times 0.85] \times (\text{Payment yield})_{corn} \times (\text{Payment rate})_{corn}$$

To receive payments on crops covered by the program (wheat, corn, grain sorghum, barley, oats, rice, upland cotton, soybeans, minor oilseeds, and peanuts), a producer enters into an annual agreement. At enrollment, producers must select between two options for determining base acres and between three options for determining payment yield.

Farmers must select an option for designating base acres:

1. Choose base acres equal to contract acreage for the commodity that would otherwise have been used for 2002 PFC payments plus average oilseed plantings in 1998 to 2001, so long as base acres do not exceed available cropland, or
2. Update base acres to reflect the 4-year average of acres planted, plus those prevented from planting due to weather conditions, during the 1998 to 2001 crop years.

Each producer must select an option to apply to all covered commodities for both payments and for counter-cyclical payments. Base acres for peanuts can be determined separately, so long as total base acres do not exceed available cropland. Payment acres are equal to 85 percent of base acres for all covered crops.

Owners of farms will have a one-time opportunity to select a method for determining base acreage. An owner who fails to make an election shall be considered to have selected 2002 PFC contract acres and, for oilseed base, the 4-year average of oilseed plantings.

Farmers are given almost complete flexibility in deciding which crops to plant. Participating producers are permitted to plant all cropland acreage on the farm to any crop, except for some limitations on planting fruits and vegetables. The land must be kept in agricultural uses (which includes fallow) and farmers must comply with certain conservation and wetland provisions.

Three options are available to farmers to determine payment yields for each individual crop that apply only for counter-cyclical income support payments:

1. Use current program yields,
2. Update yield by adding 70 percent of the difference between program yields and the farm's average yields for the period 1998 to 2001 to program yields, or

3. 93.5 percent of 1998 to 2001 average yields.

Target prices			
Commodity	**Unit**	**2002-03**	**2004-07**
Wheat	Bushel	$3.86	$3.92
Corn	Bushel	$2.60	$2.63
Grain sorghum	Bushel	$2.54	$2.57
Barley	Bushel	$2.21	$2.24
Oats	Bushel	$1.40	$1.44
Upland cotton	Pound	$0.724	$0.724
Rice	Hundredweight	$10.50	$10.50
Soybeans	Bushel	$5.80	$5.80
Other oilseeds	Pound	$0.098	$0.101
Peanuts	Ton	$495.00	$495.00

The Secretary shall make counter-cyclical payments for the crop as soon as practicable after the end of crop year for the covered commodity. A payment of up to 35% shall be made in October of the year when the crop is harvested. A second payment of up to 70% minus the first payment shall be made after February 1. The final payment shall be made as soon as practicable after the end of the crop year.

The payment limit on counter-cyclical payments is $65,000 per person, per crop year, and the three-entity rule is retained. Under the three-entity rule an individual can receive a full payment directly and up to a half payment from each of two additional entities. Producers with adjusted gross income over $2.5 million, averaged over each of three years, are not eligible for payments unless more than 75 percent of adjusted gross income is from agriculture.

For More Information...

- The 2002 Farm Act: Provisions and Implications for Commodity Markets
- Updating Base Acres and Payment Yields

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Marketing Assistance Loan and LDP Programs

The Farm Service Agency (FSA) administers commodity loan programs with marketing loan provisions for wheat, rice, corn, grain sorghum, barley, oats, upland cotton, oilseeds, peanuts, mohair, wool, honey, small chickpeas, lentils, and dry peas through the Commodity Credit Corporation (CCC). Commodity loan programs allow producers of designated crops to receive a loan from the government at a commodity-specific loan rate per unit of production by pledging production as loan collateral. After harvest, a farmer may obtain a loan for all or part of the new commodity production.

Commodity loans may be repaid in three ways:

- At the loan rate plus interest costs (CCC interest cost of borrowing from the U.S. Treasury plus 1 percentage point);
- By forfeiting the pledged crop to the CCC at loan maturity; or
- At the alternative loan repayment rate.

Loan program benefits can also be taken directly as loan deficiency payments.

When market prices are below the loan rate, farmers are allowed to repay the commodity loans at a lower loan repayment rate. Marketing loan repayment rates are based on local, posted county prices (PCPs) for wheat, feed grains, and oilseeds, or on the prevailing world market price for rice and upland cotton. PCPs are calculated (and posted) by the government each day the Federal government is open, except for minor oilseeds which are calculated weekly. Prevailing world market prices for rice and upland cotton are also calculated on a weekly basis. When a farmer repays the loan at a lower PCP or prevailing world market price, the difference between the loan rate and the loan repayment rate, called a marketing loan gain, represents a program benefit to producers. In addition, any accrued interest on the loan is waived. When a marketing loan gain is received on a given collateralized quantity, that quantity is not eligible for further loan benefits.

Alternatively, eligible farmers may choose to receive marketing loan benefits through direct loan deficiency payments (LDPs) when market prices are lower than commodity loan rates. The LDP option allows the producer to receive the benefits of the marketing loan program without having to take out and subsequently repay a commodity loan. The LDP rate is the amount by which the loan rate exceeds the posted county price or prevailing world market price, and thus is equivalent to the marketing loan gain that could alternatively be obtained for crops under loan. When an LDP is paid on a portion of the crop, that portion cannot subsequently be used as collateral for another marketing loan or LDP.

Marketing assistance loan rates			
Commodity	**Unit**	**2002-03**	**2004-07**
Wheat	Bushel	$2.80	$2.75
Corn	Bushel	$1.98	$1.95
Grain sorghum	Bushel	$1.98	$1.95
Barley	Bushel	$1.88	$1.85

Oats	Bushel	$1.35	$1.33
Upland cotton	Pound	$0.52	$0.52
Rice	Hundredweight	$6.50	$6.50
Soybeans	Bushel	$5.00	$5.00
Other oilseeds	Pound	$0.096	$0.093
Peanuts	Ton	$355.00	$355.00
Graded wool	Pound	$1.00	$1.00
Nongraded wool	Pound	$0.40	$0.40
Mohair	Pound	$4.20	$4.20
Honey	Pound	$0.60	$0.60
Small chickpeas	Hundredweight	$7.56	$7.43
Lentils	Hundredweight	$11.94	$11.72
Dry peas	Hundredweight	$6.33	$6.22

Producers who elect to use acreage planted to wheat, barley, oats, or triticale for the grazing of livestock are eligible to receive "graze-out" payments in lieu of loan deficiency payments. The payment quantity is determined by multiplying the acreage grazed times the payment yield for direct payments for that covered commodity on the farm. LDPs for triticale use the grazing payment rate and payment yield for wheat on the farm. If there is no wheat yield on the farm, the payment will be constructed based on yields on comparable wheat farms.

The payment limit on marketing loan gains and loan deficiency payments is $75,000 per person, per crop year. The three-entity rule is retained. Under the three-entity rule an individual can receive a full payment directly and up to a half payment from each of two additional entities. Producers with adjusted gross income over $2.5 million, averaged over 3 years, are not eligible for payments, unless more that 75% of adjusted gross income from agriculture.

Commodity certificates can be purchased at the posted county price for wheat, feed grains, and oilseeds or at the effective adjusted world price for rice or upland cotton. The certificates are available for producers to use immediately in acquiring crop collateral pledged to the CCC for a commodity loan. These provisions enable producers who are facing payment limits an opportunity to benefit from the lower loan repayment rates.

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Contents:

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Special Cotton Provisions

- Special Program Provisions for Upland Cotton
- Special Program Provisions for Extra-Long Staple Cotton

Special Program Provisions for Upland Cotton

Special marketing provisions are authorized to keep U.S. upland cotton competitive on the world market. These competitiveness provisions were known as Step 1, Step 2, and Step 3. Step 2 was repealed on August 1, 2006. The provisions also include a limited global import quota.

Step 1: Further reductions in loan repayment rates are permitted. Step 1 adjustments may be made by the Secretary of Agriculture when the adjusted world price (AWP) of cotton is less than 115 percent of the upland cotton loan rate, and the weekly average U.S.-Northern Europe price quotation exceeds the Northern Europe price quotation.

- The U.S.-Northern Europe price is the weekly (Friday-Thursday) average price quotation for the lowest priced U.S. Middling (M) 1-3/32-inch upland cotton, delivered c.i.f. (cost, insurance, freight) Northern Europe
- The Northern Europe price is the weekly average of world price quotes for the five lowest prices of upland (M 1-3/32 inch) cotton delivered c.i.f. Northern Europe.

The adjustment, if made by the Secretary, is limited to the difference between the two price quotations and is based on the U. S. share of world exports, the current level of U.S. export sales and shipments, or other data determined to be relevant in establishing an accurate upland cotton world market price (adjusted to U.S. quality and location).

Step 2: User marketing certificates or cash payments were made to domestic users and exporters. Step 2 payments were issued to exporters and domestic mill users of U.S. upland cotton in a week following a consecutive 4-week period when the lowest U.S.-Northern Europe price quotation exceeded the Northern Europe price quotation and the AWP did not exceed 134 percent of the U.S. loan rate.

Payments were made in cash or certificates to domestic users on documented raw cotton consumption, and to exporters on documented export shipments, at a payment rate equal to the difference between the U.S.-Northern Europe price and the Northern Europe price during the fourth week of the period.

On February 8, 2006, the President signed legislation that repealed the upland cotton User Marketing Certificate, or "Step 2" Program. Termination was effective August 1, 2006, so payments were possible through the end of the 2005/06 (August-July) marketing year. Repeal of the Step 2 Program terminates export subsidies and import substitution subsidies cited by the World Trade Organization (WTO) in the findings of a dispute settlement panel.

Step 3: Special import quotas are permitted to temporarily increase cotton supplies. Step 3, as amended, authorizes the President to announce a special import quota for upland cotton, if for any consecutive 4-week period, the weekly average U.S.-Northern Europe price quotation (adjusted for any certificate value in effect, unless U.S. supplies are extremely tight) exceeds the Northern Europe price quotation by more than 1.25 cents per pound (the 1.25-cent threshold was delayed until August 1, 2006 by the 2002 Farm Act).

The quota equals 1 week's domestic mill consumption of upland cotton at the seasonally adjusted average consumption rate during the most recent 3 months for which data are available. The quota applies to upland cotton purchased within 90 days after quota announcement and entered the United States within 180 days after announcement. The quantity imported under Step 3 during any marketing year is limited to 5 week's domestic mill consumption of upland cotton as established in the first special import quota of any marketing year.

A **limited global import quota** is authorized when the average monthly spot price of base quality upland cotton exceeds 130 percent of the average price during the preceding 36 months. The quota equals 21 days of domestic mill consumption of upland cotton at the seasonally adjusted average rate during the most recent 3 months for which data are available. The quota applies to upland cotton entered into the United States within 90 days after quota announcement.

A special import quota cannot be established if a limited global import quota is in effect. In addition, the special import quota and the limited global import quota quantities are considered to be "in quota" for purposes of tariff-rate quota provisions of trade agreements, so they are not subject to over-quota tariffs.

Special Program Provisions for Extra-Long Staple Cotton

Special marketing provisions are also authorized to keep U.S. extra-long staple (ELS) cotton competitive on the world market. The ELS competitiveness program, which began in October 1999, is similar to the former upland Step 2 program.

The **ELS competitiveness program** issues payments to exporters and domestic mill users of U.S. ELS cotton in a week following a consecutive 4-week period when:

- The lowest Friday-Thursday average for foreign ELS cotton, quoted c.i.f. Northern Europe, (adjusted to U.S. quality and location) is less than the Friday-Thursday average domestic spot price quotation for U.S. ELS cotton (grade 3, staple 44, micronaire 3.5 or higher, uncompressed, free on board warehouse), and
- The lowest foreign quote does not exceed 134 percent of the U.S. ELS loan rate.

Payments are made in cash or certificates to domestic users on documented raw cotton consumption, and to exporters on documented export shipments, at a payment rate equal to the difference between the U.S. price and the Northern Europe price during the fourth week of the period.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Dairy Programs

Two major Federal dairy programs continue, with a new dairy market loss program added.

- Milk price support program consisting of
  - a support purchases program,
  - the Dairy Export Incentive Program, and
  - dairy market loss payments,
- Federal milk marketing orders

Under the 2002 Farm Act, the milk support purchase program, which had been operating year-to-year recently, again becomes a multi-year program. The milk support price equals $9.90 per cwt. The Commodity Credit Corporation (CCC) will buy, at support purchase prices, any butter, cheddar cheese, or nonfat dry milk that is offered to it and meets specifications. The support purchase prices are set to ensure that the price of manufacturing milk averages at least the milk support price of $9.90 per cwt. The Secretary has authority to adjust the product purchase price if deemed necessary.

The Dairy Export Incentive Program (DEIP) pays cash bonuses that allow dairy product exporters to buy U.S. products and sell them abroad when international prices are below domestic prices. DEIP removes products from the domestic market, helps develop export markets, and plays an important role in milk price support. The DEIP quantities and dollar amounts are subject to World Trade Organization restrictions under the Uruguay Round Agreement on Agriculture.

The 2002 Farm Act establishes a national milk income loss contract (MILC) program to provide income stabilization for dairy producers. A monthly direct payment is to be made to dairy farm operators if the monthly Class I price in Boston (Federal Order 1) is less than $16.94 per cwt. Payments are to be made on up to 2.4 million pounds of milk per year per organization (based on 2001 U.S. average data, which is the production from about 132 cows). The number of producers per operation does not affect its limit. Under the 2002 Act, the program ended on September 30, 2005. The Agricultural Reconciliation Act of 2005 extended authority for the MILC program with a reduced payment factor through August 2007 of 34 percent of the difference between $16.94 and the Boston Class I price.

Federal milk marketing orders are intended to help establish and maintain orderly marketing conditions for both milk producers and dairy product consumers. A classified pricing system and pooling are the two key elements of milk marketing orders. Milk marketing orders define the relationship between prices of fluid and manufactured dairy products and a geographic price structure, sometimes called the price surface. The 1996 Farm Act called for several changes in the milk marketing order system, including consolidation of the then existing 31 orders. There are currently 10 Federal milk marketing orders.

For More Information and Specific Program Details...

- Milk Income Loss Contract Program, USDA Farm Service Agency.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Peanut Program

The 2002 Farm Act substantially revamped the peanut program. Under previous legislation, the peanut program was a two-tier price support program based on nonrecourse loans. Production for domestic edible consumption was limited to an annually established quota designed to uphold prices at the $610 per ton quota loan rate. Non-quota ("additional") peanut production was permitted only for export or domestic crush, and was eligible for an "additionals" loan rate of $132 per ton (in 2001). Under the 2002 Farm Act, the marketing quota system is eliminated and peanuts are treated similarly to "program" crops such as grains and cotton—with identical marketing loan provisions available to all peanut producers. Farmers no longer have to own or rent peanut marketing quota rights to produce for domestic edible consumption. Compensation (a "buy-out") is provided to quota holders for elimination of the peanut quota system. All farmers with a history of peanut production during 1998-2001, whether quota-holders or not, are eligible for fixed direct payments and for counter-cyclical payments based on an established target price.

Summary of Provisions

- A marketing assistance loan program is available for peanut producers—with or without a history of peanut production—for any quantity of peanuts produced on the farm. The peanut loan rate is fixed at $355 per ton. Producers can pledge their stored peanuts as collateral for up to 9 months and then repay the loan at a rate that is the lesser of 1) $355 per ton plus interest or 2) a USDA-determined repayment rate designed to minimize loan forfeiture, government-owned stocks, and storage costs. Alternatively, the producer may forgo the marketing loan and opt for a loan deficiency payment (LDP) at a payment rate equal to the difference between the loan rate and the loan repayment rate.

- For producers with a history of peanut production, a direct payment of $36 per ton of eligible base-period (1998-2001) production is available. Eligible production would equal the product of average or assigned base-period yields (with the option of substituting average 1990-97 county yields for up to three of the base years) and 85 percent of base-period acres ("payment acres") planted to peanuts (with provisions for prevented plantings). These payments are made regardless of current prices or the actual crop planted so long as the farm remains in approved agricultural uses.

- Producers with base acreage are also eligible to receive a counter-cyclical payment (CCP) when market prices are below an established target price of $495 per ton minus the $36 per ton direct payment. These payments are not related to current production, so long as the farm remains in approved agricultural uses. The payment rate is the difference between the target price and the "effective price," calculated as follows:

  Payment rate = (target price) - (direct payment rate) - (higher of peanut market price or loan rate)

  The total counter-cyclical payment to each eligible producer equals the product of the payment acres (85 percent of base acres), the payment yield, and the payment rate specified above:

  CCP = 0.85 x (base acres) x (payment yield) x (payment rate).

- Owners of peanut quota under prior legislation will receive a quota buy-out as compensation for the loss of quota asset value. Payments may be made in five annual installments of $0.11 per pound ($220 per short ton) during fiscal years 2002 through 2006, or the quota owner may opt to take the outstanding payment due to them in a lump sum. Buy-out payments are based on the quota owners' 2001 quota, regardless of temporary leases or transfers of quota, so long as the person owned a farm eligible for the peanut quota. Continued eligibility for compensatory payments remain with the established quota owner regardless of their future interest in the farm or whether the person continues to produce peanuts.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Sugar Program

The two main elements of U.S. sugar policy are the price support loan program and the Tariff-Rate Quota (TRQ) import system. The loan program supports the U.S. price of sugar. The purpose of the tariff-rate quota system is to ensure an adequate supply of sugar at reasonable prices for both consumers and producers. U.S. commitments under international trade agreements, including the North American Free Trade Agreement (NAFTA), affect the level and allocation of the TRQs. The United States also operates the Refined Sugar and Sugar-Containing Products Re-Export Programs to allow U.S. refiners to be competitive in global refined and sugar-containing products markets.

Sugar loan program. The primary policy tools available to the U.S. Department of Agriculture (USDA) to assist sugarcane and sugarbeet producers are contained in the *Farm Security and Rural Investment Act of 2002* ("2002 Farm Act"). The U.S. sugar program provides for USDA to make loans available to processors of domestically grown sugar cane at a rate of 18 cents per pound and to processors of domestically grown sugarbeets at the rate of 22.9 cents per pound for refined sugar. The 2002 Farm Act allows processors to obtain loans for "in-process" sugar and syrups at 80 percent of the loan rate.

Loans are taken for a maximum term of 9 months and must be liquidated along with interest charges by the end of the fiscal year in which the loan was made. Unlike most other commodity programs, sugar loans are made to processors and not directly to producers. This is because sugarcane and sugar beets, being bulky and very perishable, must be processed into sugar before they can be traded and stored. To qualify for loans, processors must agree to provide a part of the loan payment to producers, in proportion to the amount of the loan value accounted for by the sugarbeets and sugarcane the producers deliver.

The loans are nonrecourse. This means that when the loan matures, the USDA must accept sugar pledged as collateral as payment in full in lieu of cash repayment of the loan, at the discretion of the processor. "In-process" sugar and syrups must be converted into raw cane or refined beet sugar at no cost to the Commodity Credit Corporation (CCC) before being eligible for forfeiture. The processor cannot be required to notify the USDA the intention to forfeit the sugar under loan. By forfeiting the sugar, the processor effectively withdraws sugar from the market, thereby reducing excess sugar supply and helping to support the market price of sugar.

The 2002 Farm Act requires the USDA, to the maximum extent possible, to operate the U.S. sugar loan program at no cost to the Federal Government. Specially, this provision means that the USDA must operate the program in order to avoid the forfeiture of sugar to the CCC. In order to discourage forfeiture of nonrecourse loans, the sugar price at the time of loan repayment must be high enough to cover the loan principal plus interest expenses and other costs. The 2002 Farm Act gives the USDA the authority to accept bids from sugarcane and sugarbeet processors to obtain raw cane sugar or refined beet sugar in CCC inventory in exchange for the reduction of the production of raw cane sugar or refined beet sugar. This is one way to control expected excess (or "price-depressing") supplies of sugar. The 2002 Farm Act notes specifically that this authority is in addition to any other authority that the CCC may have under any other law. (For example, the CCC relied on the Cost Reduction Options of the 1985 Farm Security Act (section 1009) for its authority for the Payment-in-Kind (PIK) Diversion Programs for the 2000 and 2001 crop years.)

As another way to guarantee the sugar loan program operates at no cost to the Federal Government, the USDA is required to establish flexible marketing allotments for sugar. The overall quantity of sugar to be allotted for a crop year is determined by subtracting the sum of 1.532 million short tons, raw value (STRV) and carry-in stocks of sugar (including CCC inventory) from the USDA's estimate of sugar consumption and reasonable carryover stocks at the end of the crop year.

The USDA is required to adjust allotment quantities to avoid the forfeiture of sugar to the CCC.

The overall allotment quantity is divided between refined beet sugar at 54.35 percent of the overall quantity and raw cane sugar at 45.65 percent of the overall quantity. For cane sugar, Hawaii and Puerto Rico are jointly allotted 325,000 STRV. The mainland cane sugar producing states' (Florida, Louisiana, and Texas) allocations would be assigned based on past marketings of sugar, the ability to market sugar in the current year, and past processing levels. Beet sugar processors are assigned allotments based on their sugar production for the 1998 to 2000 crop years. The 2002 Farm Act provides for a number of contingencies that could require reassignment of allotments during the crop year.

USDA's authority to operate sugar marketing allotments is suspended if the USDA estimates that sugar imports levels for human consumption, not including the Re-export Programs (see below), will exceed 1.532 million STRV such that the overall allotment quantity would have to be reduced. The marketing allotments would remain suspended until such time that imports have been restricted, eliminated, or otherwise reduced to or below the 1.532 million STRV level.

Tariff-rate quotas. A tariff rate quota (TRQ) is a two-tiered tariff for which the tariff rate charged depends on the volume of imports. A lower (in-quota) tariff is charged on imports within the quota volume. A higher (over-quota) tariff is charged on imports in excess of the quota volume.

The United States establishes separate TRQs for imports of raw cane sugar and for imports of certain other sugars, syrups and molasses. Authority to establish the TRQs is under Additional U.S. note 5(a)(I) to chapter 17 of the Harmonized Tariff Schedule (HTS). Each year, the Secretary of Agriculture announces the quantity of sugar that may be imported at a nominal tariff rate. Any additional annual quantity may be imported at a higher tariff rate.

In the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the United States agreed to make available for import a minimum quantity, 1.256 million STRV, of raw and refined sugar each marketing year (October to September). Included in this amount is a commitment to import at least 24,251 STRV of refined sugar.

The raw cane sugar TRQ is allocated to 40 countries based on a representative period (1975-81) when trade was relatively unrestricted. An additional allocation is made available to Mexico to satisfy U.S. obligations under the NAFTA.

The refined sugar tariff rate quota includes several components, including specific allocations to Canada, Mexico, and a quantity of refined sugar that is available to all countries on a first-come, first-served basis. The first-come, first-served section of the refined sugar TRQ also includes a category for specialty sugars such as organic sugars.

In addition, the United States administers TRQs on imports of various sugar-containing products that originally had been subject to absolute quotas under Section 22 of the Agricultural Adjustment Act of 1933. There are four TRQs on imports of similar products from countries other than Mexico.

Re-export programs. Re-export programs. The United States also operates two re-export programs for help U.S. sugar refiners and manufacturers of sugar-containing products compete in world markets. The Refined Sugar Re-Export Program establishes a license against which a company can import sugar at world prices for refining and sale to replace in the market sugar that has been exported as refined sugar or as sugar in sugar-containing products. The Sugar Containing Products Re-Export Program allows U.S. participants to buy world-priced sugar for use in products that will be exported onto the world market. Raw cane sugar imports under the two programs are not subject to the sugar tariff rate quotas. The 2002 Farm Act specifies that all refined sugars derived from either sugarbeets or sugar cane are substitutable under these programs.

North American Free Trade Agreement and U.S.-Mexico sugar relations. The North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994. The original agreement contained provisions that related to trade in sugar. In order to secure U.S. Congressional support for the NAFTA, the U.S. and Mexican Governments exchanged side-letters that altered the sugar provisions of the original NAFTA text. Although Mexico has since rejected the validity of the side-letter agreement, the United States maintains that the side-letter provisions supercede those of the original NAFTA agreement.

The original provisions of the NAFTA subjected Mexico's sugar exports to the United States to several conditions.

- During the 15-year transition period, Mexican exports were to be limited to no more than Mexico's net production surplus of sugar - domestic sugar production less domestic sugar consumption, but, at a minimum, Mexico was allowed to ship 7,258 metric tons of raw cane sugar duty-free.
- For the first 6 years of NAFTA, duty-free access was limited to no more than 25,000 metric tons, raw value. In year 7, the maximum duty-free access quantity was to become 150,000 metric tons, and, in each subsequent year, the maximum duty-free quantity was to increase by 10 percent.
- Importantly, the NAFTA provided that these maximums could be exceeded if one of two conditions prevailed. The first condition required that Mexico achieve net production surplus status for 2 consecutive marketing years. The second condition specified that Mexico be a net surplus producer for the first year and be projected as a net surplus producer in the second year unless it was subsequently determined, contrary to the projection, that Mexico was not a net surplus producer

for that year.

The side-letter agreement changed key sugar provisions of the NAFTA. The agreement stipulates that projected Mexican sugar production would have to exceed Mexico's consumption of both sugar and HFCS for Mexico to be considered a net surplus producer. For the first 6 years of the NAFTA, Mexico was entitled to duty-free access for sugar exports to the United States in the amount of its projected net surplus production, up to a maximum of 25,000 metric tons. If Mexico was not a net surplus producer, it still would have duty-free access for 7,258 metric tons. From FY2001 through 2007, Mexico will have duty-free access to the U.S. market for the amount of its surplus as measured by the formula, up to a maximum of 250,000 metric tons.

The NAFTA specifies a declining high-tier tariff schedule for raw and refined sugar over the transition period to duty-free sugar trade in calendar year 2008. For 2002, the raw sugar tariff is 9.07 cents a pound, and the refined sugar tariff is 9.61 cents a pound. The raw sugar tariff drops about 1.5 cents each year (7.56 cents a pound in 2003), and the refined sugar tariff drops about 1.6 cents a year (8.01 cents a pound in 2003). Both rates reach zero in calendar year 2008.

The economic incentive for Mexico to export high-tier tariff raw sugar exists if a price threshold is less than or equal to the U.S. sugar price. The threshold is equal to the sum of the world price of sugar (New York Number 11 Contract), the high-tier NAFTA tariff rate, unit marketing costs (about 1.1 cents a pound for raw sugar), plus any marketing premiums. The threshold price is compared to the U.S. price for entry in Gulf ports. This U.S. price runs about 1 cent lower than the New York Number 14 Contract price. If the threshold is below the U.S. Gulf price, then Mexico would be encouraged to export sugar to the United States up to that point where the marginal returns from exporting to the U.S. and the world markets are equalized. If the return to exporting to the United States is at all levels higher than shipping to the rest-of-the-world, then Mexico is encouraged to ship all exportable sugar to the U.S. market. For example, if world raw sugar prices are in the 7 cent/lb range in 2003, any U.S. raw sugar price above 18 cents a pound would signal a greater return to Mexican producers by exporting to the U.S. market instead of the world market. High-tier tariff imports could cause total sugar imports to exceed the 1.532 million STRV import ceiling necessary for the authority of the USDA to set marketing allotments to comply with the no cost provision of the 2002 Farm Act.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Tobacco Program

The tobacco price support program exists only for the economic benefit of farmers. It was created for the purpose of supporting the income of farmers and stabilizing the price of tobacco received by them.

The program operates through a combination of mandatory marketing quotas and nonrecourse loans tied to price supports. Marketing quotas limit the amount of tobacco each farmer can sell, which indirectly raises market prices. In addition, the loan program establishes guaranteed minimum prices. The law requires that the loan program operates at no net cost to the Federal Government. No-net-cost provisions of the law are intended to assure that all loan principal plus interest will be recovered, apart from year-to-year budget impacts.

By law, the choice of whether or not Federal support will be provided is determined by growers of each type of tobacco in referenda held every 3 years, when growers of each type of tobacco vote whether or not to participate in the tobacco program. For growers of those types that vote to participate, USDA sets marketing quotas and price supports.

Health and anti-smoking groups have generally favored the program because it benefits growers, restricts tobacco leaf production, and, to some extent, increases the price of tobacco leaf.

Marketing quotas. When producers approve Federal price support for tobacco, they become subject to marketing quotas. Marketing quotas are a supply control mechanism that indirectly increases market prices. The Federal Government is required to guarantee prices at least as high as the level specified in the law.

Flue-cured and burley quotas are based on

- intended purchases by cigarette manufacturers,
- average annual exports for the 3 preceding years, and
- the amount of tobacco needed to attain a specified reserve stock level (15 percent of the effective quota or a minimum of 100 million pounds of flue-cured and 50 million pounds of burley).

The Secretary of Agriculture has the discretion to adjust the quota up or down 3 percent. Quota reductions were limited from 1986 through 1996. Currently there is no restriction limiting change in the quota. For tobaccos other than flue-cured and burley, acreage allotments are used to restrict production.

An individual farm's basic quota is adjusted by the net over- and under-marketings for that farm during previous years. The result is the effective quota, i.e., the actual amount that the farm is allowed to market. Producers who exceed acreage allotments or quotas for tobaccos under marketing quotas are subject to penalties. The penalty rate is 75 percent of the previous year's average market price.

To participate in the program, the grower must adhere to a number of restrictions and rules. Rules vary by State and by kind of tobacco. Farmers must own land, or purchase or rent land that has a quota. Restrictions exist on the transfer (through renting with land, or leasing without land) of quota across county lines. Growers must also certify no prohibited chemicals have been used in the production of the tobacco and that their tobacco is not nested (a practice by which lesser grade tobacco leaf is hidden within a pile of better grade leaf).

At the auction, each lot of tobacco goes to the highest bidder unless that bid does not exceed the government's loan price. In that case, the farmer is paid the loan price by a cooperative, with money borrowed from the Commodity Credit Corporation (CCC). The tobacco is consigned to the cooperative (known as a price stabilization cooperative), which redries, packs, and stores the tobacco as collateral for the CCC. The cooperative, acting as an agent of the CCC, later sells the tobacco, with the proceeds going to repay the loan plus interest.

Price supports. Since 1987, the annual flue-cured and burley price support was the level for the preceding year adjusted by changes in the 5-year moving average of prices (two-thirds weight) and in the cost of production index (one-third weight). Costs do include general variable costs, but exclude costs of land, quota, risk, overhead, management, marketing contributions or assessments, and other costs not directly related to tobacco production.

The Secretary can set the price support between 65 and 100 percent of the calculated adjusted change from the previous year. The procedure for setting price supports for any kind of tobacco other than flue-cured and burley is based on the average parity index for the 3 previous calendar years compared with 1959 indexes.

No-net-cost assessments. Under the threat of legislative dissolution of the program by its opponents, Congress passed the No-Net-Cost Tobacco Program Act in 1982 (P.L. 97-218). This legislation imposes an assessment on every pound of tobacco marketed. Growers and buyers each pay a portion of the no-net-cost assessment. Beginning in 1994, imported tobacco also became subject to the no-net-cost assessment. The assessment funds are deposited in an escrow account that is held to reimburse the Government for any financial losses resulting from tobacco loan operations. Losses occur when a cooperative sells loan collateral tobacco at a price insufficient to cover the loan principal plus interest.

Passage of the No-Net-Cost Tobacco Program Act was a significant change in Federal price support policy. Shifting the financial burden for tobacco program losses from the Federal Government to growers encouraged a reduction in support prices (which was done by legislation in 1986). Initially, this stopped the decline in U.S. tobacco leaf exports. However, the growing competitiveness of foreign tobacco has continued to erode the U.S. share of export markets.

Finally, the no-net-cost rule has muted much of the criticism that taxpayers are subsidizing tobacco farmers. The budgetary impact of the tobacco loan program is determined primarily by loan outlays (new loans made) and loan recoveries (repayment of old loans). In any given year, new loan outlays may be more or less than recoveries from the repayment of old loans. In fiscal year 1999, the large net receipt of nearly $18 million is the result of previously large loan outlays now being repaid compared to a modest level of new loans being made. Since tobacco is typically stored for extended periods, it can be several years before the loan inventory is sold. In all cases, the law requires that any losses of loan principal and interest be repaid from the no-net-cost account, which is funded from assessments on growers and buyers of each type of leaf tobacco.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Fruit and Vegetable Marketing Orders

Marketing orders and marketing agreements are designed to help stabilize market conditions for fruit and vegetable products. Marketing orders and agreements may

- maintain the high quality of produce that is on the market;
- standardize packages and containers;
- regulate the flow of product to market;
- establish reserve pools for storable commodities; and
- authorize production research, marketing research and development, and advertising.

Presently, there are 36 active marketing agreement and order programs and an additional program for peanuts, that collect assessment fees from handlers to cover operation and administrative costs of the programs. USDA's Agricultural Marketing Service (AMS) maintains a summary of active marketing agreement and order programs. AMS also maintains an overview of marketing orders.

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Crop Yield and Revenue Insurance

Producers of specific crops can purchase insurance policies at a subsidized rate, under Federal crop insurance programs. These insurance policies make indemnity payments to producers based on current losses related to either below-average yields (crop yield insurance) or below-average revenue (revenue insurance).

Policies are sold through private insurance companies, but the USDA's Risk Management Agency (RMA) subsidizes the insurance premiums, subsidizes a portion of the companies' administrative and operating expenses, and shares underwriting gains and losses with the companies under the Standard Reinsurance Agreement. Premium subsidy rates were raised under the Agricultural Risk Protection Act of 2000, so that most farmers pay around 40 to 50 percent of the premiums. Insurance is widely available, though coverage is not available for all crops in all areas, and all types of insurance are not available for all crops. Farmers sign up for insurance prior to planting, but usually pay premiums after harvest.

Several types of crop yield and revenue insurance are available. Each has some unique features.

Yield Insurance Plans

- APH (Actual Production History) coverage is the oldest and most widely available crop insurance product. It protects farmers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease.

  Yield coverage levels are based on a producer's expected yield, which is calculated from the farm's actual production history (average yields over the last 4 to 10 years). The farmer selects a yield coverage level, ranging from 50 to 75 percent of average yield (up to 85 percent in some areas), and an indemnity price, ranging from 55 to 100 percent of the crop price established annually by RMA. If the harvested yield is less than the insured yield (i.e., less than the yield coverage level), the farmer receives an indemnity based on the difference between the actual yield and the insured yield. The total indemnity equals this yield shortfall times the indemnity price times acres insured.

- Catastrophic (CAT) coverage provides a lower level of coverage on yield losses at a low cost to producers. It pays indemnities at a rate of 55 percent of the established price of the commodity when farm yield losses are more than 50 percent. CAT premiums are paid by RMA, but producers must pay a $100 administrative fee for each crop insured. CAT coverage is not available on all types of policies. Yield coverage above the CAT level is often referred to as "buy-up."

- Group Risk Plan (GRP) policies use county yields as the basis for determining a loss. When the county yield for the insured crop falls below the trigger level chosen by the farmer, an indemnity is paid. Yield coverage is available for up to 90 percent of the expected county yield. GRP's premiums may be lower than those for individual insurance, but an individual farmer's crop loss may not be completely covered if the county yield does not suffer a similar level of loss. This type of insurance is best suited for farmers whose crop losses typically follow the county pattern.

- Dollar Plan coverage pays for both quantity and quality yield losses and is limited to some high-value crops (e.g., fresh market tomatoes and strawberries). It guarantees a dollar amount per acre rather than a particular yield level. Both CAT and buy-up coverage are available.

Revenue Insurance Plans

- Crop Revenue Coverage (CRC) provides protection against gross revenue (i.e., price times yield) falling below some guaranteed level. Guaranteed revenue is equal to the farmer's elected coverage level (50 to 75 percent), times the APH yield, times the higher of (a) the base market price, which is an average of the harvest-time futures price for the month of February prior to planting; or (b) the month-long-average-harvest market price for the last month of the contract.

  CRC provides higher coverage in years when prices rise after planting. When a farmer's actual revenue (calculated as the actual yield times the harvest market price) is below the guaranteed revenue, CRC pays an indemnity equal to the difference between those two amounts.

- Revenue Assurance (RA) coverage is similar to CRC, with two differences.

  1. Farmers can choose between RA's "base price option," where the revenue guarantee is determined using only the preplanting price; or the "harvest price option," where the revenue guarantee may increase up to harvest time, just like CRC. The harvest price option carries a higher premium.
  2. Revenue coverage under RA is always determined using 100 percent of the base price, whereas CRC gives farmers the option of using 95 percent of the base price in exchange for a lower premium.

- Income Protection (IP) provides protection similar to RA with the base price option but requires producers to use "enterprise units." This means that the policyholder must insure all acreage for one crop in a county under a single policy (rather than having separate policies for different landlords, land sections, etc.). Premiums are lower, but IP requires that losses be across a wider area before an indemnity is paid.

- Group Risk Income Protection (GRIP) is a revenue insurance plan that uses county yields instead of farm yields when calculating revenue coverage levels and actual revenue. Farmers may select revenue coverage levels from 70 to 90 percent of expected county revenue, where county revenue is equal to the historic county yield times the relevant futures price averaged across 5 days prior to planting. Actual county revenue is calculated as the actual county yield times a month-long average of the nearby futures price at harvest time. GRIP pays indemnities only when the average county revenue for the insured crop falls below the revenue chosen by the farmer.

- Adjusted Gross Revenue (AGR) coverage insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from a producer's Schedule F tax forms to calculate the policy revenue guarantee. Currently, AGR is still a pilot program that is only available in selected areas.

For Specific Program Details...

- Crop Policies, USDA, Risk Management Agency

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Natural Disaster and Emergency Assistance Programs for Farmers

USDA operates programs to assist farmers recovering from losses caused by drought, flood, freeze, tornadoes, hurricanes, and other natural calamities, and from emergency market conditions. In addition to operating a permanent crop and revenue insurance program, USDA provides disaster and emergency assistance through both ongoing and ad hoc programs.

Ongoing Disaster Assistance Programs for Agricultural Producers

USDA's Farm Service Agency (FSA) offers farmers and ranchers various types of disaster aid to facilitate recovery from losses caused by drought, flood, freeze, tornadoes, hurricanes, and other natural events. Ongoing disaster assistance programs available to eligible producers are:

- **Emergency Conservation Program (ECP)** provides funding for farmers and ranchers to rehabilitate farmland damaged by wind erosion, flood, hurricanes, or other natural disasters and for carrying out emergency water conservation measures during periods of severe drought.
- **Noninsured Crop Disaster Assistance Program (NAP)** provides financial assistance to eligible producers affected by drought, flood, hurricanes, or other natural disasters. NAP covers noninsurable crop losses and planting prevented by disasters.
- **Disaster Debt Set-Aside (DSA) Program** is available to producers in primary or contiguous counties declared as disaster areas by the President or the Secretary of Agriculture.
- **Emergency Loan Program (EM)** provides emergency loans to help producers recover from production and physical losses due to drought, flood, other natural disasters, or quarantine.

Ad Hoc Natural Disaster and Emergency Assistance Programs for Farmers Since 2002

2002

The *Cattle Feed Assistance Program* was authorized by the Farm Security and Rural Investment Act of 2002 and funded under Section 32 of the Agricultural Adjustment Act of 1935. Under the program, the Commodity Credit Corporation (CCC) provided stocks of nonfat dry milk to designated livestock feed suppliers for manufacturing feed for producers in four States (Colorado, Nebraska, South Dakota, and Wyoming) facing severe loss of pasture and rangeland from drought. Eligible beef cow-calf operations could receive funds to purchase replacement feed from these suppliers based on the number of beef cows, replacement heifers, and breeding bulls they owned or leased.

2003

The *Agricultural Assistance Act of 2003* (P.L. 108-7) provided assistance to producers who suffered losses due to weather-related disasters and other emergency conditions. Programs included:

- ***Crop Disaster Program*** reimbursed producers for qualifying losses to agricultural commodities other than sugarcane, sugar beets, or tobacco due to damaging weather or related conditions. Damages had to be more than 35 percent for loss of production or 20 percent for quality losses for either the 2001 or 2002 crop; payments were limited to $80,000 per producer. The sum of the value of the crop harvested, any net crop insurance indemnity, and the amount of the disaster payment could not exceed 95 percent of the value of the crop if there had been no loss.

- ***Sugarcane Hurricane Program*** provided $60 million in compensation to Louisiana sugarcane producers and processors who suffered economic losses from the cumulative effects of Tropical Storm Isadore and Hurricane Lili and excessive rains in October 2002. Payments were made to affected sugar processors, who disbursed payments to affected sugar producers based on 2002-crop contracts.

- ***Sugar Beet Disaster Program*** provided up to $60 million in payments to producers who suffered sugar beet production losses in crop years 2001 or 2002 due to adverse weather. Producers had to have at least a 35-percent loss of either quantity or quality of sugar beets in the field or of acreage prevented from planting.

- ***Tobacco Payment Program*** helped enhance the economic stability of tobacco producers by providing $53 million in direct payments to all acreage allotment/marketing quota holders and growers.

- ***Cottonseed Payments***—provided $50 million to help cotton ginners and producers recover from low 2002-crop cottonseed prices. Payments were made to cotton ginners, who had to agree to share payments with cotton producers to the extent that producers shared the effects of low prices with ginners.

- ***Livestock Compensation Program*** expanded the list of counties eligible for the existing Livestock Compensation Program by changing the original program's date restrictions. Payments continued to be based on losses per head of eligible livestock.

- ***Catfish Feed Assistance Program*** expanded the Livestock Compensation Program to include catfish as eligible livestock. The Commodity Credit Corporation made available $34 million in grants to State departments of agriculture in States with a commercial catfish feed processor. Payments were made by State departments of agriculture to catfish producers based on their 2002 catfish feed purchases from processors within the State.

- ***Livestock Assistance Program*** provided assistance to producers for grazing losses due to natural disasters during either 2001 or 2002. Producers could receive payments only for losses in 1 of the 2 years. The program addressed the needs of producers whose assistance for grazing losses exceeded amounts received under either the Livestock Compensation Program and/or the Cattle Feed Assistance Program. Payments were reduced by the amount received under either of those existing programs.

2004

The *Florida Hurricane Agricultural Disaster Assistance Programs* provided disaster relief to producers in certain areas of Florida who suffered crop damage and tree losses from Hurricanes Charley, Frances and/or Jeanne during August and September 2004. The programs were funded under Section 32 of the Agricultural Adjustment Act of 1935 included the following:

- ***Florida Citrus Disaster Program*** provided financial assistance to producers who suffered citrus crop production losses and associated fruit-bearing tree damage, including related cleanup and rehabilitation costs, resulting from Hurricanes Charley, Frances, and/or Jeanne.

- ***Florida Nursery Crop Disaster Program*** provided financial assistance to qualifying commercial ornamental nursery and fernery producers who suffered inventory losses and incurred cleanup costs, resulting from Hurricanes Charley, Frances, and/or Jeanne.

- ***Florida Fruit and Vegetable Disaster Program*** provided financial assistance to fruit and vegetable producers who suffered crop production losses, including related cleanup costs, resulting from Hurricanes Charley, Frances, and/or Jeanne.

- ***Florida Tropical Fruit Disaster Program*** provided financial assistance for carambola, longan, lychee, and mango producers who suffered crop production losses, including related cleanup costs, resulting from Hurricanes Charley, Frances, and/or Jeanne.

The *Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act of 2005 (P.L. 108-324)*), which was signed in October 2004, included the following programs for agricultural producers who suffered losses from natural disasters:

- ***Crop Disaster Assistance Program*** reimbursed producers for qualifying losses to agricultural commodities other than sugarcane due to damaging weather or related conditions. Damages had to be more than 35 percent for loss of production or 20 percent for quality losses for either the 2003, 2004, or 2005 crop; payments were limited to $80,000 per producer. The sum of the value of the crop harvested, any net crop insurance indemnity, and the amount of the disaster payment could not exceed 95 percent of the value of the crop if there had been no loss.

- ***Sugarcane Hurricane Program*** provided compensation to sugarcane producers and processors who suffered economic losses from natural disasters.

- ***Cottonseed Payments***—provided payments to help cotton ginners and producers recover from low cottonseed prices. Payments were made to cotton ginners, who had to agree to share payments with cotton producers to the extent that producers shared the effects of low prices with ginners.

- ***Cattle Feed Assistance Program*** provided stocks of nonfat dry milk to designated livestock feed suppliers for manufacturing feed for producers facing severe loss of pasture and rangeland from drought. Eligible beef cow-calf operations could receive funds to purchase replacement feed from these suppliers based on the number of beef cows, replacement heifers, and breeding bulls they owned or leased.

- ***Livestock Assistance Program*** provided assistance to producers for grazing losses due to natural disasters during either 2003 or 2004. Producers could only receive payments for losses in 1 of the 2 years. The program addressed the needs of producers whose assistance for grazing losses exceeded amounts received under either the Livestock Compensation Program and/or the Cattle Feed Program. Payments were reduced by the amount received under either of those existing programs.

- ***American Indian Livestock Program*** provided assistance to producers for grazing losses due to natural disasters during either 2003 or 2004.

- ***Tree Assistance Program***—provided assistance to replant trees, bushes, and vines that were grown for the production of an annual crop and were lost due to a natural disaster.

- ***Emergency Conservation Program*** provided payments for agricultural land adversely affected by flood, tornadoes, drought, and other weather-related disasters. ECP provided emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters, and for carrying out emergency water conservation measures in periods of severe drought.

- ***Emergency Watershed Protection Program*** provided payments for cleaning up structures on private land, reimbursing private nonindustrial forest landowners for costs associated with downed timber removal, removing and disposing of debris and animal carcasses, clearing debris from clogged waterways, restoring vegetation, stabilizing river banks, repairing levees and structures, reseeding damaged areas, and purchasing floodplain easements.

The *Ewe Lamb Replacement and Retention Program* provided eligible producers with $18 million in direct payments to help them replace and retain ewe lamb breeding stock. Eligible stock must have been owned by producers during the period August 1, 2003, to July 31, 2004. This program was funded under Section 32 of the Agricultural Adjustment Act of 1935.

2005

The *2005 Gulf Hurricanes Programs* included five new disaster assistance programs to aid victims of the 2005 hurricane season. The programs were funded under Section 32 of the Agricultural Adjustment Act of 1935. Programs included:

- ***Tree Indemnity Program*** (TIP) provided flat payments per acre for the replanting and rehabilitation (such as pruning or staking) of perennial orchards, vines, and bushes that produce an annual crop, damaged as a result of the hurricanes. Loss levels were established by four tiers of damage.

- ***Hurricane Indemnity Program*** (HIP) provided payments to farmers who received crop insurance or NAP payments as a result of the hurricanes. Payments were 30 percent of the crop insurance indemnity or NAP payment, capped at 95 percent of the expected crop returns.

- ***Livestock Indemnity Program*** (LIP) provided payments to producers whose livestock died as a direct result of the 2005 hurricanes.

- ***Feed Indemnity Program*** (FIP) provided benefits for feed losses resulting from the 2005 hurricanes.

- ***Aquaculture Block Grant Program*** provided block grants to States affected by the hurricanes in 2005 for aquaculture losses, so that States could distribute benefits to affected producers.

2006

Additional 2005 hurricane disaster relief was also provided through the *Emergency Agricultural Disaster Assistance Act of 2006* (P.L. 109-234), which provided for the following new programs:

- ***2005 Hurricanes Livestock Compensation Program*** provided payments to livestock owners and cash lessees (not both for the same livestock) for certain feed losses that resulted from 2005 Hurricanes Katrina, Ophelia, Rita, and Wilma. LCP also includes a catfish grant program through which States distributed benefits to producers who suffered losses as a result of the 2005 hurricanes.
- ***2005 Livestock Indemnity Program II*** provided payments to livestock owners and contract growers for certain livestock deaths resulting from 2005 Hurricanes Katrina, Ophelia, Rita, or Wilma. Livestock producers could not receive LIP II benefits if they received payments for the same losses through other Federal disaster programs, such as the Livestock Indemnity Program, which FSA also administered in 2006, or the Federal aquaculture grant program administered through State departments of agriculture.
- ***2005 Dairy Disaster Assistance Payment Program*** provided payments to dairy producers who suffered dairy production and milk spoilage losses due to the 2005 hurricanes or a related condition. Dairy producers affected by the hurricanes incurred devastating decreases in production due to herd losses and milk that had to be dumped because of closed milk plants and damaged containment equipment. Other costly effects included loss of electricity, fuel shortages, and infrastructure damages that temporarily interrupted the flow of dairy products to markets.
- ***2005 Cottonseed Payment Program*** provided assistance to producers and first-handlers of the 2005 cottonseed crop.
- ***2005 Hurricanes Citrus Program*** provided financial assistance to producers who suffered citrus crop production losses and associated fruit-bearing tree damage, including related cleanup and rehabilitation costs, resulting from Hurricanes Katrina, Ophelia, Rita, and Wilma in 2005.
- ***2005 Hurricanes Nursery Program*** provided financial assistance to qualifying commercial ornamental nursery and fernery producers who suffered inventory losses and incurred cleanup costs that resulted from Hurricanes Katrina, Ophelia, Rita, or Wilma in 2005.
- ***2005 Hurricanes Fruit and Vegetable Program*** provided financial assistance to fruit and vegetable producers who suffered crop production losses, including related cleanup costs, resulting from Hurricanes Katrina, Ophelia, Rita, or Wilma in 2005.
- ***2005 Hurricanes Tropical Fruit Program*** provided financial assistance for carambola, longan, lychee, and mango producers who suffered crop production losses, including related cleanup costs, resulting from Hurricanes Katrina, Ophelia, Rita, or Wilma in 2005.
- The ***Florida Sugarcane, Louisiana Sugarcane, and Texas Sugarcane Programs*** provided assistance to sugarcane growers recovering from the 2005 hurricanes. Each program was specific to a State and had different program administration rules. All CCC payments were made to the sugarcane processors (mills), which then paid growers.

2007

The *U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007* (P.L. 110-28) provided aid for U.S. farmers and ranchers for disasters in 2005, 2006, and 2007. The Act authorized the following programs:

- ***Crop Disaster Program*** provided benefits to farmers who suffered quantity and quality losses due to 2005, 2006, or 2007 natural disasters, if crops were planted before February 28, 2007. Producers had to choose only 1 year to apply for benefits, and only producers who obtained crop insurance coverage or coverage under the Noninsured Crop Disaster Assistance Program for the year of loss were eligible. Producers had to have suffered quantity losses in excess of 35 percent.
- ***Livestock Indemnity Program*** provided benefits for livestock losses occurring between January 1, 2005, and February 28, 2007, resulting from natural disasters. Producers incurring eligible livestock losses in more than one of the 2005, 2006, or 2007 calendar years had to choose only 1 year for which they wanted to apply for benefits.
- The ***Livestock Compensation Program*** provided benefits for feed losses occurring between January 1, 2005, and February 28, 2007, resulting from natural disasters. Producers incurring eligible feed losses in more than one of the 2005, 2006, or 2007 calendar years had to choose only 1 year for which they wanted to apply for benefits.

- The ***Dairy Disaster Assistance Program*** provided benefits to dairy producers for production losses that occurred between January 1, 2005, and February 28, 2007, because of qualifying natural disasters. It compensated producers for production losses that resulted from lost herds, dumped milk when dairy plants closed or the natural disaster damaged containment equipment, or temporary interruptions in the flow of dairy products to market caused by power outages, fuel shortages, or infrastructure damage.

- The ***Emergency Forestry Conservation Reserve Program*** was reauthorized. To be eligible for EFCRP, landowners must have suffered at least a 35-percent loss to merchantable timber on private nonindustrial farmland as a result of one of the five 2005 hurricanes.

- The ***Emergency Conservation Program*** was reauthorized. ECP makes payments for agricultural land adversely affected by flood, tornadoes, drought, and other weather-related disasters. It provides emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters, and for carrying out emergency water conservation measures in periods of severe drought.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Conservation and Environmental Programs

Conservation and environmental programs, particularly the Conservation Reserve Program (CRP), play an important role in agricultural production decisions. Producers receive cost-share payments, or rental or other direct payments in return for using specified environmentally friendly farming practices or for setting aside land in conserving uses.

The Conservation Reserve Program is the primary conservation program. Under the voluntary CRP, farmland owners submit bids to retire highly erodible and other environmentally sensitive cropland from production for 10 to 15 years. Farmers receive a cost-share payment to establish a permanent cover crop and annual rental payments for retiring land and maintaining specified conservation practices. The CRP is funded through the Commodity Credit Corporation budget. The maximum CRP area was set at 39.2 million acres.

Conservation Security Program provides incentive payments to farmers to assist in implementing and maintaining various conservation practices on working lands. Funded through the CCC.

Under the new Conservation Security Program, producers must develop and submit a conservation plan to USDA that identifies the resources and designated land to be conserved. The plan would include conservation practices that fall within one of three tiers provided in the program. Producers enter into conservation security contracts that provide a base payment for the conducting practices designated in the conservation plan. The base payment rate would be based on the average county rental rate for the use of similar land during the 2001 crop year, or another average county rate for the 2001 crop year as determined by USDA. Producers may also be eligible for bonus payments implementing additional conservation measures.

The program establishes three tiers of conservation activities.

Tier I—basic conservation practices such as soil erosion and nutrient management

- $20,000 payment limit
- 5 percent of base rate for land covered
- 75 percent of the average county cost of adopting or maintaining land and vegetative practices (90 percent for beginning farmers or ranchers)
- bonuses are available for certain practices such as maximizing conservation benefits; addressing national priority concerns; participating in research, demonstration, or pilot programs; and recordkeeping, monitoring, and evaluation

Tier II—crop rotations and wildlife protection practices that provide resource management systems for the entire farm

- $35,000 payment limit
- 10 percent of base rate for land covered
- plus other tier I payments for practices
- bonus payments for implementing practices that exceed standards

Tier III—plan than fosters long-term sustainability of natural resource base of the farm

- $45,000 payment limit
- 15 percent of base rate for land covered
- bonus payments similar to tier II bonuses

Other programs of note include:

- The Wetlands Reserve Program (WRP) is a voluntary program to restore and protect wetlands on private property. WRP provides an opportunity for landowners to receive financial incentives to enhance wetlands in exchange for retiring marginal agricultural land.
- Conservation Technical Assistance assists farmers in planning and implementing conservation systems to reduce erosion, improve soil and water quality, improve and conserve wetlands, enhance fish and wildlife habitat, improve air quality, improve pasture and range condition, reduce upstream flooding, and improve woodlands.
- The Environmental Quality Incentives Program (EQIP) provides technical, educational, and financial assistance to eligible farmers and ranchers to address soil, water, and related natural resource concerns on their lands in an environmentally beneficial and cost-effective manner.

For Specific Program Details...

- Conservation Policy Briefing Room
- Environmental Interactions with Agricultural Production Briefing Room
- USDA Farm Service Agency, Conservation Programs
- USDA Natural Resource Conservation Service, Conservation Programs

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 2002-07 Program Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Major Trade Programs

The 2002 Farm Act continued and modified agricultural export programs designed to develop and expand commercial outlets for U.S. commodities in world markets and to provide international food assistance. The act oriented export programs toward greater market development, with increased emphasis on high-value and value-added products.

USDA's Foreign Agricultural Service (FAS) administers the export and food aid programs contained in the Farm Act, except for Titles II and III of the revised P.L. 480, which are assigned by law to the Agency for International Development.

FAS also administers the Trade Adjustment Assistance program, which provides technical assistance and cash benefits to producers of raw agricultural commodities if increased imports are found to have contributed to a decline in prices. Payments and technical assistance are provided if producers of a commodity can show that the national average price has fallen in a single year to less than 80 percent of the national averages during the preceding 5 marketing years.

Major export programs include:

- **Dairy Export Incentive Program** offers subsidies to exporters of U.S. dairy products to help them compete with other subsidizing nations. The Commodity Credit Corporation (CCC) makes payments on a bid basis in cash, in kind, or through certificates redeemable for commodities. The program was originally authorized by the Food Security Act of 1985 (P.L. 99-198) and reauthorized by the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624). Program details

- **Export Credit Guarantee Program (GSM-102)**, begun in 1982, is the largest U.S. agricultural export promotion program. It guarantees repayment of private, short-term credit for up to 3 years. The 1996 Farm Act continues the authorization for GSM-102, mandates annual program funding levels for GSM-102 and GSM-103, and allows flexibility in how much is made available for each program. Program details

- **Export Enhancement Program (EEP)** was initiated in May 1985 under the Commodity Credit Corporation charter to help U.S. exporters meet competitors' prices in subsidized markets. The program was formally authorized by the Food Security Act of 1985 (P.L. 99-198). Under the EEP, exporters are awarded generic commodity certificates or cash payments. The certificates are redeemable for CCC-owned commodities. The certificates or payments enable an exporter to sell certain commodities to specified countries at prices below those of the U.S. market. The 2002 Farm Act caps EEP expenditures at $478 million per year and allows the Secretary of Agriculture to target up to $100 million annually for the sale of intermediate-value products. Program details

- **Intermediate Export Credit Guarantee Program (GSM-103)** was established by the Food Security Act of 1985 (P.L. 99-198). GSM-103 complements the Export Credit Guarantee Program (GSM-102), but guarantees repayment of private credit for 3 to 10 years. The 2002 Farm Act continues the authorization for GSM-103, mandates annual program funding levels for GSM-103 and GSM-102, and allows flexibility in how much is made available for each program.

- **Market Access Program (MAP)** is an export promotion program authorized by the 1996 Farm Act. The MAP is designed to encourage development, maintenance, and expansion of commercial farm export markets. The program promotes exports of specific U.S. commodities or products in specific markets. Under the MAP, eligible participants receive generic commodity certificates or payments for promotional activities approved by the Secretary of Agriculture. Participating organizations include nonprofit trade associations, state regional trade groups, and private companies. The 2002 Act prohibits direct assistance for brand promotion to large firms unless they are agricultural cooperatives. More than 80 percent of MAP funds go to develop markets for high-value and processed products. Program details

Food aid programs include:

- **Public Law 480 (P.L. 480)**, the common name for the Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-480), seeks to expand foreign markets for U.S. agricultural products, combat hunger, and encourage economic development in developing countries. It is also called the Food for Peace Program.

  Title I of P.L. 480 makes U.S. agricultural commodities available through long-term dollar credit sales at low interest rates for up to 30 years. Title II provides donations for emergency food relief and nonemergency assistance. Title III authorizes "food for development" projects. The Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624) authorized a new Food for Development program under Title III that provides government-to-government grant food assistance to least developed countries. Program details

- **Food for Progress Program (FPP)** was originally authorized under Section 416b of the Agricultural Act of 1949 to provide commodities to the governments of developing countries and emerging democracies or to private voluntary organizations to introduce elements of free enterprise into the countries' agricultural economies. The 2002 Farm Act extends authority for the FPP. Program details

- **Section 416(b)** of the Agricultural Act of 1949 provides for overseas donations of CCC-owned surplus commodities to friendly developing countries. Program details

- **Bill Emerson Humanitarian Trust (BEHT)/Food Security Commodity Reserve**. The Africa Seeds of Hope Act of 1998 amended Title III of the Agricultural Act of 1980 replacing the Food Security Commodity Reserve and its predecessor, the Food Security Wheat Reserve, with the Bill Emerson Humanitarian Trust (BEHT). Commodities authorized for the 4-million-ton reserve have been expanded to include corn, grain sorghum, and rice in addition to wheat. CCC is authorized to hold funds as well as commodities in the reserve.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 1996-2001 Commodity Provisions

This chapter is divided into sections that describe the basic features for the primary farm and commodity programs covered by the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act) as amended.

- Production Flexibility Contracts (Wheat, Feed Grains, Rice, and Upland Cotton)
- Marketing Assistance Loan and LDP Programs (Wheat, Feed Grains, Rice, Cotton, and Oilseeds)
- Special Provisions for Cotton
- Sugar Program
- Peanut Program
- Dairy Programs
- Tobacco Programs
- Emergency and Supplemental Assistance

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

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Briefing Rooms [ARCHIVE]

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Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Production Flexibility Contracts (Wheat, Feed Grains, Rice, and Upland Cotton)

The 1996 Farm Act provides decoupled income support payments over 7 years to farmers who entered into production flexibility contracts (PFC's). Since these PFC payments are not related to current market prices or most farm-level production decisions, they do not have a direct effect on a producer's cropping decisions (i.e., they are "decoupled"). Previous, price-sensitive payments using target prices, called deficiency payments, were eliminated by the 1996 Act. Acreage reduction programs, which had been used to limit program costs, were not reauthorized.

The 1999 and 2000 Appropriations Acts and the Agricultural Risk Protection Act of 2000 authorized emergency "market loss assistance payments" (MLA's). MLA payment rates are proportionate to PFC payment rates. (For more information, see Emergency and Supplemental Programs Assistance).

Program eligibility. To receive payments and be eligible for commodity loans on contract crops (wheat, corn, grain sorghum, barley, oats, rice, and upland cotton), a producer had to enter into a production flexibility contract (PFC) for 1996-2002 during the one-time enrollment period held in 1996. Benefits of the program are tied to the land, so the contract specifies which land is in the program and whatever conditions may apply.

Land eligible to enter into a contract included:

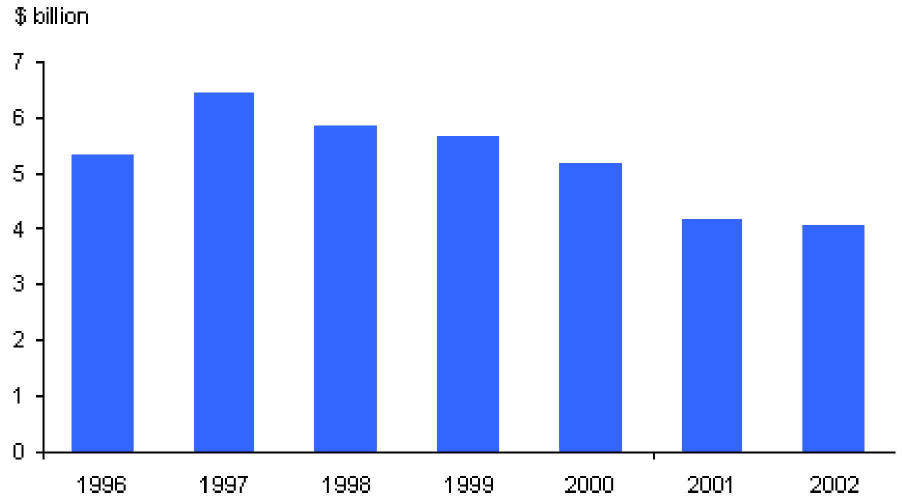
- land enrolled in acreage reduction programs (crop acreage base under the former deficiency payment program) for any of the crop years 1991 through 1995;
- land planted or considered planted to program crops under program rules (certified acreage); and
- land that had been enrolled in the Conservation Reserve Program (CRP) and had a crop acreage base associated with it. This land leaving the CRP may be added to an existing PFC or enrolled in a new PFC at the beginning of a fiscal year.

Planting flexibility. Farmers are given almost complete flexibility in deciding what crops to plant. Participating producers are permitted to plant all cropland acreage on the farm to any crop, as long as they comply with certain conservation and wetland provisions. There are some limitations, however, related to the planting of fruits and vegetables on contract acreage.

Contract payments. Under the program, farmers receive production flexibility contract payments for 7 years (1996-02). Payments are based on enrolled contract acreage and generally are not related to current plantings.

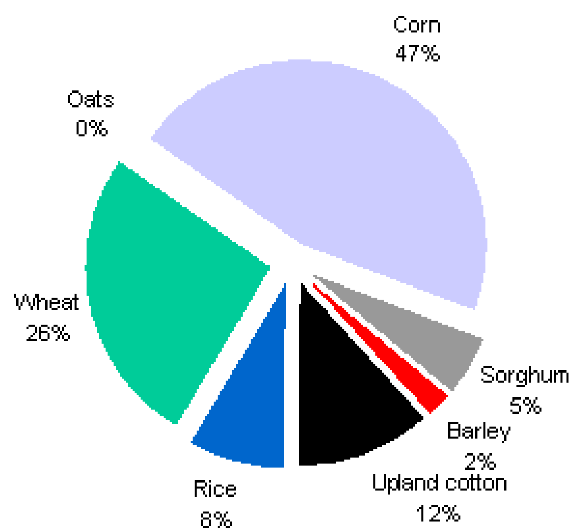
Cumulative outlays for contract payments for fiscal 1996-2002 were capped at slightly over $36 billion. Payment levels are allocated among contract commodities according to fixed percentages specified in the 1996 Farm Act. Adjustments were made in 1996 and 1997 for payments of previous years' deficiency payments that occurred in those years and repayments of unearned deficiency payments that were due in those years. A further adjustment of $8.5 million annually was added to rice payments starting in fiscal 1997. Actual total PFC payments are lower than the budgeted amounts, reflecting payment limits.

Production flexibility contract payments



Adjusted for prior-year earned deficiency payments paid in these years, repayments of unearned 1995 deficiency payments, and repayment of prior-year PFC payments.

Share of production flexibility contract payments



Average production of enrolled acreage over 1991-95 base period.
Source: 1996 Fair Act.

Payment rates for each commodity are derived by dividing the commodity's total annual contract payments (before payment limitation reductions) by the corresponding total payment quantity on all enrolled acreage for the commodity. PFC payments to individual farmers are then based on the derived payment rate times the payment quantity on the farm. The payment quantity equals 0.85 times the payment yield times the contract acreage. Payments are made on a fiscal year basis.

Through fiscal year 1998, a 50-percent advance payment could be made, on either December 15 or January 15 of the fiscal year, at the option of the owner or producer. The Emergency Farm Financial Relief Act, enacted in August 1998, allowed farmers to receive fiscal year 1999 PFC payments earlier. At the producer's option, 1999 PFC payments could be received in one payment or in two equal payments at any time during the fiscal year. This payment timing option was extended through fiscal 2002 in the 2000 Appropriations Act.

Payment limits. Annual contract payments under the 1996 Farm Act are limited to $40,000 per "person" (except for additional payments that result from repayment of prior-year advanced deficiency payments).

Under the "three-entity rule" an individual can receive $40,000 directly plus up to $20,000 indirectly from each of two additional entities that each receive payments directly as a separate entity. Thus the three-entity rule increases the total payments that an individual may receive directly and indirectly to $80,000. Payments received directly by a "person" are sent directly to the "person" by the Government. Payments are received indirectly when a "person" receives a share of payments that were sent directly to another "person" by the Government.

For more information and specific program details see:

- Provisions of the Federal Agriculture Improvement and Reform Act of 1996 (September 1996)
- Provisions of the 1996 Farm Bill, special *Agricultural Outlook* supplement (April 1996)

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Briefing Rooms [ARCHIVE]

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- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Marketing Assistance Loan and LDP Programs

The Farm Service Agency (FSA) administers commodity loan programs with marketing loan provisions for wheat, rice, corn, grain sorghum, barley, oats, upland cotton, and oilseeds through the Commodity Credit Corporation (CCC). The CCC offers nonrecourse loans for extra-long-staple (ELS) cotton, tobacco, peanuts, and sugar that provide market price support. These commodities are not eligible for marketing loan provisions or loan deficiency payments. Temporary recourse loan programs were established for mohair, wool, and honey for 1 or more years in the emergency legislation of 1998-2000.

Commodity loans. Commodity loan programs allow producers of designated crops to receive a loan from the government at a crop-specific loan rate per unit of production by pledging production as loan collateral. After harvest of the crop, a farmer may obtain a loan for all or part of the new crop. Loans may be taken out at any time from harvest to the following March or the following May, depending on the commodity. However, most loan placements occur shortly after harvest when prices tend to be seasonally low.

For production put under loan and pledged as collateral, the farmer receives a per-unit amount equal to that year's applicable loan rate. Under the loan program, the producer must preserve the quality of the crop designated as loan collateral in an approved storage facility. The producer may repay the loan (plus interest) at any time during the loan period, which is usually 9 months for most crops (10 months for cotton).

For contract commodities (wheat, feed grains, rice, and upland cotton), a producer must have entered into a production flexibility contract to be eligible for nonrecourse marketing assistance loans on those commodities. Any production of a contract commodity by a producer who has entered into a production flexibility contract is eligible for loans. All oilseed production is eligible. Producers must comply with applicable conservation and wetland protection requirements.

Nonrecourse loans may be

- repaid at the loan rate plus interest costs (CCC interest cost of borrowing from the U.S. Treasury plus 1 percentage point);
- repaid at the alternative loan repayment rate, if lower than the loan rate plus accrued interest; or
- forfeited to the CCC at loan maturity.

Loan rates. Loan rates are established annually at the national level for each covered commodity based on formulas, statutory limits, and in some cases, discretionary authority of the Secretary of Agriculture. National loan rates for commodities, except rice, are then adjusted to the local level (county or warehouse) to reflect spatial differences in markets, transportation costs, and other factors.

- The formula loan rate for wheat, corn, and soybeans is 85 percent of the average price in the 5 previous marketing years, excluding the highest and lowest prices for those years, subject to statutory limitations. These limits are a maximum of $2.58 per bushel for wheat, $1.89 for corn, and $5.26 for soybeans. Loan rates for other feed grains (grain sorghum, barley, and oats) are based on the formula for corn.
- A minimum of $4.92 per bushel is set for soybeans.
- When formula loan rates are below the maximums, Secretarial discretion permits the loan rates for these crops to be set at any level from the maximum to the formula loan rates.
- The Secretary can reduce the loan rates for wheat and corn by up to 5 percent depending on projected stocks-to-use ratios

for those crops.
- Loan rates for minor oilseeds are based on a similar 85-percent moving-average formula for sunflower seed prices, but loan rates for all minor oilseeds must be set between $0.087 and $0.093 per pound.
- The loan rate for rice is fixed at $6.50 per hundredweight.
- The upland cotton formula is the most complex and includes consideration of world prices, but may not be less than $0.50 nor more than $0.5192 per pound.
- ELS cotton is subject to a maximum of $0.7965 per pound.

Table 1-Marketing assistance loan rates, 2001/02 (dollars per unit)

Corn (bu.)	$1.89
Grain sorghum (bu.)	$1.71
Barley (bu.)	$1.65
Oats (bu.)	$1.21
Wheat (bu.)	$2.58
Rice (cwt.)	$6.50
Upland cotton (lb.)	$0.5192
Soybeans (bu.)	$5.26
Minor oilseeds (cwt.)	$9.30

Nonrecourse loans. Before marketing loan provisions (discussed below) were implemented to repay the loan, the farmer could repay the loan principal plus accrued interest charges. Alternatively, rather than repaying the loan, the farmer could choose to default on the loan at the end of the loan period, keep the loan principal and forfeit ownership of the commodity to the government. If market prices were below the loan rate when the loan matured, the farmer would benefit from defaulting on the loan. If market prices were above the loan rate, but below the loan rate plus interest, keeping the loan proceeds and forfeiting the crop would also make sense economically, because the cost of repaying the loan (loan rate plus interest) would be greater than the market value of the crop. Price support to the sector was provided by the acquisition of crops by the Government through loan program forfeitures, which essentially removed crops from the marketplace. The loans were called "nonrecourse" because the producer could discharge debt in full by forfeiting or delivering the commodity to the Government. The farmer faced no penalty for loan defaults.

Prior to the 1996 Farm Act, CCC release triggers kept forfeited commodities in CCC ownership until market prices reached statutorily prescribed, formula-level release values. These CCC release levels were eliminated with passage of the 1996 Farm Act. The CCC currently has a policy of selling forfeited commodities as soon as possible.

Marketing loan provisions. Under a marketing loan program (implemented in 1985/86 for rice and cotton, in 1990/91 for oilseeds, and in 1992/93 for wheat and feed grains), farmers can use the loan program as described above. However, as implemented, marketing loan provisions were designed to minimize government costs by allowing repayment of commodity loans at less than the original loan rate. This provision decreases the loan program's potential effect of supporting market prices because stock accumulation by the government through loan defaults is reduced. Rather, farmers are given economic incentives to retain ownership of their crops and sell them (hence the term "marketing loan") rather than default on loans and forfeit ownership of their crops to the Government. In so doing, marketing loans prevent a costly buildup of publicly owned stocks and allow prices to vary in response to market conditions.

Producers can receive marketing loan benefits in two ways. In the first, farmers place their crop under the commodity loan program, as described above, by pledging and storing some of their production as collateral for the loan, and receiving a per-unit loan rate for the crop. When market prices are below the loan rate, farmers are allowed to repay the loan at a lower loan repayment rate. Marketing loan repayment rates are based on local, posted county prices (PCPs) for wheat, feed grains, and oilseeds or the prevailing world market price for rice and upland cotton. PCPs are calculated (and posted) by the government each day the Federal Government is open, except for minor oilseeds which are calculated weekly. Prevailing world market prices for rice and upland cotton are calculated weekly. When a farmer repays the loan at a lower PCP or prevailing world market price, the difference between the loan rate and the loan repayment rate is called a marketing loan gain and represents a program benefit to producers. In addition, any accrued interest on the loan is waived. If a marketing loan gain is received on a given collateralized quantity, that quantity is not eligible for further loan or LDP benefits.

Loan deficiency payments (LDPs). Alternatively, eligible farmers may choose to receive marketing loan benefits through direct loan deficiency payments (LDPs) when market prices are lower than commodity loan rates. The LDP option allows the producer to receive the benefits of the marketing loan program without having to take out and subsequently repay a commodity loan. The LDP rate is the amount by which the loan rate exceeds the posted county price or prevailing world market price, and thus is equivalent to the marketing loan gain that could alternatively be obtained for crops under loan. If an LDP is paid on a portion of the crop, that portion cannot subsequently be used as collateral for a loan.

Payment limits. The payment limit on marketing loan gains and loan deficiency payments was $75,000 per person, per crop year, through the 1998 crop, and the three-entity rule was retained. The FY2000 and FY2001 Appropriations Acts raised this limit to $150,000 for 1999 and 2000 crops.

Commodity certificates. Commodity certificates can be purchased at the posted county price or at the effective adjusted world price for rice or upland cotton. The certificates are available to producers for use in acquiring 1998 through 2000 crop collateral pledged to the CCC for a commodity loan.

For specific program details see:

- Provisions of the Federal Agriculture Improvement and Reform Act of 1996 (September 1996)
- Provisions of the 1996 Farm Bill, special *Agricultural Outlook* supplement (April 1996)

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Briefing Rooms [ARCHIVE]

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Contents:

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Special Program Provisions for Upland Cotton

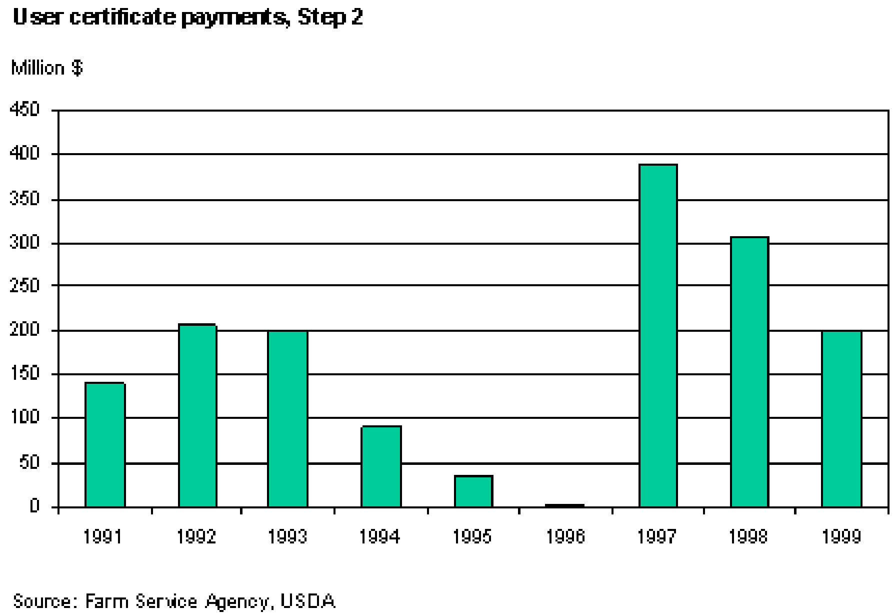
Special marketing provisions are authorized to keep U.S. upland cotton competitive on the world market. These competitiveness provisions are known as Step 1, Step 2, and Step 3. The provisions also include a limited global import quota.

Step 1: Further reductions in loan repayment rates are permitted. Step 1 adjustments may be made by the Secretary of Agriculture when the adjusted world price (AWP) of cotton is less than 115 percent of the upland cotton loan rate, and the average U.S.-Northern Europe price quotation exceeds the average Northern Europe price quotation.

- The U.S.-Northern Europe price is the weekly (Friday-Thursday) average price quotation for the lowest priced U.S. upland growth, as quoted for Middling (M) 1-3/32-inch cotton, delivered c.i.f. (cost, insurance, freight) Northern Europe.
- The Northern Europe price is the weekly average of world price quotes for the five lowest priced growths of upland (M 1-3/32 inch) cotton delivered c.i.f. Northern Europe (as defined in section 134 of the 1996 Farm Act).

Step 2: User marketing certificates or cash payments are made to domestic users and exporters. Step 2 payments are issued to exporters and domestic mill users of U.S. upland cotton in a week following a consecutive 4-week period when the lowest U.S.-Northern Europe price quotation exceeds the Northern Europe price quotation by more than 1.25 cents per pound, and the adjusted world price (AWP) does not exceed 134 percent of the U.S. loan rate. Prior to October 1998, the 134-percent threshold was 130 percent. Payments are made in cash or certificates to domestic users on documented raw cotton consumption, and to exporters on documented export shipments, at a payment rate equal to the difference between the U.S. price and the Northern Europe price during the fourth week of the period, minus 1.25 cents per pound.

The 1996 Farm Act capped total expenditures for cotton user marketing certificates during fiscal years 1996-2002 at $701 million, which was depleted by mid-December 1998. The program was reinstated in October 1999 when the 2000 Appropriations Act removed the program's expenditure cap.



Step 3: Special import quotas are permitted to temporarily increase cotton supplies. Step 3, as amended, authorizes the President to announce a special import quota for upland cotton if for any consecutive 4-week period the weekly average U.S.-Northern Europe price quotation (adjusted for any certificate value in effect, unless U.S. supplies are extremely tight) exceeds the Northern Europe price quotation by more than 1.25 cents per pound. The quota equals 1 week's domestic mill consumption of upland cotton at the seasonally adjusted average rate during the most recent 3 months for which data are available.

A **limited global import quota** is authorized whenever the average monthly spot price of base quality upland cotton exceeds 130 percent of the average price during the preceding 36 months. The quota equals 21 days of domestic mill consumption of upland cotton at the seasonally adjusted average rate during the most recent 3 months for which data are available.

A special import quota cannot be established if a limited global import quota is in effect. In addition, the special import quota and the limited global import quota quantities are considered to be "in quota" for purposes of tariff-rate quota provisions of trade agreements, so they are not subject to over-quota tariffs.

Special Program Provisions for ELS Cotton

Special marketing provisions are also authorized to keep U.S. extra-long staple (ELS) cotton competitive on the world market. The ELS competitiveness program, which began in October 1999, is similar to the upland Step 2 program.

The **ELS competitiveness program** issues payments to exporters and domestic mill users of U.S. ELS cotton in a week following a consecutive 4-week period when:

- The lowest Friday-Thursday average for foreign growths of ELS cotton, quoted c.i.f. Northern Europe, (adjusted to U.S. quality and location) is less than the Friday-Thursday average domestic spot price quotation for U.S. ELS cotton (grade 3, staple 44, micronaire 3.5 or higher, uncompressed, F.O.B. warehouse), and
- The lowest foreign quote does not exceed 134 percent of the U.S. ELS loan rate.

Payments are made in cash or certificates to domestic users on documented raw cotton consumption, and to exporters on documented export shipments, at a payment rate equal to the difference between the U.S. price and the Northern Europe price during the fourth week of the period.

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Farm and Commodity Policy: 1996-2001 Commodity Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Sugar Program

The two main elements to the U.S. sugar program are the price support loan program and the tariff-rate quota (TRQ) import system. The loan program supports the U.S. price of sugar. The tariff-rate quota system ensures that there is an adequate supply of sugar at reasonable prices for both consumers and producers. U.S. commitments under international trade agreements, including the North American Free Trade Agreement (NAFTA), affect the level and allocation of the TRQs. The United States also operates the Refined sugar and Sugar-Containing Products Re-Export Programs to allow U.S. refiners to be competitive in global refined and sugar-containing products markets.

Sugar loan program. The primary policy tools available to the USDA to assist sugarcane and sugarbeet producers are contained in the 1996 Farm Act. The U.S. sugar program provides for USDA to make loans available to processors of domestically grown sugarcane at a rate of 18 cents per pound and to processors of domestically grown sugarbeets at the rate of 22.9 cents per pound for refined sugar.

Loans are taken for a maximum term of 9 months and must be liquidated along with interest charges by the end of the fiscal year in which the loan was made. Unlike most other commodity programs, sugar loans are made to processors and not directly to producers. This is because sugarcane and sugar beets, being bulky and very perishable, must be processed into sugar before they can be traded and stored. To qualify for loans, processors must agree to provide payments to producers that are proportional to the value of the loan received by the processor for sugar beets and sugarcane delivered by producers. USDA has the authority to establish minimum producer payment amounts.

A nonrecourse sugar loan program was authorized in the Food and Agriculture Act of 1981 and continued in subsequent farm acts. The nonrecourse aspect means that when the loan matures, the USDA must accept sugar pledged as collateral as payment in full in lieu of cash repayment of the loan, at the discretion of the processor.

The 1996 Farm Act authorized recourse loans for sugar for the first time. Sugar program loans are required to be recourse in years when the tariff-rate quota is established at or below 1.5 million short tons, raw value (STRV), but such loans convert to nonrecourse loans if the tariff-rate quota is increased above 1.5 million STRV for that year. Sugar loans are issued as nonrecourse loans as long as the raw sugar TRQ is set higher than 1.5 million tons.

Sugar loans have been nonrecourse in all years since the implementation of the 1996 Farm Act. The fiscal 2001 Agricultural Appropriations Act amended the 1996 Farm Act to eliminate the trigger for nonrecourse loans. Thus, USDA will be able to offer nonrecourse loans for the 2002 and 2003 sugar marketing years to processors even if the sugar TRQ is established at a level of 1.5 million short tons or less.

In order to discourage forfeiture of nonrecourse loans, the resulting sugar price must be high enough to cover the loan principal plus interest and other expenses. Cane processors share interest expenses with their growers, but beet processors do not and must therefore recover the entire interest expense of loan repayment in their share of the sugar's selling price. Cane processors incur transportation and distribution costs in moving sugar to the refiner and also face location discounts required by some refiners. These additional costs must be included in calculating the minimum price to avoid forfeiture. Because beet sugar is refined sugar requiring no further processing, the minimum price for beet sugar does not include transportation adjustments. However, because beet sugar is normally sold at a 2-percent cash discount to cane sugar, this amount must be added to arrive at the minimum price.

Also, the 1996 Farm Act required that processors who forfeit sugar pledged as collateral for a nonrecourse loan face a penalty of 1 cent a pound for raw cane sugar and 1.072 cents a pound for refined beet sugar. Processors would have to consider these penalties when deciding whether to forfeit sugar to the Commodity Credit Corporation (CCC). For fiscal 2000, the minimum raw sugar market price to discourage forfeiture was about 19.6 cents a pound, while the corresponding minimum refined sugar price was about 24.84 cents a pound.

Prior to the 1996 Farm Act, the Sugar Program had to be administered at no net cost to the taxpayer. The "no net cost provision" meant that the CCC was barred from accumulating sugar acquired under loan rate operations. The means of accomplishing the mandate were to adjust sugar import quotas or use domestic marketing quotas. However, the "no net cost" provision was not included in the 1996 Farm Act, and the marketing allotment authority was not renewed.

Sugar Payment-in-Kind Program. The Sugar Payment-in-Kind Program (PIK) offers sugar beet farmers the option of diverting a portion of their crop from production in exchange for receiving CCC sugar held in inventory. In August 2000 and in August 2001, the Secretary of Agriculture activated the PIK program to address large sugar supplies and low prices in the domestic sugar market in 2000 and 2001.

Under the PIK program, which is authorized by the 1985 Farm Act, producers offer bids for the amount of CCC inventory they would accept in exchange for forgoing harvest of the number of planted acres they specify. Bids are subject to a per-acre bid cap based on a producer's average sugar production over the previous 3 years, and each farmer is limited to a value of $20,000 in PIK sugar payments. The PIK program was intended to reduce the amount of sugar in CCC inventories, the amount of sugar forfeitures, and overall CCC storage costs.

Marketing assessments. Beginning with fiscal 1997, sellers of domestic raw cane sugar were required to pay to the Treasury an assessment of 0.2475 cents per pound, raw value, of sugar sold. Sellers of domestic refined beet sugar were required to pay an assessment of 0.2654 cents per pound. Sugar marketing assessments were paid on all processed, domestically grown sugar for fiscal 1997 through 1999, but were eliminated for FY 2000 and 2001 by the 2000 Agriculture Appropriations Act.

Tariff-rate quotas. A tariff rate quota (TRQ) is a two-tiered tariff for which the tariff rate charged depends on the volume of imports. The low-tier (in-quota) tariff is charged on imports within the quota volume. The high-tier (over-quota) tariff is charged on imports in excess of the quota volume.

The United States establishes separate TRQs for imports of raw cane sugar and for imports of certain other sugars, syrups, and molasses. Authority to establish the TRQs is under Additional U.S. note 5(a)(I) to chapter 17 of the Harmonized Tariff Schedule (HTS). Each year, the Secretary announces the quantity of sugar that may be imported at a nominal tariff rate. Any additional annual quantity may be imported at a higher tariff rate.

In the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the United States agreed to import a minimum quantity of raw and refined sugar of 1.256 million STRV, each marketing year (October to September). Included in this amount is a commitment to import at least 24,251 STRV of refined sugar.

The raw cane sugar TRQ is allocated to 40 countries based on a representative period (1975-81) when trade was relatively unrestricted. An additional quantity of sugar is made available to Mexico to satisfy U.S. obligations under the NAFTA.

The refined sugar tariff rate quota includes several components, including specific allocations to Canada, Mexico, and a quantity of refined sugar that is available to all countries on a first-come, first-served basis. The first-come, first-served section of the refined sugar TRQ also includes a category for specialty sugars such as organic sugars.

In addition, the United States administers TRQs on imports of various sugar-containing products that originally had been subject to absolute quotas under Section 22 of the Agricultural Adjustment Act of 1933. There are three TRQs on imports of sugar-containing products from Mexico and six TRQs on imports of the same products from countries other than Mexico.

Re-export programs. The United States also operates two re-export programs to help U.S. sugar refiners and manufacturers of sugar-containing products compete in world markets. The Refined Sugar Re-Export Program establishes a license against which a refiner can import world-priced sugar either for refining and export as refined sugar, or for sale to licensed manufacturers of sugar-containing products. The Sugar-Containing Products Re-Export Program allows U. S. participants to buy sugar from any of the refiner participants for use in products that will be exported onto the world market. Imports under these two programs are not subject to the sugar TRQs.

North American Free Trade Agreement and U.S-Mexico sugar relations. The North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994. The original agreement contained provisions that related to trade in sugar. In order to secure U.S. congressional support for the NAFTA, the U.S. and Mexican Governments exchanged side-letters that altered the sugar provisions of the original NAFTA text. Although Mexico has since rejected the validity of the side-letter agreement, the United States maintains that the side-letter provisions supersede those of the original NAFTA agreement.

The original provisions of the NAFTA subjected Mexico's sugar exports to the United States to several conditions.

- During the 15-year transition period, Mexican exports were to be limited to no more than Mexico's net production surplus of sugar - domestic sugar production less domestic sugar consumption, but, at a minimum, Mexico was allowed to ship 7,258 metric tons of raw cane sugar duty-free.
- For the first 6 years of NAFTA, duty-free access was limited to no more than 25,000 metric tons, raw value. In year 7, the maximum duty-free access quantity was to become 150,000 metric tons, and, in each subsequent year, the maximum duty-free quantity was to increase by 10 percent.
- Importantly, the NAFTA provided that these maximums could be exceeded if one of two conditions prevailed. The first condition required that Mexico achieve net production surplus status for 2 consecutive marketing years. The second condition specified that Mexico be a net surplus producer for the first year and be projected as a net surplus producer in the second year unless it was subsequently determined, contrary to the projection, that Mexico was not a net surplus producer for that year.

The side-letter agreement changed key sugar provisions of the NAFTA. The agreement stipulates that projected Mexican sugar production would have to exceed Mexico's consumption of both sugar and HFCS for Mexico to be considered a net surplus producer. For the first 6 years of the NAFTA, Mexico was entitled to duty-free access for sugar exports to the United States in the amount of its projected net surplus production, up to a maximum of 25,000 metric tons. If Mexico was not a net surplus producer, it still would have duty-free access for 7,258 metric tons. From fiscal 2001 through 2007, Mexico will have duty-free access to the U.S. market for the amount of its surplus as measured by the formula, up to a maximum of 250,000 metric tons.

The NAFTA specifies a declining high-tier tariff schedule for raw and refined sugar over the transition period to duty-free sugar trade in calendar year 2008. For 2001 the raw sugar tariff is 10.58 cents a pound, and the refined sugar tariff is 11.21 cents a pound. The raw sugar tariff drops about 1.5 cents each year, and the refined sugar tariff drops about 1.6 cents a year. Both rates reach zero in calendar year 2008.

The economic incentive for Mexico to export high-tier tariff raw sugar exists if a price threshold is less than or equal to the U. S. sugar price. The threshold is equal to the sum of the world price of sugar (New York Number 11 Contract), the high-tier NAFTA tariff rate, unit marketing costs (about 1.1 cents a pound for raw sugar), plus any marketing premiums. The threshold price is compared to the U.S. price for entry in Gulf ports. This U.S. price runs about 1 cent lower than the New York Number 14 contract price. If the threshold is below the U.S. Gulf price, then Mexico would be encouraged to export sugar to the United States up to that point where the marginal returns from exporting to the United States and the world markets are equalized. If the return to exporting to the United States is at all levels higher than shipping to the rest-of-the-world, then Mexico ships all exportable sugar to the U.S. market.

The following provide further information about U.S. sugar policies:

- Provisions of the Federal Agriculture Improvement and Reform Act of 1996 (September 1996)
- Provisions of the 1996 Farm Bill, special *Agricultural Outlook* supplement (April 1996)
- Auctioning Tariff-Rate Quotas for U.S. Sugar Imports, Economic Research Service, USDA (May 1998)

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 1996-2001 Commodity Provisions

Peanut Program

The peanut program is a two-tier price support program based on nonrecourse loans for quota peanuts and additional peanuts. Price support is provided through nonrecourse warehouse storage loans to approved grower marketing associations acting for farmers. If growers approve marketing quotas, the Secretary must establish a national poundage quota for each marketing year between 1996 and 2002 at a level equal to estimated domestic edible and related uses.

Support levels. The support level for quota (domestic edible use) peanuts is fixed by the 1996 Farm Act at $610 per short ton. The loan rate level for additional peanuts must be set to ensure no losses by the Commodity Credit Corporation (CCC) from the sale or disposal of such peanuts, taking into consideration the demand for peanut oil and peanut meal, expected prices of other vegetable oils and protein meals, and the demand for peanuts in foreign markets. The marketing year (MY) 2000 support level for "additional" (nonquota) peanuts was $132 per short ton.

Program operations. Three regional grower associations administer the price support program. The intent is to operate the peanut program at no net cost to CCC. The associations must establish at least six separate pools; one for each of the three segregations of quota peanuts and one for each of the three segregations of additional peanuts. Each marketing association must maintain separate, complete, and accurate records for each loan pool established. Profits are distributed to each grower in proportion to the dollar value of peanuts placed in the pool by the grower. Recovery of losses is determined in the following order of priority:

- individual grower profits transferred from additional pools,
- profits from any producer from the sales of loan stocks for domestic and export edible use,
- sales of loan stock peanuts, marketing assessments collected from producers,
- profits from quota pools in other areas,
- profits in additional pools in other areas,
- marketing assessments collected from handlers, and
- increased marketing assessment on quota peanuts.

Marketing assessments. A nonrefundable marketing assessment is set at 1.2 percent of the loan rate on all peanuts. In a private sale by the producer to wholesale dealers, the first purchase must collect a portion of the assessment equal to 0.65 percent of the applicable national average loan rate from the producer. The purchaser is required to remit the total assessment to the Government, supplying the additional amount of the assessment from the purchaser's own funds. In the case of private marketings by producers directly to consumers, or for sales outside the continental United States, the producer is responsible for the entire amount of the assessment.

For specific program details see:

- Provisions of the Federal Agriculture Improvement and Reform Act of 1996 (September 1996)
- Provisions of the 1996 Farm Bill, special *Agricultural Outlook* supplement (April 1996)

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 1996-2001 Commodity Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Dairy Programs

Dairy policy in the United States includes both Federal and State programs. The two major Federal dairy programs currently in place are

- the federal milk marketing orders and
- the milk price support program.

A multi-state dairy policy organization, the Northeast Interstate Dairy Compact, operates under authority granted in the 1996 Farm Act. General Government programs designed to assist international trade and provide domestic and international food aid also affect the dairy industry.

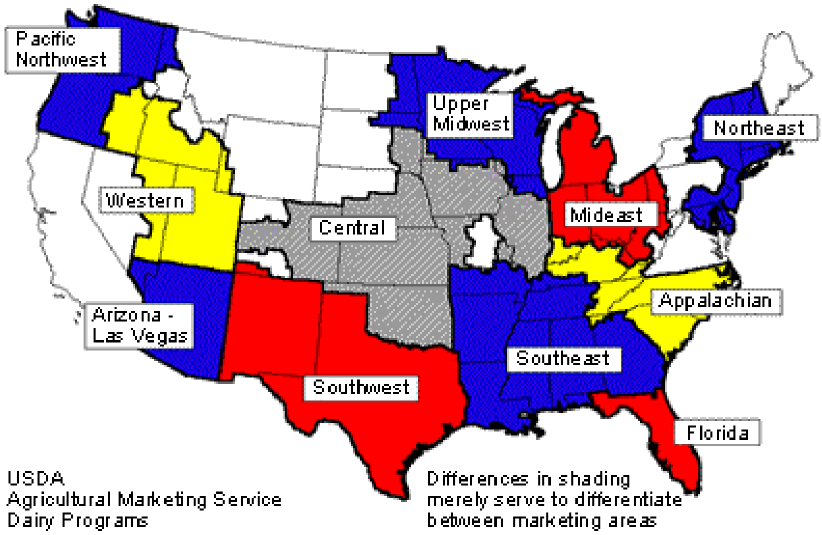
Price support programs. The current milk price support-purchase program started with the Agricultural Act of 1949 and has been modified modestly several times. The Commodity Credit Corporation (CCC) will buy at the support purchase prices any butter, cheddar cheese, or nonfat dry milk that meets specifications. Support purchase prices are set to ensure that manufacturing milk prices average at least the support price for milk.

Under the terms of the 1996 Farm Act, the milk support price was reduced from $10.35 per hundredweight (cwt.) in 1996 to $9.90 per cwt. in 1999. The purchase program was to have ended on December 31, 1999, but was extended to the end of 2001 at $9.90 per cwt.

Dairy Export Incentive Program. The Dairy Export Incentive Program (DEIP) pays cash bonuses that allow dairy product exporters to buy at U.S. prices and sell abroad at prevailing international prices. DEIP removes products from the domestic market, helps develop export markets, and plays an important part in milk price support. As a member of the World Trade Organization (WTO), the United States is committed to reducing subsidized exports, in both quantity and budgetary expenditure terms. This does not preclude the use of DEIP. In fact, the 1996 Farm Act directed the Secretary of Agriculture to use the program to the maximum extent allowable under WTO commitments.

Federal milk marketing orders. Federal milk marketing orders were authorized by the Agricultural Marketing Agreement Act of 1937 and have been modified many times since. Milk marketing orders are intended to help establish orderly marketing conditions for the benefit of both milk producers and dairy product consumers. A classified pricing system and pooling are the two key elements of the milk marketing orders used for meeting their objectives. The milk marketing orders define the relationship between prices of fluid and manufactured dairy products and a geographic price structure, sometimes called the price surface.

The 1996 Farm Act called for consolidation and reform of the Federal milk marketing orders. The reforms implemented January 1, 2000, established 11 Federal milk marketing orders (reduced from the 33 in effect in 1996), put new methods for determining class prices into effect, and made some of the language of the orders more uniform.



Northeast Interstate Dairy Compact. The Northeast Interstate Dairy Compact was authorized in the 1996 Farm Act. An interstate compact is a mechanism that delegates certain Federal powers (in this case, regulation of prices of milk in beverage products [Class 1] moving in interstate commerce) to a group of States. The Compact covers New England (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut) but could be expanded to other Northeast States with congressional approval. The Compact was to expire when Federal milk marketing order reforms were implemented, but authority for the compact was extended to September 30, 2001.

Dairy Market Loss Assistance. Direct cash payments were authorized for dairy farmers facing greatly reduced milk prices in 1999, 2000, and 2001. The Agriculture, Rural Development, Food and Drug, and Related Agencies Appropriations Acts of 1999, 2000, and 2001 provided $200 million, $125 million and $673 million, respectively in those years, for direct payments to dairy producers.

For specific program details see:

- Provisions of the Federal Agriculture Improvement and Reform Act of 1996 (September 1996)
- Provisions of the 1996 Farm Bill, special *Agricultural Outlook* supplement (April 1996)
- Dairy Programs, Agricultural Marketing Service, USDA.
- Dairy Export Incentive Program (DEIP), Foreign Agricultural Service, USDA.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: 1996-2001 Commodity Provisions

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Emergency and Supplemental Assistance

Ad hoc emergency assistance has played a prominent role in U.S. agricultural policy. Direct payments have been provided to producers to partially offset financial losses due to severe weather and other natural disasters (e.g., drought or flood), or stressful economic conditions (e.g., low commodity prices or unusual economic events, such as condemnation of milk or animals or business bankruptcy). Supplemental assistance was included in five legislative packages from 1998 through 2001:

- Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2002 (November 2001)
- Crop Year 2001 Agricultural Economic Assistance Act (August 2001)
- Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2001 (October 2000)
- Agricultural Risk Protection Act of 2000 (June 2000)
- Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (October 1999)
- Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 1999 (October 1998)

Fiscal year 2002 emergency assistance to apple producers was provided in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2002. Coverage included:

- $75,000,000 of CCC funds to apple producers as market loss assistance payments for the 2000 crop.

The Crop Year 2001 Agricultural Economic Assistance Act provided $5.5 billion of economic assistance to U.S. farmers.

- $4.6 billion in supplemental market loss payments for program crop farmers (corn, wheat, cotton, rice, barley, oats, and sorghum),
- $424 million for soybean and other oilseed producers,
- $159 million for specialty crop producers (distributed by states that will receive block grants),
- $129 million for tobacco farmers,
- $54 million for peanut farmers,
- $85 million for cottonseed producers and first handlers,
- $17 million for wool and mohair producers,
- $10 million for domestic emergency food assistance,
- increase in maximum loan deficiency payments and marketing loan gains to farmers from $75,000 to $150,000 for the 2001 crop year.

Fiscal year 2001 emergency disaster assistance was provided in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2001. Coverage included:

- $80 million for the Emergency Conservation Program to restore conservation structures,
- $13 million for the Federal Crop Insurance Corporation to provide premium discounts to purchasers of crop insurance reinsured by the FCIC,

- $110 million for the Emergency Watershed Program to repair damages due to flooding,
- $200 million for the Rural Community Advancement Fund to assist communities in depressed areas, with high energy costs, who experienced major natural disasters, with water and waste grants and loans, etc.,
- $35 million for conservation technical assistance for CRP and WRP,
- $19 million for disease loss compensation,
- $673 million for supplemental assistance to dairy producers of an amount equal to 35 percent of the reduction in market value of milk production in 2000,
- $490 million for livestock assistance to be administered using criteria established to carry out the 1999 livestock assistance program,
- $117 million to expand the area that can be enrolled in the Wetlands Reserve Program,
- $2.4 million for assistance to Vermont sheep producers for losses due to public health reasons,
- $58 million to compensate commercial citrus and lime trees removed due to citrus canker,
- $100 million to compensate apple producers for market losses and $38 million to compensate apple/potato producers for quality losses due to fireblight or to natural disasters,
- $20 million for honey nonrecourse marketing assistance loans that can be repaid at the prevailing domestic price as determined by the Secretary or the producer may elect to receive loan deficiency payments in lieu of participation in the loan program,
- $10 million for livestock indemnity program for losses due to disasters, including fires and anthrax,
- $20 million for direct payments to wool and mohair producers,
- $1.6 billion for crop quantity, quality, or severe economic losses for 2000 crops, guidelines for similar programs in previous years with revised criteria for quality losses,
- $20 million for cranberry market loss and not less than $30 million to purchase cranberry juice concentrate and frozen cranberry juice,
- $2.5 million to capitalize a South Carolina grain dealers' indemnity fund,
- $6 million for technical assistance for Wildlife Habitat Incentives Program,
- $7.2 million to assist Hawaii's sugar transportation cooperative,
- $14 million for Emergency Watershed Program projects in selected States,
- $10 million for business and industry grants,
- $10 million for business and industry guaranteed loans,
- eliminates trigger provisions for sugar loans to become recourse if TRQ import levels fall below specified limits,
- raises the cap on LDPs for 2000 crops from $75,000 to $150,000,
- $20 million for payments to producers who were unable to market crops due to insolvency of a cooperative in California,
- $50 million to allow forfeitures of burley tobacco regardless of quality, and prohibits charging any costs incurred by the CCC against the no net cost tobacco account,
- $5 million for marketing loan gains and LDPs for producers who were prohibited from receiving payments because they were debtors (eligibility is limited to the time between March 21, 2000, and the date of enactment),
- $40 million for changes in eligibility criteria for the Food Stamp Program.

The Agricultural Risk Protection Act of 2000 reformed crop insurance and provided additional emergency assistance. Coverage included:

- $8.2 billion (over 5 years) for crop insurance reform. This included an 80 to 90 percent increase in insurance subsidies.
- $5.465 billion for marketing loss assistance (MLA) payments to compensate farmers for the loss of markets. MLA payments were equal to production flexibility contract payments paid to farmers in fiscal year 2000. These funds were disbursed in September 2000.
- $500 million for direct payments to oilseed producers in 2000 to compensate for market losses. All producers who are eligible for marketing assistance loans are eligible for assistance.
- $5 million for loans to apple producers suffering economic loss due to low prices,
- $61.6 million in payments to peanut producers,
- $340 million for payments to tobacco producers whose quantity of quota-eligible tobacco was reduced in 2000 from 1999 levels,
- $10.5 million for direct payments to wool and mohair producers,
- $100 million for payments to first handlers of cottonseed to alleviate problems caused by unusually low prices,
- Loan deficiency (LDP) like payments on grazed acreage of wheat, oats, and barley for the 2001 crop year,
- Producers of contract crops with no production flexibility contract are eligible for LDPs for the 2000 crop year, if they meet conservation requirements,
- $10 million for boll weevil eradication loans,
- $35.2 million for noninterest loans to producers of 1999 crop grass, forage, vegetable, and sorghum seed due to the bankruptcy of AgriBiotech,
- $24 million for loss of cropland due to flooding,
- The 2000 Agricultural Risk Protection Act also revised the Non-Insured Crop Disaster Assistance Program.

Fiscal Year 2000 assistance was provided in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000. Coverage included:

- $5.5 billion marketing loss assistance (MLA) payments to compensate farmers for the loss of markets for 1999 crops. MLA payments were equal to production flexibility contract payments paid to farmers in 1999.
- $475 million for direct payments to oilseed producers to compensate for market losses. Payments were based on production in 1997 or 1998 (or 1999 for new producers).
- $1.2 billion for crop loss assistance similar to the single-year program for 1998,

- $125 million for payments to dairy producers,
- $328 million for payments to tobacco producers,
- Doubling of payment limitations for loan deficiency payments and marketing loan gains from $75,000 to $150,000 for 1999 crops,
- $200 million for a livestock indemnity program to provide relief to producers whose livestock perished due to natural disaster,
- $400 million for a 1-year crop insurance buy-up incentive,
- $25 million for emergency disaster loans,
- Funding for Step 2 payments for cotton handlers (see Special Provisions for Upland Cotton),
- $30.50 per ton in support payments for quota peanuts and $8.75 for additional peanuts.

Emergency and market loss assistance was included in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 1999. It provided $5.936 billion of emergency assistance. Coverage included the following.

- Crop loss disaster assistance of
  - $1.5 billion for emergency assistance to farmers who suffered losses in 1998 due to natural disasters,
  - $875 million as compensation to farmers who suffered multi-year losses between 1994 and 1998,
  - $400 million of the emergency assistance and multi-year funds as an incentive for farmers to purchase higher levels of crop insurance coverage for 1999.

- Emergency livestock assistance totaling $200 million.

- Marketing loss assistance (MLA) payments totaling $2.857 billion were provided to compensate farmers for the loss of markets for 1998 crops. MLA payments were proportional to production flexibility contract payments paid to farmers in 1998. An additional $200 million was paid to dairy producers.

- Various miscellaneous provisions totaling $279 million.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Analyses of the 2002 Farm Act

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- **Analyses of the 2002 Farm Act**
- Farm and Commodity Policy Analysis

The 2002 Farm Act was signed into law by the President on May 13, 2002. Production flexibility contract payments are replaced by direct payments. The marketing loan program is retained, although loan rates were adjusted. Loan rates for wheat and feed grains were increased and the loan rate for soybeans was reduced. A new counter-cyclical payment is established to provide an improved farm income stabilization for producers of wheat, feed grains, rice, cotton, and oilseeds. Additional commodity program changes were made for dairy, sugar, and peanuts.

The 2002 Farm Bill: Provisions and Economic Implications (May 2002) presents an overview of the Act and a side-by-side comparison of 1996-2001 farm legislation and the 2002 Act. For selected programs, links are provided to additional analyses of key changes, program overview, and economic implications.

- Aggregate Analyses
- Impacts of Program Provisions
- Commodity Studies
- Related Background Research Studies

Aggregate Analyses

The 2002 Farm Act: Provisions and Implications for Commodity Markets (November 2002) provides an initial assessment of the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years. Results indicate that commodity market impacts are fairly small. Net farm income is projected higher than under a continuation of the 1996 Farm Act, largely reflecting an increase in government payments.

What Were the Estimated Costs of the 2002 Farm Act in May 2002? addresses confusion concerning cost estimates for the 2002 Farm Act following passage of the legislation. The confusion stemmed from the various ways government costs are measured and reported, and the projections on which they are based.

Perspectives on Impacts of the 2002 U.S. Farm Act (April 2003) compares analyses by USDA and the Food and Agricultural Policy Research Institute. The discussion covers potential effects of marketing loan provisions, and summarizes potential production influences of other commodity programs, including the new counter-cyclical payments. The main results of the two studies are similar and indicate relatively small overall impacts of the Act on commodity markets. Elimination of USDA's discretionary authority to set loan rates (based on historical market prices) could have additional market implications. (View PowerPoint presentation.)

Top of page

Impacts of Program Provisions

Effects of Reducing the Income Cap on Eligibility for Farm Program Payments (September 2007) evaluates changing the current $2.5-million income cap on eligibility for farm program payments to $200,000. This would affect a larger number of farm households but still only a small share of recipients. Based on IRS tax data for 2004, about 1.2 percent of all farm sole proprietors and about 2 percent of crop share landlords would be potentially subject to the proposed lower cap.

Relaxing Fruit and Vegetable Planting Restrictions (February 2007) finds that market effects would likely be limited and confined to specific regions and commodities. Eliminating these planting restrictions for commodity program participants might enable some producers to switch from program crops to fruit and vegetables in such areas as California, the upper Midwest and the coastal plain in the Southeastern States. For the full report, see Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets be Affected? (November 2006).

Michigan: A State at the Intersection of the Debate Over Full Planting Flexibility (February 2007) examines the impacts of elimination of the restriction on the planting of fruit and vegetable crops for a broad set of Michigan fruit, vegetable, and wild rice crops (dry beans, pickling cucumbers, processing tomatoes, fresh market tomatoes, squash, and blueberries). In many cases, barriers to entry would be high enough to significantly limit, or even prohibit, movement of program crop acreage into fruit and vegetable production, except for movement into dry bean production.

Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act (September 2005) evaluates farmers' decisions to designate base acres under the 2002 Farm Act. Findings suggest that decisionmakers responded to economic incentives in their designations of base acres by selecting those options that resulted in the greatest expected flow of program payments. See also Farm Program Acres for the county-level farm program and planted acreage data used in the report, which can be downloaded and mapped.

Valuing Counter-Cyclical Payments: Implications for Producer Risk Management and Program Administration (February 2007) illustrates an improved method for estimating counter-cyclical payment rates by accounting for the variability in market price forecast errors. Forecasters and producers can use the model to calculate the probability of having to repay advanced counter-cyclical payments.

Counter-Cyclical Payments Under the 2002 Farm Act: Production Effects Likely to be Limited (3rd quarter 2005) discusses how these payments can reduce price-related revenue risks faced by farmers, which may influence agricultural production decisions. However, several mitigating factors suggest that overall production effects of counter-cyclical payments through revenue risk reduction are likely to be limited.

Country-of-Origin Labeling: Theory and Observation (January 2004) examines the economic rationale behind the various claims about the effect of country-of-origin labeling and indicates that mandatory country-of-origin labeling would likely generate more costs than benefits. Voluntary country-of-origin labeling is an option, but food suppliers have generally discounted the U.S. label as a quality attribute that can attract sufficient consumer interest.

Report of the Commission on the Application of Payment Limitations for Agriculture (August 2003) found that current limits on program payments have little impact on aggregate payments or on farm income, farmland values, rural economies, or markets. The commission recommends that any substantial changes in payment limitations should take place with reauthorization of the next Farm Bill and that there should be an adequate phase-in period.

Marketing Loan Rates and Acreage Responses (4th quarter 2003) illustrates that if commodity markets return to a low price environment, fixed loan rates under the 2002 Farm Act could influence farmer decisions on the amount and mix of crops they plant. The 2002 Act sets commodity marketing assistance loan rates at designated levels, eliminating discretionary authority for the Secretary of Agriculture to lower loan rates based on historical market prices.

Updating Base Acres and Payment Yields (June 2003) indicates that about 63 percent of eligible farmland owners elected to use their historical Production Flexibility Contract (PFC) acreage (plus oilseeds, if applicable) for designating base acres under the 2002 Farm Act. The alternative was to update base acres using 1998-2001 plantings. Farmers who updated their base acres were provided choices for determining payment yields used to calculate the new counter-cyclical payments.

Top of page

Commodity Studies

Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing (July 2004) shows that the effects of dairy programs on markets are modest and that current dairy programs are limited in their ability to change the longterm economic viability of dairy farms. Other forces—technology, changing consumer demand, and changes in the marketing and processing sectors—while difficult to measure, are likely to have more impact. (This PDF file is 1.5 MB in size and may take time to download.)

Effects of U.S. Dairy Policies on Markets for Milk and Dairy Products (May 2004) examines the economic effects of the principal current dairy sector programs. The analytical results address the economic impacts of Federal milk marketing orders, direct payments to producers, price supports, and export programs.

U.S. Peanut Sector Adapts to Major Policy Changes (November 2004) analyzes pressures that led to a striking change in peanut policy in the 2002 Farm Act and how farmers have fared since. Although the circumstances of peanut producers are unique in many ways, their experience can offer insights for those contemplating similar policy changes for other crops, such as tobacco. For the full report, see Peanut Policy Change and Adjustment Under the 2002 Farm Act.

Forecasting the Counter-Cyclical Payment Rate for U.S. Corn: An Application of the Futures Price Forecasting Model (January 2005) provides background information on the model for corn, its data requirements, the forecast procedure, and forecast results for crop years 2003/04 and 2004/05. The Excel spreadsheet models for corn, soybeans, and wheat are available at Season-Average Price Forecasts.

U.S. Cotton Supply Response Under the 2002 Farm Act (February 2003) presents an overview of policy features of the 2002 Farm Act and their potential impacts on agricultural markets, focusing on upland cotton. Implications for 2003 upland cotton plantings are examined, using a forecasting model that bases land-use allocation decisions on farmers' expected net returns, including farm program payments.

Top of page

Related Background Research Studies

Managing Risk With Revenue Insurance (May 2007) discusses crop revenue insurance as a method farmers use to manage revenue variability that results from yield and price risks. Commodity-level revenue insurance, particularly for corn, soybeans, and wheat, has become a major part of the subsidized Federal crop insurance program. Whole-farm revenue insurance, based on combined revenue from all commodities produced on a farm, is a more broad-based approach, but is difficult to administer.

Whole-Farm Approaches to a Safety Net (June 2006) looks at the risk management potential of "whole-farm revenue" programs. A whole-farm program is based on revenues from all farming activities added together and is not linked to the production of particular commodities.

In Food and Agricultural Policy: Taking Stock for the New Century (September 2001), USDA sets out principles for equipping the food and agriculture sector to operate in a modern business environment that is globally integrated, highly competitive, technologically advanced, and environmentally conscious, and which must respond to increasingly sophisticated consumers. The success of the Nation's agriculture and food system is the result of farsighted planning, investment, and policy decisions.

Four farm programs (production flexibility contracts, crop insurance, marketing loans, and disaster assistance) are evaluated in U.S. Farm Benefits: Links to Planting Decisions and Agricultural Markets (October 2000). These programs affect markets primarily through economic incentives that alter production decisions. Adjustments in the marketplace resulting from these production impacts in turn affect prices, domestic use, and exports.

Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture (February 2003) indicates that production flexibility contract (PFC) payments under the 1996 Farm Act improved the well-being of participating farm households, with well-being defined to encompass income, wealth, and consumption, as well as labor/leisure choices. The decoupled payments—not tied to production or prices—have raised land values but have had minimal impact on production and, thus, on trade.

Decoupled Payments in a Changing Policy Setting (October 2004) analyzes the U.S. experience with decoupled payments in the Production Flexibility Contracts program from 1996 to 2002. The studies in this report consider the effects of decoupled payments on recipient households, and assess land, labor, risk management, and capital market conditions that can lead to links between decoupled payments and production choices.

Analysis of the U.S. Commodity Loan Program with Marketing Loan Provisions (April 2001) shows that the availability of marketing loan benefits to supplement producer revenues when crop prices are relatively low can influence planting decisions and acreage allocation and thus affect crop prices.

Top of page

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United States Department of Agriculture
Economic Research Service
The Economics of Food, Farming, Natural Resources, and Rural America

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Briefing Rooms [ARCHIVE]

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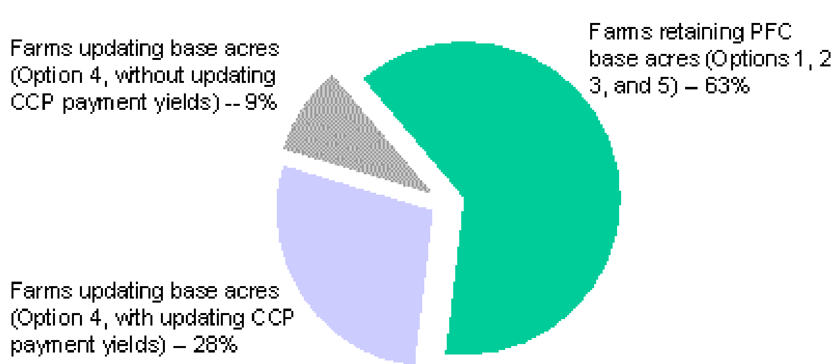
Updating Base Acres and Payment Yields

To be eligible to receive direct and counter-cyclical payments under the Farm Security and Rural Investment Act of 2002 (the 2002 Farm Act), a producer must sign an annual agreement every crop year. Owners of farms had until April 1, 2003 to establish (designate) base acres and payment yields for all commodities covered (see below). The 2002 Farm Act permits the updating of base acres from production flexibility contract (PFC) acreage used for the 1996 Farm Act. Base acres are used in determining direct payments and the new counter-cyclical payments (CCPs). Soybeans and other oilseeds were added to the program under the 2002 Farm Act, and acreage planted to these crops in 1998-2001 is available for inclusion in base acres.

Preliminary data indicate that about 63 percent of farmland owners elected to retain their historical PFC acreage for base acre designations (including adding oilseeds, if applicable) rather than update them using 1998-2001 plantings. These individuals apparently concluded that the expected benefits associated with retaining PFC acreage for base acres exceeded expected benefits associated with their average 1998-2001 plantings.

Over 2.1 million FSA farms designated base acres and payment yields for the new Farm Act. Of these farms, 37 percent updated their base acres. About three-fourths of those farms that updated their base acres, or 28 percent overall, updated their CCP payment yields.

About 37 percent of eligible producers elected to update base acres on their farms under the 2002 Farm Act



Data source: Farm Service Agency, June 19, 2003.

Options for Base Acres Designation

The 2002 farm legislation offered five options for designating base acres, which applied to all covered commodities, including soybeans and other oilseeds which were added under the 2002 Farm Act. To understand how these options worked, consider a producer with 80 acres of corn contract acreage, who planted an average of 60 acres of corn, 10 acres of wheat, and 30 acres of soybeans in 1998-2001. The producer cannot designate more total base acres than the total acres planted or prevented from planting in 1998-2001 (100 acres).

Option 1: Choose base acres equal to the contract acreage that would otherwise have been used for 2002 production flexibility contract (PFC) payments. Thus, the farmer could choose 80 acres of corn base under the 2002 Farm Act and not update base acres.

Option 2: Choose base acres equal to the contract acreage that would otherwise have been used for 2002 PFC payments, plus average oilseed acreage that was planted in 1998-2001, up to the base acreage maximum. Under this option, the farmer could choose the 80 acres of corn base and 20 acres of soybean base under the 2002 Farm Act. The farmer added the maximum amount of soybean base acres while retaining the full amount of corn base acres permitted.

Option 3: Choose PFC acres plus oilseeds, with a PFC offset. Under this option, a farmer could choose 70 acres of corn base and the full 30 acres of historical soybean plantings. This option permits the farmer to add the full amount of soybean plantings (30 acres), but he must offset corn base acres for the soybean base added.

Option 4 (updating): Choose base acres equal to the average acreage planted and prevented in 1998-2001. Under this option, the farmer chooses 60 acres of corn base, 10 acres of wheat base, and 30 acres of soybean base under the 2002 Farm Act. Base acres under this option most closely reflect recent planting history.

Option 5: Choose PFC acreage, and add oilseed base by reducing PFC acres. This option provides farmers greater flexibility to add oilseed base acres than under options 2 and 3. Under this option, a farmer could choose between 70 to 80 acres of corn base and between 20 to 30 acres of soybean base.

An owner who did not make an election was considered to have designated the PFC acreage, plus any eligible oilseed acreage (see option 2 above).

Payment Yields

Program payment yields used in calculating direct payments are unchanged for those crops previously covered under the PFC program. These payment yields are also used for counter-cyclical payments on farms where options 1, 2, 3, or 5 were selected for establishing base acres. For soybeans and other oilseeds, which were added to the program and are eligible for direct payments and counter-cyclical payments, payment yields are established at 78 percent of a farm's average yields for 1998-2001. The 78 percent adjustment factor, calculated as the national average yield for 1981-85 divided by national average yield for 1998-2001, placed oilseed yields on a similar basis with other program yields, which were frozen in the 1985 Farm Act.

Producers who elected to update base acres to average planted acreage in 1998-2001 (option 4) could update payment yields for counter-cyclical payments. These producers had three options for determining program payment yields for each individual crop for use in determining counter-cyclical payments:

- use previously established program yields,
- update yield by adding to current program yields 70 percent of the difference between current program yields and the farm's average yields per planted acre for the period 1998-2001, or
- update yield to 93.5 percent of 1998-2001 average yields per planted acre.

Economic Perspective on Designation of Base Acres

Almost two-thirds of farmers who are eligible for direct and counter-cyclical payments under the 2002 Farm Act elected to designate their production flexibility contract acreage as base acreage (and to add oilseed acreage when applicable) rather than updating to their 1998-2001 plantings. Presumably these farmers concluded that the expected benefits from direct and counter-cyclical payments would be greater by using their historic base and yields (options 1, 2, 3, and 5) rather than using updated base and yields that reflect more recent plantings.

One reason that a large portion of farmers chose not to update to 1998-2001 plantings may be that in those years, many farmers took advantage of planting flexibility provisions and switched to other crops or elected not to plant their entire PFC acres. Nationally, planted acreage of wheat, corn, grain sorghum, barley, oats, upland cotton, and rice averaged only 82 percent of PFC acres in 2001 (table 1). For these situations, farmers who elected to update base acres would have given up the rights to direct and counter-cyclical payments associated with acreage that was not planted to program crops.

Table 1. Share of production flexibility contract acres planted in 2001			
	2001 PFC acres	2001 acres planted to PFC crops	Percent of 2001 acres planted to PFC crops
	(million acres)		(percent)
Wheat	78.2	59.6	76.2
Rice	4.1	3.3	80.5
Upland cotton	16.2	15.5	95.7
Corn	81.5	75.8	93.0
Sorghum	13.5	10.3	76.4
Barley	11.0	5.0	45.5
Oats	6.5	4.4	68.0
Total	211.0	173.9	82.4
1/ Calculated as PFC program production times direct payment rate.			

Greater freedom in choosing how to add soybeans and other oilseeds to a farmer's base acres may also have limited the number of farms that updated base acres. If a farmer chose options 2, 3, or 5, he or she could retain PFC acres and include soybeans and/or oilseeds without "updating" to fully reflect 1998-2001 plantings (option 4).

In addition, per-acre direct payment rates are relatively large for rice ($113/acre), upland cotton ($40/acre), and corn ($29/acre), which created an additional incentive to retain base acres for those crops even if producers had switched to planting other program crops.

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Briefing Rooms [ARCHIVE]

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Farm and commodity policy impacts producers, consumers, taxpayers, and rural communities. The contents of this briefing room provide an overview of ERS commodity policy analyses. Comprehensive analyses of farm legislation estimate the impacts on agricultural production, domestic use and exports, and prices for major agricultural commodities. In addition to sector-wide analyses, policy analyses often focus on programs targeted to specific commodities. Trade agreements such as NAFTA and the World Trade Organization (WTO) can significantly influence domestic markets as well as U. S. domestic agricultural policy.

- Framing the Issues
- Understanding the Sector
- Aggregate Program Analyses
- Farm Policy Background, Program Provisions, and History
- Program Effects on Acreage and Price Response
- Commodity Loan Programs
- Crop and Revenue Insurance
- Tax Policy
- Conservation and Environmental Quality
- Dairy
- Peanuts
- Sugar
- Tobacco
- Food Aid Programs
- Trade Issues and Agreements

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Framing the Issues

Cropland Concentrating Faster Where Payments Are Higher (November 2007) finds that both crop production and the share of government payments have shifted over time toward the largest farms. The simultaneous occurrence of these trends is not surprising since most government agricultural payments are tied to the amount of land farmed or the land's production history. The concentration of production certainly leads to a concentration of payments, but the reverse may also be true. For the full report, see Commodity Payments, Farm Business Survival, and Farm Size Growth (November 2007).

The Importance of Farm Program Payments to Farm Households (June 2007) finds that government payments are a small share of income for most farms. Less than half of all farms—43 percent—in 2005 received farm program payments. Large family farms represent 8 percent of all farms, but they received 58 percent of commodity program payments going to farms.

The 20th Century Transformation of U.S. Agriculture and Farm Policy (June 2005) analyzes a wide range of historical data related to farm structure over the past century and provides perspective on the long-term forces that have helped shape agricultural and rural life. A review of some key policy developments also considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. See also Milestones in U.S. Farming and Farm Policy, an *Amber Waves* data feature based on this report.

Using Farm-Sector Income as a Policy Benchmark (June 2001) finds that measures of sector income may not fully capture the financial situations and needs of farmers and farm families. Aggregate measures do not reveal the wide variations in income and circumstances of various farm groups and do not reflect off-farm income and wealth.

Devolution of Farm Programs Could Broaden States' Role in Ag Policy (November 2004) suggests that tailoring farm programs to local circumstances may be more efficient due to the great diversity across States in farming characteristics and policy preferences. Devolution, or the transfer of control over Federal funds to States, is one way of adapting national policies to suit local preferences. For the full report, see A Consideration of the Devolution of Federal Agricultural Policy.

Can the Farm Problem Be Solved? (October 2000) The "farm problem" has been a constant in American politics for more than 100 years. Can it be solved? Policies designed to address American farming in the 1930s do not accommodate the diversity of the contemporary farm sector. Farm policy for the 21st century ought to take into account the reality of diversity in the structure and performance of farm businesses as well as in the goals of farm households.

A Safety Net for Farm Households? (January 2000) analyzes the concept of government assistance to agriculture that ensures some minimum standard of living for farm households. Guided by examples from existing Federal programs for moderate-income households, ERS constructed several safety-net scenarios for assisting farm households, assuming the retention of current government commodity programs. What types of farms would receive payments under these scenarios? One result is that almost all farms classified as limited-resource in the ERS farm typology would receive safety-net payments under the proposed scenarios, compared with less than one-fifth who received direct government payments in 1997. For the full report, see A Safety Net for Farm Households (October 2000).

A Fair Income for Farmers? (May 2000) analyzes the financial performance of farms, delineating them by enterprise (commodity) type. The diversity in farm characteristics and in financial performance illustrates the difficulties faced by policymakers in determining the distribution and level of government income support.

"Counterpoint on the Next Farm Bill," a plenary session at USDA's 2001 Agricultural Outlook Forum (February 2001), posed four key questions in the farm policy debate:

- How Well Has the 1996 Farm Bill Worked?
- What Does Farm Structure Imply for Future Farm Policy?
- Should There Be a Federal Farm Income Safety Net?
- What Should Be the Role of Resource Stewardship in Future Farm Policy?

How Important Are Farm Payments to the Rural Economy? (October 2000) points out that farm program payments are a small fraction of what the Federal government spends in rural areas and may be less important to survival of rural communities than other types of Federal assistance. However, the payments smooth farm income fluctuations resulting from commodity price swings and inject cash that supports other rural businesses.

The 2002 Farm Bill: Policy Options and Consequences (September 2001) address the political and economic setting for the 2002 farm bill debate and presents overviews and specific issues on farm safety-net policy, commodity programs, food policy, trade policy, natural resource programs, agricultural markets and structure, and rural development. Project sponsors are the Farm Foundation and a number of USDA agencies. ERS analysts contributed to the following articles:

- U.S Commodity Loan Program
- Crop Insurance and Disaster Assistance
- Farmer Savings Accounts
- Targeting Farm Program Benefits
- Market Access, Structure, Contracts and Prices
- Concentration, Mergers, and Antitrust Policy
- Agricultural Credit Policy

Farm Income and Finance: The Importance of Government Payments (February 2001) examines the role of government payments in the financial well-being of farmers. While government payments improve the financial status of program crop producers, many other farmers do not receive payments. Additionally, since payments are tied to land, benefits accrue to landowners rather than to farm operators.

Commodity Backgrounders, a series of 2001 reports, presented commodity-related topics that producers, industry, and policymakers considered in the Congressional 2002 farm bill debate. Reports on feed grains, wheat, soybeans, cotton, and rice address market conditions, policy proposals, WTO considerations, and the interactions between markets and policy.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Farm and Commodity Policy Analysis

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Understanding the Sector

Government Payments and the Farm Sector: Who Benefits and How Much (updated periodically) illustrates that the heterogeneity within the farm sector results in an unbalanced distribution of government payments. Among the factors reflecting allocation of government payments are farm size (acreage), location, types of commodities produced, and operator and household characteristics.

The Importance of Farm Program Payments to Farm Households (June 2007) finds that government payments are a small share of income for most farms. Less than half of all farms—43 percent—in 2005 received farm program payments. Large family farms represent 8 percent of all farms, but they received 58 percent of commodity program payments going to farms.

Structure and Finances of U.S. Farms: Family Farm Report, 2007 Edition (June 2007) presents comprehensive information on family and nonfamily farms and important trends in farming, operator household income, farm performance, and contracting. Most farms are family farms, and small family farms account for most farms but produce a modest share of farm output. Many farm households have a large net worth, reflecting the land-intensive nature of farming. A companion brochure summarizes the report's findings.

Growing Farm Size and the Distribution of Farm Payments (March 2006) finds that since crop production is shifting to much larger farms, government commodity payments which reflect production volumes for program commodities are also shifting to larger farms. The operators of very large farms have substantially higher household incomes than other farm households, so government commodity payments are also shifting to much higher income households.

The World Bids Farewell to the Multifiber Arrangement (February 2006) evaluates the short- and long-term impacts of the 10-year phaseout of the Multifiber Arrangement (MFA) which was completed on January 1, 2005. Most economists analyzing the MFA agree that free trade in textiles and clothing will mean significantly larger exports by China, India, and Pakistan, while higher income exporters like Taiwan, Korea, and Hong Kong can expect to export less. The elimination of the MFA will lead to longer term structural changes in the global textile industry.

Growing Farm Size and the Distribution of Commodity Program Payments (February 2005) illustrates how structural changes within the farm sector can alter how benefits from government commodity programs are distributed, even without changes in government policy. For instance, agricultural production is shifting toward larger farms. Hence, given that commodity program payments are proportional to production of certain commodities, these program payments are shifting to the largest farms.

Food and Agricultural Policy: Taking Stock for the New Century (September 2001) recognizes that the success of the Nation's agriculture and food system is the result of farsighted planning, investment, and policy decisions. Taking a long-term view, USDA sets out principles for equipping the food and agriculture sector to operate in a modern business environment that is globally integrated, highly competitive, technologically advanced, and environmentally conscious, and which must respond to increasingly sophisticated consumers.

America's Diverse Family Farms (May 2001) provides an overview of the diversity of U.S. agriculture. Among the findings:

high-sales small farms and large family farms receive a large share of government payments.

Farm Income Forecasts are updated periodically on the farm income and costs briefing room. Important facts in ERS's latest farm income forecast, including government payments, are identified based on current expectations for the sector.

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Briefing Rooms [ARCHIVE]

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Aggregate Program Analyses

The 2002 Farm Act: Provisions and Implications for Commodity Markets (November 2002) provides an initial assessment of the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years. Results indicate that commodity market impacts are fairly small. Net farm income is projected higher than under a continuation of the 1996 Farm Act, largely reflecting an increase in government payments.

Relaxing Fruit and Vegetable Planting Restrictions (February 2007) finds that market effects would likely be limited and confined to specific regions and commodities. Eliminating these planting restrictions for commodity program participants might enable some producers to switch from program crops to fruit and vegetables in such areas as California, the upper Midwest and the coastal plain in the Southeastern States. For the full report, see Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets be Affected? (November 2006).

Cropland Concentrating Faster Where Payments Are Higher (November 2007) finds that both crop production and the share of government payments have shifted over time toward the largest farms. The simultaneous occurrence of these trends is not surprising since most government agricultural payments are tied to the amount of land farmed or the land's production history. The concentration of production certainly leads to a concentration of payments, but the reverse may also be true. For the full report, see Commodity Payments, Farm Business Survival, and Farm Size Growth (November 2007).

Integrating Conservation and Commodity Program Payments: A Look at the Tradeoffs (November 2007) examines hypothetical scenarios and finds that policymakers would face significant tradeoffs in designing a single program to achieve both goals. Cost-effective environmental gains are achieved largely by supporting producers who can deliver large environmental gains per dollar. These producers, however, are not necessarily those historically receiving commodity program payments. For the full report, see Integrating Commodity and Conservation Programs: Design Options and Outcomes (October 2007).

Greening Income Support and Supporting Green (March 2006) focuses on potential tradeoffs in combining income support and environmental objectives in a single program. Income support and conservation payments are triggered by different actions or conditions, are made in different amounts, often go to different producers, and are spread across the country differently. Thus some compromise of income support objectives, conservation objectives, or both would be required to create a program of "green" payment.

"What is Meant by Decoupling?" (December 2005) (see page 11 of the PDF of the Farm Policy, Farm Households, and the Rural Economy Briefing Room) presents a concise overview of an approach to supporting farm income through fixed payments. What pressures led to the growing use of decoupled programs, and how can decoupled payments affect production decisions?

Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture (February 2003) indicates that production flexibility contract (PFC) payments under the 1996 Farm Act improved the well-being of participating farm households, with well-being defined to encompass income, wealth, and consumption, as well as labor/leisure choices. The decoupled payments—not tied to production or prices—have raised land values but have had minimal impact on production and, thus, on trade.

Decoupled Payments in a Changing Policy Setting (October 2004) analyzes the U.S. experience with decoupled payments in the Production Flexibility Contracts program from 1996 to 2002. The studies in this report consider the effects of decoupled payments on recipient households, and assess land, labor, risk management, and capital market conditions that can lead to links between decoupled payments and production choices.

Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act (September 2005) evaluates farmers' decisions to designate base acres under the 2002 Farm Act. Findings suggest that decisionmakers responded to economic incentives in their designations of base acres by selecting those options that resulted in the greatest expected flow of program payments. See also Farm Program Acres for the county-level farm program and planted acreage data used in the report, which can be downloaded and mapped.

Country-of-Origin Labeling: Theory and Observation (January 2004) examines the economic rationale behind the various claims about the effect of country-of-origin labeling and indicates that mandatory country-of-origin labeling would likely generate more costs than benefits. Voluntary country-of-origin labeling is an option, but food suppliers have generally discounted the U.S. label as a quality attribute that can attract sufficient consumer interest.

Influences of Decoupled Farm Programs on Agricultural Production (May 2002) examines how payment programs not directly linked to farm production decisions can nonetheless indirectly influence these decisions. Decoupled payments may affect production through their effect on wealth and investment, farm-sector consolidation, and farmers' expectations of future benefits based on program rules and on the possibility of ad hoc payments.

U.S. Farm Benefits: Links to Planting Decisions and Agricultural Markets (October 2000) analyzes four farm programs: production flexibility contracts, crop insurance, marketing loans, and disaster assistance. These programs affect markets primarily through economic incentives that alter production decisions. Adjustments in the marketplace to these production impacts in turn affect prices, domestic use, and exports.

Higher Cropland Value from Farm Program Payments: Who Gains? (November 2001) points out that government commodity program payments are estimated to have added nearly $62 billion to U.S. farmland values, which depend largely on expected future earnings, including program payments. For many owner-operators, the additional value is favorable. But for operators who pay more to buy land, appreciated values translate into higher financing costs and/or real estate taxes. Operators who lease farmland may receive some of the payments but also may see rents increase.

The 1996 US Farm Act Increases Market Orientation (August 1996) offers an initial, comprehensive assessment of the Federal Agriculture Improvement and Reform Act of 1996. A milestone in US agricultural policy, the act fundamentally redesigned income support programs and discontinued supply management programs for producers of many commodities. Overall projections are presented on changes in the farm economy and agricultural production that were expected to result from the act's provisions on commodity policies, agricultural trade, and conservation.

Falling Prices and National Farm Policy: The Northern Great Plains (June 2001) focuses on a farm-dependent region where farm prices dropped and incomes fell, triggering marketing loan benefits (MLBs) and Market Loss Assistance (MLA) payments in 1998-2000. For the Northern Plains region, what difference did MLBs and MLAs make to regional welfare when commodity prices dropped?

Impact of Government Payments to Farmers Varies by Level of Profitability and Household Income (June 2001) determines that while direct payments boost both profitability and household income, the gains in profitability are disproportionately greater for farms with the highest and lowest rates of return, and the income gains are greater for those at the lowest and highest ends of the household income distribution.

Government Payments to Farmers Contribute to Rising Land Values (June 2001) shows how income from government payments indirectly supports farmland values and contributes to higher rents. ERS analysis suggests that the gap between U. S. farmland value with and without government payments widened from about 13 percent during 1990-97 to 25 percent during 1998-2001.

Low Prices Test 1996 Farm Act (October 1998) evaluates the impact of the 1998 price decline for many crops. Unlike income support payments under previous legislation, payment rates for the new production flexibility contract (PFC) payments under the 1996 Farm Act are fixed and not related to prevailing market conditions. The policy response to low farm prices and incomes under current law is provided by two other key policy tools—nonrecourse marketing assistance loans and loan deficiency payments. With declining commodity prices, farmers took advantage of these two programs.

Managing Farm Resources Under the New Farm Act (August 1997) reports responses of farm operators and managers on eight panels in several regions on changes they had made or might make in their farm management decisions under the Farm Act. Responses disclosed that farm operators and managers have taken advantage of the elimination of acreage limitations to adjust crop mixes. The impacts of now-predictable fixed program payments—production flexibility contract payments—showed up in panelists' reports of higher land rental rates and changes in the provisions of leasing arrangements. The responses reflected a belief that the 1996 Farm Act may lead to greater fluctuation in commodity prices, with panelists expressing interest in strategies for marketing and for managing price risk.

Effects of the Triple Base Proposal on Planting Decisions for Potatoes and Dry Edible Beans [TripleBaseProposal.pdf in zip file] (August 1989) evaluates a proposal to divide a farmer's acreage base for program crops into idled land, supported acreage that would remain planted with the program crop, and an unsupported third portion that could be planted with any permitted alternative crop, such as potatoes and dry edible beans. Even small increases in the production of potatoes and dry edible beans could sharply reduce prices and revenues for producers of these crops.

Market-Oriented Agriculture: The Declining Role of Government Commodity Programs in Agricultural Production Decisions (January 1993) analyzes how agricultural supply has moved toward greater reliance on market forces (market orientation) by examining the declining role of government commodity programs in production decisions for corn, wheat, rice, and upland cotton. The role of government commodity programs in influencing farmers' production decisions at both the individual farm and national (aggregate) levels has declined, increasing a trend toward market orientation that began with the 1985 Farm Act and continued with 1990 farm legislation.

The Conservation Reserve Program: An Economic Assessment (August 1990) finds that the Conservation Reserve Program (CRP) will boost net farm income and improve environmental quality over the life of the program (1986-99). These gains will come at the cost of somewhat higher food prices and Government administrative expenses, and potential downturns in farm input industries and other local economic activity tied to farming where enrollment is heavy.

Possible Economic Consequences of Reverting to Permanent Legislation or Eliminating Price and Income Supports (January 1985) evaluates the impacts of not replacing the programs provided for in the Agriculture and Food Act of 1981 and the impacts reverting to price- and income-support programs provided for in permanent statutes. Reverting to permanent support programs, dating back in some cases to the 1930s, would raise price- and income-support levels significantly and greatly reduce the role of market forces in determining farm returns.

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Farm Policy Background, Program Provisions, and History

- Historical Overviews
- Agricultural Policy Directions
- 2002 Farm Act
- 1996 Farm Act
- 1990 Farm Act
- 1985 Farm Act
- 1981 Farm Act
- 1977 Farm Act

Historical Overviews

The 20th Century Transformation of U.S. Agriculture and Farm Policy (June 2005) analyzes a wide range of historical data related to farm structure over the past century and provides perspective on the long-term forces that have helped shape agricultural and rural life. A review of some key policy developments also considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. See also Milestones in U.S. Farming and Farm Policy, an *Amber Waves* data feature based on this report.

U.S. Farm Policy: The First 200 Years (March 2000) provides a backdrop for current policies by reviewing the roots of agricultural policy and the goal of ensuring opportunities for individuals and families to make a living at farming.

Food and Agricultural Policy: Taking Stock for the New Century (September 2001) recognizes that the success of the Nation's agriculture and food system is the result of farsighted planning, investment, and policy decisions. Taking a long-term view, USDA sets out principles for equipping the food and agriculture sector to operate in a modern business environment that is globally integrated, highly competitive, technologically advanced, and environmentally conscious, and which must respond to increasingly sophisticated consumers.

A Short History of U.S. Agricultural Trade Negotiations (August 1989) provides an overview of agricultural trade negotiations that led up to the Uruguay Round of the General Agreement on Tariffs and Trade.

Program Provisions for Program Crops: A Database for 1961-90 (March 1990) presents program provisions for 1961-90 crops of corn, sorghum, barley, oats, wheat, rice, upland cotton, and extra-long staple cotton in a table format with extensive footnotes.

Program Provisions for Rye, Dry Edible Beans, Oil Crops, Tobacco, Sugar, Honey, Wool, Mohair, Gum Naval Stores, and Dairy Products: A Database for 1961-90 (June 1991) presents the 1961-90 program provisions for rye, dry edible beans, oil crops (cottonseed, flaxseed, peanuts, soybeans, and tung nuts), tobacco, sugar beets and sugarcane, honey, wool and mohair, gum naval stores (rosin and crude pine gum), and dairy products in a table format with extensive footnotes.

History of Agricultural Price-Support and Adjustment Programs, 1933-84: Background for 1985 Farm Legislation (December 1984) traces farm program evolution through 1984. This half-century of development forms the foundation for implementing current and future farm legislation.

Possible Economic Consequences of Reverting to Permanent Legislation or Eliminating Price and Income Supports (January 1985) evaluates the impacts of not replacing the programs provided for in the Agriculture and Food Act of 1981 and the impacts reverting to price- and income-support programs provided for in permanent statutes. Reverting to permanent support programs, dating back in some cases to the 1930s, would raise price- and income-support levels significantly and greatly reduce the role of market forces in determining farm returns.

The Effects of Failure to Enact a New Farm Bill: Permanent Law Support For Commodities and Lapse of Other USDA Programs (March 2008) describes what would happen to commodity programs authorized by the Farm Security and Rural Investment Act of 2002 if new farm legislation bill is not enacted before the 2002 Act expires, a so called reversion to "permanent law."

Agricultural Policy Directions

Commodity Backgrounders (2005, 2007) addresses considerations in domestic agricultural policy deliberations, including market conditions, policy proposals, trade agreements, and the interactions between policy and markets for selected commodities.

- Cotton
- Dairy
- Fruit and Vegetables
- Feed Grains
- Peanuts
- Rice
- Soybeans
- Sugar
- Wheat

2002 Farm Act

The 2002 Farm Bill: Provisions and Economic Implications (May 2002) presents an overview of the Act and a side-by-side comparison of 1996-2001 farm legislation and the 2002 Act. For selected programs, links are provided to additional analyses of key changes, program overview, and economic implications.

Recommendations of the Commission on 21st Century Production Agriculture (April 2001) synthesizes the Commission's recommendations. These include legislative approaches to assure income stabilization for producers, enhance risk management options, support conservation, improve agricultural trade opportunities, revise commodity policies, and assist small and limited-resource farmers.

U.S. Farm Policy for the 21st Century: A Diversity of Visions for the Future (May 2001) briefly summarizes a range of ideas on how to address the needs of farmers and other stakeholders in a new farm bill. The House Committee on Agriculture began hearing testimony in mid-February from agricultural economists, commodity groups, and farm organizations on options and program designs for a new farm policy.

Commodity Backgrounders (2001) addresses considerations in the 2002 farm bill debate, including market conditions, policy proposals, trade agreements, and the interactions between policy and markets for selected commodities.

- Feed Grains
- Wheat
- Upland Cotton
- Rice
- Oilseeds

1996 Farm Act

Basic Mechanisms of U.S. Agricultural Commodity Programs (December 2000) presents an overview of the basic features of the primary programs in the 1996 Farm Act that affect agricultural commodity markets.

Provisions of the Federal Agriculture Improvement and Reform Act of 1996 (September 1996) provides an item-by-item description and explanation of the 1996 Act, which contained major changes in U.S. commodity programs and guided agricultural programs from 1996-2002.

Provisions of the 1996 Farm Bill (April 1996) includes an overview on how the Farm Act framed farm policy for 7 years; a glossary of agricultural policy terms; and a side-by-side comparison of 1990 and 1996.

Commodity Backgrounders (1995) address considerations in the 1995 farm bill debate, including market conditions, policy proposals, trade agreements, and the interactions between policy and markets for selected commodities.

- Feed Grains
- Wheat
- Cotton
- Rice
- Oilseeds
- Sugar
- Dairy
- Tobacco
- Honey
- Agricultural Export Programs
- Federal Marketing Orders and Federal Research and Promotion Programs

1990 Farm Act

Provisions of the Food, Agriculture, Conservation, and Trade Act of 1990 (June 1991) provides an item-by-item description and explanation of the 1990 Act, which contained major changes in U.S. commodity programs and guided agricultural programs from 1990-95.

Commodity Backgrounders (1990) address considerations in the 1990 farm bill debate, including market conditions, policy proposals, trade agreements, and the interactions between policy and markets for selected commodities.

- Corn
- Sorghum
- Barley
- Oats
- Wheat
- Fibers (cotton and wool)
- Rice
- Soybeans and Peanuts
- Sugar
- Dairy
- Tobacco
- Agricultural Export Programs

1985 Farm Act

Provisions of the Food Security Act of 1985 (April 1986) provides an item-by-item description and explanation of the 1985 Act, which contained major changes in U.S. commodity programs and guided agricultural programs from 1985-90.

Agricultural-Food Policy Review: Commodity Program Perspectives (July 1985) is a review prepared for 1985 farm legislation that provides an historical overview of U.S. farm policies, an evaluation of the performance of current commodity programs, and a discussion of possible alternative policy tools and concepts. Particular focus is given to the purpose of commodity programs and an economic assessment of their performance.

1981 Farm Act

Provisions of the Agriculture and Food Act of 1981 (January 1982) provides an item-by-item description and explanation of the 1981 Act, which contained major changes in U.S. commodity programs and guided agricultural programs from 1981-85.

Agricultural-Food Policy Review: Perspectives for the 1980s (April 1981) is a collection of articles that provides background for discussions on legislation to replace the Food and Agriculture Act of 1977. The 1981 legislation was influenced by the limited availability of cropland; a long period of overproduction, burdensome surpluses, and depressed farm prices; and international food needs.

1977 Farm Act

Commodity Program Provisions Under the Food and Agriculture Act of 1977 (October 1977) provides an item-by-item description and explanation of the 1977 Act, which contained major changes in U.S. commodity programs and guided agricultural programs from 1977-81.

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Michigan: A State at the Intersection of the Debate Over Full Planting Flexibility (February 2007) examines the impacts of elimination of the restriction on the planting of fruit and vegetable crops for a broad set of Michigan fruit, vegetable, and wild rice crops (dry beans, pickling cucumbers, processing tomatoes, fresh market tomatoes, squash, and blueberries). In many cases, barriers to entry would be high enough to significantly limit, or even prohibit, movement of program crop acreage into fruit and vegetable production, except for movement into dry bean production.

Ethanol Expansion in the United States: How Will the Agricultural Sector Adjust? (May 2007) examines effects of the expansion in U.S. ethanol production. Market impacts extend well beyond corn, the primary feedstock for ethanol in the United States, to supply and demand for other crops, such as soybeans and cotton, as well as to U.S. livestock industries. As a consequence of these commodity market impacts, farm income, government payments, and food prices also change. See narrated slideshow for an overview; see related *Amber Waves* feature U.S. Ethanol Expansion Driving Changes Throughout the Agricultural Sector (September 2007).

Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act (September 2005) evaluates farmers' decisions to designate base acres under the 2002 Farm Act. Findings suggest that decisionmakers responded to economic incentives in their designations of base acres by selecting those options that resulted in the greatest expected flow of program payments. See also Farm Program Acres for the county-level farm program and planted acreage data used in the report, which can be downloaded and mapped.

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Valuing Counter-Cyclical Payments: Implications for Producer Risk Management and Program Administration (February 2007) illustrates an improved method for estimating counter-cyclical payment rates by accounting for the variability in market price forecast errors. Forecasters and producers can use the model to calculate the probability of having to repay advanced counter-cyclical payments.

Counter-Cyclical Payments Under the 2002 Farm Act: Production Effects Likely to be Limited (3rd quarter 2005) discusses how these payments can reduce price-related revenue risks faced by farmers, which may influence agricultural production decisions. However, several mitigating factors suggest that overall production effects of counter-cyclical payments through revenue risk reduction are likely to be limited.

Marketing Loan Rates and Acreage Responses (4th quarter 2003) illustrates that if commodity markets return to a low price environment, fixed loan rates under the 2002 Farm Act could influence farmer decisions on the amount and mix of crops they plant. The 2002 Act sets commodity marketing assistance loan rates at designated levels, eliminating discretionary authority for the Secretary of Agriculture to lower loan rates based on historical market prices.

Forecasting the Counter-Cyclical Payment Rate for U.S. Corn: An Application of the Futures Price Forecasting Model (January 2005) provides background information on the model for corn, its data requirements, the forecast procedure, and forecast results for crop years 2003/04 and 2004/05. The Excel spreadsheet models for corn, soybeans, and wheat are available at Season-Average Price Forecasts.

Perspectives on Impacts of the 2002 U.S. Farm Act (April 2003) compares analyses by USDA and the Food and Agricultural Policy Research Institute. The discussion covers potential effects of marketing loan provisions, and summarizes potential production influences of other commodity programs, including the new counter-cyclical payments. The main results of the two studies are similar and indicate relatively small overall impacts of the Act on commodity markets. Elimination of USDA's discretionary authority to set loan rates (based on historical market prices) could have additional market implications. (View PowerPoint presentation.)

U.S. Cotton Supply Response Under the 2002 Farm Act (February 2003) presents an overview of policy features of the 2002 Farm Act and their potential impacts on agricultural markets, focusing on upland cotton. Implications for 2003 upland cotton plantings are examined, using a forecasting model that bases land-use allocation decisions on farmers' expected net returns, including farm program payments.

1996 Farm Act Sets Stage for Acreage Shifts (September 1997) relates that removal of land-use constraints on program participants in the 1996 Farm Act permitted a larger supply response to the economic incentives provided by absolute and relative prices in 1996 and 1997. Higher prices in 1996 prompted farmers to increase planted acreage of major field crops by 16 million acres, to nearly 262 million. In 1997, total planted acreage was about the same as in 1996, but the crop mix had changed as farmers planted more soybeans in response to strong prices relative to other crops.

Supply Response Under the 1996 Farm Act and Implications for the US Field Crops Sector (October 2000) measures how production for major field crops responds under the provisions of the 1996 Farm Act to changes in their prices and in prices for competing crops. Relative to 1986-90, the analysis indicates increases in how crop production changes as prices change. Changes in the prices of competing crops have a larger impact on planting decisions under the 1996 Farm Act than under previous legislation.

Price Determination for Corn and Wheat: The Role of Market Factors and Government Programs (August 1999) analyzes factors that affect US farm-level prices for corn and wheat. ERS develops annual models for US farm prices for corn and wheat based on market factors as well as government agricultural commodity programs.

Effects of the Triple Base Proposal on Planting Decisions for Potatoes and Dry Edible Beans [TripleBaseProposal.pdf in zip file] (August 1989) evaluates a proposal to divide a farmer's acreage base for program crops into idled land, supported acreage that would remain planted with the program crop, and an unsupported third portion that could be planted with any permitted alternative crop, such as potatoes and dry edible beans. Even small increases in the production of potatoes and dry edible beans could sharply reduce prices and revenues for producers of these crops.

Market-Oriented Agriculture: The Declining Role of Government Commodity Programs in Agricultural Production Decisions (January 1993) analyzes how agricultural supply has moved toward greater reliance on market forces (market orientation) by examining the declining role of government commodity programs in production decisions for corn, wheat, rice, and upland cotton. The role of government commodity programs in influencing farmers' production decisions at both the individual farm and national (aggregate) levels has declined, increasing a trend toward market orientation that began with the 1985 Farm Act and continued with 1990 farm legislation.

The Conservation Reserve Program: An Economic Assessment (August 1990) finds that the Conservation Reserve Program (CRP) will boost net farm income and improve environmental quality over the life of the program (1986-99). These gains will come at the cost of somewhat higher food prices and Government administrative expenses, and potential downturns in farm input industries and other local economic activity tied to farming where enrollment is heavy.

Possible Economic Consequences of Reverting to Permanent Legislation or Eliminating Price and Income Supports (January 1985) evaluates the impacts of not replacing the programs provided for in the Agriculture and Food Act of 1981 and the impacts reverting to price- and income-support programs provided for in permanent statutes. Reverting to permanent support programs, dating back in some cases to the 1930s, would raise price- and income-support levels significantly and greatly reduce the role of market forces in determining farm returns.

For more information, contact: Farm policy team **(Edwin Young, Paul Westcott, Anne Effland, and Erik Dohlman)**

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Farm and Commodity Policy Analysis

Contents:

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- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Commodity Loan Programs

Marketing Loan Rates and Acreage Responses (4th quarter 2003) illustrates that if commodity markets return to a low price environment, fixed loan rates under the 2002 Farm Act could influence farmer decisions on the amount and mix of crops they plant. The 2002 Act sets commodity marketing assistance loan rates at designated levels, eliminating discretionary authority for the Secretary of Agriculture to lower loan rates based on historical market prices.

Analysis of the US Commodity Loan Program with Marketing Loan Provisions (April 2001) shows that the availability of marketing loan benefits to supplement producer revenues when crop prices are relatively low can influence planting decisions and acreage allocation and thus affect crop prices.

Will the Farm Act Get Pulses Racing? (November 2002) evaluates the potential for pulse crops (dry peas, lentils, and small chickpeas) to expand. New marketing loan benefits for pulse crops in the 2002 Farm Act, combined with agronomic advantages and a growing number of processors, may increase the attractiveness of planting pulses, particularly in the Northern Great Plains. Accommodating an increased supply will likely require expansion of current markets and creation of new ones.

Ag Policy: Marketing Loan Benefits Supplement Market Revenues for Farmers (December 1999) provides a background summary of how the marketing loan program operates. Estimates of the effective income support levels provided by the loan program are presented.

Impacts of the US Marketing Loan Program for Soybeans (October 1999) compares the marketing loan program currently in effect to a scenario with no commodity loan program. Results indicate that the area planted to soybeans is somewhat higher due to marketing loans. The higher soybean production lowers soybean prices and raises exports.

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Contents:

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- Basics of U.S. Agricultural Policy
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- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
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Crop and Revenue Insurance

Managing Risk With Revenue Insurance (May 2007) discusses crop revenue insurance as a method farmers use to manage revenue variability that results from yield and price risks. Commodity-level revenue insurance, particularly for corn, soybeans, and wheat, has become a major part of the subsidized Federal crop insurance program. Whole-farm revenue insurance, based on combined revenue from all commodities produced on a farm, is a more broad-based approach, but is difficult to administer.

Since the early 1980s, the U.S. Government has promoted crop insurance as a replacement for disaster payments as the primary form of risk management aid for farmers, so Why Hasn't Crop Insurance Eliminated Disaster Assistance? (June 2005). Despite increased participation in crop insurance, ad hoc disaster assistance packages have continued to be enacted. This article discusses the government costs of crop insurance and how participation varies by type of farm and region.

Whole-Farm Approaches to a Safety Net (June 2006) looks at the risk management potential of "whole-farm revenue" programs. A whole-farm program is based on revenues from all farming activities added together and is not linked to the production of particular commodities.

Production and Price Impacts of U.S. Crop Insurance Programs (2001) finds that subsidized crop insurance results in relatively small increases in crop plantings. Increased plantings are concentrated in the Plains states. Although planted acreage rises for all insured crops, wheat and upland cotton account for three-fourths of the expansion.

Risk, Government Programs, and the Environment (March 2004) synthesizes numerous research efforts and provides some perspective on private and public attempts to cope with financial risks and their unintended environmental consequences. Private and public tools used to manage financial risk in agriculture may influence farmers' production decisions. These decisions, in turn, can influence environmental quality.

U.S. Crop Insurance: Premiums, Subsidies, and Participation (December 2001) summarizes U.S. crop insurance programs. Since the early 1980s, the Federal government has subsidized premiums, effectively lowering the cost of crop yield and revenue insurance coverage to producers. Rises in premium subsidies in 2001 and the addition of premium discounts in 1999 and 2000 have increased participation in insurance programs, and producers have moved to higher coverage levels.

The Effects of the Federal Crop Insurance Program on Wheat Acreage [WheatInsurance.pdf in zip file] (March 2001) finds that, with the premium subsidies of the Agricultural Risk Protection Act of 2000 (ARPA), total wheat acreage is about 0.5 percent higher than with no crop insurance program. But the resulting higher production, by dampening wheat prices slightly, limits acreage expansion.

Production and Price Impacts of US Crop Insurance Subsidies: Some Preliminary Results [FFCinsurance.pdf in zip file] (June 1999) assesses the extent of market impacts, measured by acreage and production shifts, that are directly attributable to Federal crop insurance subsidies.

Farm Risk Management Briefing Room presents ERS research examining farm-level studies of risk and risk management strategies, as well as sector-level studies concerned with government policy on farm risk and risk management. ERS research programs assess farmers' exposure to risk, evaluate the effectiveness of various risk management strategies, and analyze government programs related to farm risk management.

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Briefing Rooms [ARCHIVE]

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Contents:

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- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Tax Policy

Effects of Reducing the Income Cap on Eligibility for Farm Program Payments (September 2007) evaluates the effects of changing the current $2.5-million income cap on eligibility for farm program payments to $200,000. This change would increase the number of farm households subject to the cap, but the share of recipients affected would still be small. Based on IRS tax data for 2004, about 1.2 percent of all farm sole proprietors and about 2 percent of crop share landlords would potentially be subject to the proposed lower cap.

Changing Federal Tax Policies Affect Farm Households Differently (November 2005) highlights how Federal tax code changes affecting both individual and business income taxes have reduced average tax rates for all farm households, although the effects of these changes vary by type of farm. Changes to Federal estate tax policies have reduced the number of estates required to pay taxes and the amount of taxes owed by raising the value of property that can be transferred tax-free to the next generation and by reducing tax rates.

Effects of Federal Tax Policy on Agriculture (April 2001) analyzes the effects of the current Federal tax code on farming. Investment, management, and production decisions in agriculture continue to be influenced by Federal tax laws, although this influence may be less than previously.

Federal Tax Policy and the Farm Sector (February 2001) assesses the impacts of proposed general tax cuts as well as several farm-specific tax proposals. Farm and Ranch Risk Management (FARRM) accounts would enable some farmers to build a sizable self-insurance fund although many small farmers would not benefit due to low taxable farm income. Proposals to repeal the estate tax or to increase the exempt amount would address costs associated with the transfer of family farms to the next generation.

Tax-Deferred Savings Accounts for Farmers: A Potential Risk Management Tool (May 1999) evaluates a program of tax-deferred savings accounts for farmers to help farm operators manage year-to-year income variability. Under a program considered by the 106th Congress (1999-2000) a farmer could deposit funds into a special Farm and Ranch Risk Management (FARRM) account during years of high net farm income and draw on it during years with abnormally low income. Federal income taxes would be deferred until withdrawal.

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Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
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Conservation and Environmental Quality

Integrating Conservation and Commodity Program Payments: A Look at the Tradeoffs (November 2007) examines hypothetical scenarios and finds that policymakers would face significant tradeoffs in designing a single program to achieve both goals. Cost-effective environmental gains are achieved largely by supporting producers who can deliver large environmental gains per dollar. These producers, however, are not necessarily those historically receiving commodity program payments. For the full report, see Integrating Commodity and Conservation Programs: Design Options and Outcomes (October 2007).

The Conservation Policy and Environmental Interactions with Agricultural Production briefing rooms summarizes ERS's research program on the efficiency, effectiveness, and equity of policies and programs directed toward improving the environmental performance of the agricultural sector. In recent years, the scope of problems addressed in resource policy has expanded to encompass onsite and offsite problems with soil erosion, impacts of nutrients and pesticides on surface- and groundwater quality, and conservation of wetlands and other important wildlife habitat. Income and price support programs, while a declining focus of agricultural policy, are still an important influence on producers' environmental performance.

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Contents:

- Farm and Commodity Policy Briefing Room
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- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
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Dairy

Dairy Backgrounder (July 2006) reports that shifts over time in consumer demands, the location and structure of milk production, industry concentration, international markets, and trade agreements have dramatically altered the U.S. dairy industry and changed the context for dairy policies and the sector as a whole. In the future, the U.S. dairy industry is likely to become more fully integrated with international markets.

Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing (July 2004) shows that the effects of dairy programs on markets are modest and that current dairy programs are limited in their ability to change the longterm economic viability of dairy farms. Other forces—technology, changing consumer demand, and changes in the marketing and processing sectors—while difficult to measure, are likely to have more impact. (This file is 1.5 MB in size and may take time to download.)

Effects of U.S. Dairy Policies on Markets for Milk and Dairy Products (May 2004) examines the economic effects of the principal current dairy sector programs. The analytical results address the economic impacts of Federal milk marketing orders, direct payments to producers, price supports, and export programs.

Milk Pricing in the United States (February 2001) describes the complex workings of milk pricing in the United States—part market-determined, and part publicly administered through a wide variety of pricing regulations. This primer on milk pricing traces the system from farmgate to various end-users.

Federal Milk Marketing Orders: Consolidation and Reform (March 1998) evaluates proposed options for reforming the Federal Milk Marketing Orders as mandated by the 1996 Farm Act. Producer revenues would be greater under the proposed reforms since revenues from sales of fluid milk will be sufficient to offset any losses in product markets. Producers in regions with high fluid milk consumption will gain the most.

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Farm and Commodity Policy: Farm and Commodity Policy Analysis

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
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Peanuts

Peanut Backgrounder (October 2005) addresses key domestic and international market and policy developments that have affected the U.S. peanut sector in recent years. The report contains information on supply and demand developments, domestic and trade policy, a peanut farm profile and financial characteristics, and addresses issues and opportunities to be considered in domestic agricultural policy deliberations.

U.S. Peanut Sector Adapts to Major Policy Changes (November 2004) analyzes pressures that led to a striking change in peanut policy in the 2002 Farm Act and how farmers have fared since. Although the circumstances of peanut producers are unique in many ways, their experience can offer insights for those contemplating similar policy changes for other crops, such as tobacco. For the full report, see Peanut Policy Change and Adjustment Under the 2002 Farm Act.

Peanut Consumption Rebounding Despite Market Uncertainties (March 2002) discusses the prospect of major changes to the peanut program under new farm bill proposals as a source of uncertainty for peanut producers. Peanut producers have faced new challenges since the mid-1990s that put downward pressure on average farm prices and cash receipts.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Farm and Commodity Policy Analysis

Contents:

- Farm and Commodity Policy Briefing Room
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- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Sugar

Sugar Backgrounder (July 2007) addresses key domestic and international market and policy developments that have affected the U.S. sugar sector in recent years. It provides descriptions and analyses of farm-level production of U.S. sugar crops, cane and beet sugar processing and refining industries, sugar imports and exports, and sugar consumption.

Weak Prices Test U.S. Sugar Policy (September 2000) assesses rising domestic sugar production and prospects for higher imports on the government's ability to prevent sugar prices from dipping below support levels. With domestic sugar production plus imports exceeding domestic consumption in the foreseeable future, it will be difficult to keep prices above support levels without reducing output through a domestic supply control program or incurring large Treasury costs.

Auctioning Tariff Quotas for U.S. Sugar Imports (May 1998) explains and describes the origins of the U.S. sugar tariff quota. The pattern of imports under the U.S. sugar import program provides evidence of how the supplier shares of U.S sugar imports would change if an auction allocation system were employed.

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Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Tobacco

U.S. Tobacco Industry Responding to New Competitors, New Challenges (September 2003) identifies the effect of world market pressures on tobacco producers and continuing concern about the health effects of cigarettes on interest in tobacco buyout programs. Without quota and geographical restrictions on tobacco production, production would likely move to areas where larger, more efficient units could be assembled. Tobacco farms would grow bigger and the number of growers would drop.

Cigarette Price Increase Follows Tobacco Pact (January/February 1999) presents key elements of the recent agreement between the tobacco industry and State attorneys general. The agreement requires manufacturers to pay $206 billion to States over a 25-year period (including $300 million annually for research to reduce youth smoking and to support other anti-smoking measures). Combined with expenses from four previous State settlements, the agreement will have an inflationary effect on cigarette prices. Cigarette consumption is expected to decline, curbing demand for tobacco leaf and reducing marketing quota levels under the tobacco program.

The Tobacco Program: A Summary and Update (October 1997) (see page 10 of TobaccoBriefingRoom.pdf) provides a detailed description and history of the Federal tobacco program. Most tobacco production in the United States has been under a price-support production control program since the early 1930s. A number of changes have been made in the program over the decades, especially during the last 15 years.

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Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Food Aid Programs

Fifty Years of U.S. Food Aid and Its Role in Reducing World Hunger (November 2004) found that during 1991-2000, the average effectiveness of food aid was 66 percent, meaning two-thirds of food aid went toward reducing and/or eliminating the recipient countries' food gaps. The remaining 34 percent went to countries that either did not have food needs or that had needs less than the amount of food actually received. A drawback of program food aid has the potential to interfere with market functions.

An Economic Analysis of a Food Security Reserve: Commodity vs. Cash (August 1999) evaluates the cost savings from converting the Food Security Commodity Reserve from a commodity to a cash reserve to purchase food aid supplies as needed. As a commodity reserve, it meets food aid needs by acquiring grain when prices are low and storing it until needed for a food aid donation. If it were converted to a cash reserve, grain would be purchased at current market prices when needed for donations without any storage. Results reveal the cash reserve to be less costly in almost all cases.

Wheat Shipments Under U.S. Overseas Food Donation Programs Will Rise in Fiscal 1999 [WheatAid.pdf in zip file] (March 1999) reviews the role of export programs for the wheat sector. Export programs facilitated over 70 percent of U. S. wheat exports during fiscal years 1986-95. In 1996-98, export program shipments accounted for just under 25 percent of wheat exports.

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Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Trade Issues and Agreements

Global Agriculture and the Doha Round: Market Access Is the Key (September 2006) finds that increasing market access by lowering tariffs has been shown to produce the greatest share of benefits from agricultural trade liberalization. Nonetheless, reducing high agricultural tariffs remains a sticking point in the Doha Round of trade talks.

Relaxing Fruit and Vegetable Planting Restrictions (February 2007) finds that market effects would likely be limited and confined to specific regions and commodities. Eliminating these planting restrictions for commodity program participants might enable some producers to switch from program crops to fruit and vegetables in such areas as California, the upper Midwest and the coastal plain in the Southeastern States. For the full report, see Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets be Affected? (November 2006).

Michigan: A State at the Intersection of the Debate Over Full Planting Flexibility (February 2007) examines the impacts of elimination of the restriction on the planting of fruit and vegetable crops for a broad set of Michigan fruit, vegetable, and wild rice crops (dry beans, pickling cucumbers, processing tomatoes, fresh market tomatoes, squash, and blueberries). In many cases, barriers to entry would be high enough to significantly limit, or even prohibit, movement of program crop acreage into fruit and vegetable production, except for movement into dry bean production.

The World Bids Farewell to the Multifiber Arrangement (February 2006) evaluates the short- and long-term impacts of the 10-year phaseout of the Multifiber Arrangement (MFA) which was completed on January 1, 2005. Most economists analyzing the MFA agree that free trade in textiles and clothing will mean significantly larger exports by China, India, and Pakistan, while higher income exporters like Taiwan, Korea, and Hong Kong can expect to export less. The elimination of the MFA will lead to longer term structural changes in the global textile industry.

NAFTA at 13: Implementation Nears Completion (March 2007) finds that the agricultural sectors of Canada, Mexico, and the United States have become much more integrated. Agricultural trade within the free-trade area has grown dramatically, and Canadian and Mexican industries that rely on U.S. agricultural inputs have expanded. U.S. feedstuffs have facilitated a marked increase in Mexican meat production and consumption, and the importance of Canadian and Mexican produce to U. S. fruit and vegetable consumption is growing.

Fifty Years of U.S. Food Aid and Its Role in Reducing World Hunger (November 2004) found that during 1991-2000, the average effectiveness of food aid was 66 percent, meaning two-thirds of food aid went toward reducing and/or eliminating the recipient countries' food gaps. The remaining 34 percent went to countries that either did not have food needs or that had needs less than the amount of food actually received. A drawback of program food aid has the potential to interfere with market functions.

Recent Agricultural Policy Reforms in North America (April 2005) identifies countercyclical assistance as the common thread in the recent agricultural policy innovations of the United States, Mexico,and Canada. In other areas, the three countries are pursuing distinct agricultural policies, reflecting differing national objectives and economic contexts.

Aligning U.S. Farm Policy with World Trade Commitments (Jan/Feb 2002) explains that U.S. support to producers under current farm programs is expected to remain below ceiling levels agreed to in the Uruguay Round Agreement on Agriculture (URAA). But increases in support under new farm programs, if not carefully crafted to utilize URAA exemptions, could present a problem for U.S. compliance with commitments to reduce trade-distorting subsidies.

U.S.-EU Food and Agriculture Comparisons (January 2004) provides information and analysis on a wide range of topics relating to agriculture in the United States and European Union (EU), including comparisons of farm structure, production, agricultural productivity, risk management, environmental and commodity policy, trade, and food consumption, as well as implications of EU enlargement for bilateral relations.

Commodity Policies of the U.S., EU, and Japan (December 2002) addresses some common goals, but there are differences in approach and policy instruments. In recent years, budget pressures and trade agreements have led each toward less trade-distorting policies. New issues, such as environmental, food safety, and rural development concerns, may lead to further policy change.

What's at Stake in the Next Trade Round (December 2002) considers some key arguments on the intersection of trade liberalization with the interests of U.S. farmers. As the next round of multilateral trade negotiations nears, attention is frequently trained on commodity-by-commodity impacts of trade liberalization. But the most compelling economic story is the potential for trade liberalization to accelerate income growth in developing countries, raising demand for food and shifting demand to high-value products such as meat.

Agricultural Policy Reform in the WTO—The Road Ahead (June 26, 2001) finds that eliminating global agricultural policy distortions would result in an annual world welfare gain of $56 billion. High protection for agricultural commodities in the form of tariffs continues to be the major factor restricting world trade. The report also analyzes the effects on U.S. and world agriculture if only partial reform is achieved in liberalizing tariffs, tariff-rate quotas (limits on imported goods), domestic support, and export subsidies.

Domestic Support and the WTO: Comparison of Support Among OECD Countries (May 2002) presents a classification scheme for government support to agriculture that shows the potential of different program types to distort production and trade. The type and level of support vary widely across countries and commodities, and over half of the measured support among the OECD countries is in the form of market price support. Milk and sugar generally receive the highest level of government support.

U.S. Domestic Support Notifications to the WTO summarizes U.S. domestic support commitments to the WTO. Instructions for obtaining copies of the U.S. domestic support notifications for 1995-98 are provided.

Domestic Support Commitments: A Preliminary Evaluation (December 1998) found that all countries were meeting their WTO domestic support commitments in 1996. Domestic support policies thought to have the least effect on production, and thus on trade (green box policies), increased from the level in the designated base period of 1986-88.

Domestic Farm Programs and the Upcoming WTO Negotiations (third quarter 1999) summarizes progress under the Uruguay Round Agreement on Agriculture to reduce the impacts of market distortions from domestic agricultural programs.

U.S. Ag Policy—Well Below WTO Ceilings on Domestic Support (October 1997) concluded that the United States would meet WTO commitments to reduce domestic support to agriculture without making any further changes in domestic programs. The ability of the United States to meet its domestic support reduction commitments stems from two main factors. The first involves how domestic support reduction commitments were defined. Second is the shift in U.S. farm programs toward increased market orientation and reduced subsidies under the provisions of the 1996 Farm Act.

A Short History of U.S. Agricultural Trade Negotiations (1989) provides an overview of agricultural trade negotiations that led up to the Uruguay Round of the General Agreement on Tariffs and Trade.

World Trade Organization (WTO) briefing room assesses the implications for agricultural trade and for U.S. agriculture of further liberalization of agricultural trade. ERS researchers publish analytically based information and economic analysis on all aspects of agriculture in the World Trade Organization (WTO) and agricultural trade liberalization. Learn more about WTO rules for agricultural trade and how the Agreement on Agriculture (including tariffs, export subsidies, and domestic support) is being implemented.

North American Free Trade Agreement (NAFTA) briefing room summarizes ERS research on the agreement. ERS is the principal USDA agency involved in the preparation of the Department's congressionally mandated NAFTA Report. In addition, ERS conducts a variety of smaller research projects about topics related to NAFTA. Examples include U.S.-

Mexico transportation issues, the relative cost of agricultural inputs in Canada and the United States, and the potential impact of proposed trade agreements such as the Free Trade Agreement of the Americas (FTAA).

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Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Trade Issues and Agreements: U.S. WTO Domestic Support Reduction Commitments and Notifications

Under the Uruguay Round Agreement on Agriculture (URAA), the United States and other countries agreed to keep the total value of trade-distorting domestic support to farmers from exceeding predetermined ceiling levels for the years 1995-2000. Ceilings were established for each country based on their level of trade-distorting domestic support in the base period 1986-88. [See USWTOBase.xls in zip file.] Under the URAA, ceilings declined from 97 percent of 1986-88 base levels in 1995 to 80 percent in 2000 for developed countries. Countries also agreed to notify the World Trade Organization (WTO) about the current level of support for each year in the implementation period, 1995 to 2000.

Expenditures on all agricultural programs are reported to the WTO [see ClassificationUSprograms.xls in zip file]. These WTO notifications include trade distorting amber box support, Payments under production-limiting programs (blue box payments), and minimally distorting programs that are exempt from reduction commitments (green box expenditures).

A measure of the amount of trade distorting domestic support is defined by the URAA. The annual level of such support, called the "aggregate measurement of support" (AMS), is measured as the sum of certain trade distorting commodity-specific and non-commodity specific farm program benefits, as defined in the URAA. These AMS benefits include those from direct government payments as well as market price supports that are provided to farmers based on the level of current production, price, resource use, or inputs ("coupled" benefits).

Commodity-specific domestic supports are those benefits arising from programs implemented using unique commodity-specific provisions. Examples are commodity support prices, commodity loan rates, and payment rates that are announced for each commodity for each crop year. [See NonExempt.xls in zip file.] The total amount of a commodity's benefits from such programs is included in the calculation of the country's overall AMS if the value is greater than 5 percent of the value of production of that commodity (10 percent in the case of developing countries). Otherwise, the commodity benefits are excluded from the AMS (the de minimis exclusion provision in Paragraph 4, Article 6 of the URAA).

Non-commodity specific domestic supports are benefits to agriculture arising from a set of generic provisions that are equally available to many commodity producers. An example would be an irrigation assistance program in which participation is not based on type of crop. Crop insurance that makes the same program options available to all eligible crops is also non-commodity specific. The subtotal of all non-commodity specific program benefits in a year is included in a country's AMS total only if the value exceeds 5 percent of the value of all production (the de minimis level).

Green box policies are exempt. Some program benefits are explicitly exempt from inclusion in the AMS if they meet certain criteria. Exempt benefits include those that accrue to agriculture in general or that are assumed to accomplish certain desirable national objectives without significantly distorting production or trade. Examples of exempt policies include food aid, conservation and environmental programs, and certain direct payment programs that transfer income to farmers without regard to the farmer's level of current production, input use, or price received ("decoupled" payments, such as 1996 Farm Act production flexibility contract payments).

Blue box policies are exempt from inclusion in the current total AMS. The United States has not used this exemption since passage of the 1996 Farm Act, when the blue box deficiency payment program was eliminated. Authority for acreage restrictions was not authorized in the 1996 Farm Act.

U.S. notification on domestic support is well below WTO ceilings. ERS works with other USDA agencies to prepare the annual report of U.S. domestic support for agriculture for transmission to the World Trade Organization. The United States had considerable flexibility during the first 3 years of the URAA in meeting the needs of producers while still satisfying WTO commitments. However, the AMS rose to 85 percent of the ceiling in 1999. [See TotalUSA.xls in zip file.]

For Additional Information See:

WTO agricultural trade policy commitments database. Contains data on implementation of commitments in agricultural policy by WTO members.

World Trade Organization (WTO). The WTO is the only global international organization dealing with rules of trade between nations. The official site includes information about the organization, its membership, and access to official WTO documents and country notifications on commitments related to the Uruguay Round Agreement on Agriculture and other trade agreements.

Copies of an individual country's notification to the WTO can be downloaded from the WTO website (www.wto.org).

— Go to the "documents" button at the top of the page.
— On the WTO official documents page, click on "search for and download official WTO documents."
— On the left side bar, chose "search." A "simple search" screen will appear (see screen shot below).
— In the "document symbol" box, insert the character string G/AG/N to search for agriculture agreement notifications.
— In the "countries" box, enter the names of the country or countries that you wish to search for separated by an "or".
— To narrow the search to solely domestic support notifications, enter "domestic support" in the "full text search criteria" box.
— Specify the document dates. Note you will be searching for when the documents were submitted to the WTO, not the dates for which the notification applies. For example, the United States notified its domestic support for marketing year 1998 on June 22, 2001. Thus, June 22, 2001 (22/06/2001) is the document date that pertains to this notification.
— Then select "search."
— PLEASE BE PATIENT. SEARCHES ON THE WTO WEBSITE MAY REQUIRE 5 TO 10 MINUTES OR LONGER.
— Alternatively, you can enter a full document number (e.g., G/AG/N/USA/36) in the "document symbol" box and just search for a specific document.
— To download specific documents once the results of the search appear, check the box next to the name of the documents and click the little "E" above the checked box. Initially, some documents were in WordPerfect; however, more recent documents are in Microsoft Word.

Screen shot examples from WTO web site

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Doc#	Access	Symbol	Title - HTML format	Date	Original format		
01-4812	U	G/AG/N/USA/37 Catalogue record	Committee on Agriculture - Notification - United States - Domestic support Preview (HTML)	05/10/2001	E 2 p. 31KB	F 3 p. 29KB	S 3 p. 30KB
01-3172	U	G/AG/N/USA/36 Catalogue record	Committee on Agriculture - Notification - United States - Domestic support Preview (HTML)	26/06/2001	E 31 p. 231KB	F 31 p. 302KB	S 39 p. 404KB
Pages: previous next					Displaying: 1 - 2		

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Web administration: webadmin@ers.usda.gov

Updated date: November 28, 2005

Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Recommended Readings

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

The 2002 Farm Act: Provisions and Implications for Commodity Markets (November 2002) provides an initial assessment of the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years. Results indicate that commodity market impacts are fairly small. Net farm income is projected higher than under a continuation of the 1996 Farm Act, largely reflecting an increase in government payments.

The 2002 Farm Bill: Provisions and Economic Implications (May 2002) presents an overview of the Act and a side-by-side comparison of 1996-2001 farm legislation and the 2002 Act. For selected programs, links are provided to additional analyses of key changes, program overview, and economic implications.

Commodity Backgrounders (2005, 2007) addresses considerations in domestic agricultural policy deliberations, including market conditions, policy proposals, trade agreements, and the interactions between policy and markets for selected commodities.

- Cotton
- Dairy
- Fruit and Vegetables
- Feed Grains
- Peanuts
- Rice
- Soybeans
- Sugar
- Wheat

Effects of Reducing the Income Cap on Eligibility for Farm Program Payments (September 2007) evaluates the effects of changing the current $2.5-million income cap on eligibility for farm program payments to $200,000. This change would increase the number of farm households subject to the cap, but the share of recipients affected would still be small. Based on IRS tax data for 2004, about 1.2 percent of all farm sole proprietors and about 2 percent of crop share landlords would potentially be subject to the proposed lower cap.

Relaxing Fruit and Vegetable Planting Restrictions (May 2007) finds that market effects would likely be limited and confined to specific regions and commodities. Eliminating these planting restrictions for commodity program participants might enable some producers to switch from program crops to fruit and vegetables in such areas as California, the upper Midwest and the coastal plain in the Southeastern States. For the full report, see Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets be Affected? (November 2006).

Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act (September 2005) evaluates farmers' decisions to designate base acres under the 2002 Farm Act. Findings suggest that decisionmakers responded to economic incentives in their designations of base acres by selecting those options that resulted in the greatest expected flow of program payments. See also Farm Program Acres for the county-level farm program and planted acreage data used in the report, which can be downloaded and mapped.

Managing Risk With Revenue Insurance (May 2007) discusses crop revenue insurance as a method farmers use to manage revenue variability that results from yield and price risks. Commodity-level revenue insurance, particularly for corn, soybeans, and wheat, has become a major part of the subsidized Federal crop insurance program. Whole-farm revenue insurance, based on combined revenue from all commodities produced on a farm, is a more broad-based approach, but is difficult to administer.

Whole-Farm Approaches to a Safety Net (June 2006) looks at the risk management potential of "whole-farm revenue" programs. A whole-farm program is based on revenues from all farming activities added together and is not linked to the production of particular commodities.

The Importance of Farm Program Payments to Farm Households (June 2007) finds that government payments are a small share of income for most farms. Less than half of all farms—43 percent—in 2005 received farm program payments. Large family farms represent 8 percent of all farms, but they received 58 percent of commodity program payments going to farms.

Integrating Conservation and Commodity Program Payments: A Look at the Tradeoffs (November 2007) examines hypothetical scenarios and finds that policymakers would face significant tradeoffs in designing a single program to achieve both goals. Cost-effective environmental gains are achieved largely by supporting producers who can deliver large environmental gains per dollar. These producers, however, are not necessarily those historically receiving commodity program payments. For the full report, see Integrating Commodity and Conservation Programs: Design Options and Outcomes (October 2007).

Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing shows that the effects of dairy programs on markets are modest and that current dairy programs are limited in their ability to change the longterm economic viability of dairy farms. Other forces—technology, changing consumer demand, and changes in the marketing and processing sectors—while difficult to measure, are likely to have more impact. (This PDF file is 1.5 MB in size and may take time to download.)

Counter-Cyclical Payments Under the 2002 Farm Act: Production Effects Likely to be Limited (3rd quarter 2005) discusses how these payments can reduce price-related revenue risks faced by farmers, which may influence agricultural production decisions. However, several mitigating factors suggest that overall production effects of counter-cyclical payments through revenue risk reduction are likely to be limited.

Country-of-Origin Labeling: Theory and Observation (January 2004) examines the economic rationale behind the various claims about the effect of country-of-origin labeling and indicates that mandatory country-of-origin labeling would likely generate more costs than benefits. Voluntary country-of-origin labeling is an option, but food suppliers have generally discounted the U.S. label as a quality attribute that can attract sufficient consumer interest.

Marketing Loan Rates and Acreage Responses (4th quarter 2003) illustrates that if commodity markets return to a low price environment, fixed loan rates under the 2002 Farm Act could influence farmer decisions on the amount and mix of crops they plant. The 2002 Act sets commodity marketing assistance loan rates at designated levels, eliminating discretionary authority for the Secretary of Agriculture to lower loan rates based on historical market prices.

The 20th Century Transformation of U.S. Agriculture and Farm Policy (June 2005) analyzes a wide range of historical data related to farm structure over the past century and provides perspective on the long-term forces that have helped shape agricultural and rural life. A review of some key policy developments also considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. See also Milestones in U.S. Farming and Farm Policy, an *Amber Waves* data feature based on this report.

For additional readings, see Farm and Commodity Policy Analysis.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Glossary

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z | #

Acreage reduction program (ARP)—An annual 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 choosing to participate in this voluntary program were eligible for benefits such as Commodity Credit Corporation (CCC) commodity loans and deficiency payments, although no payments were made on the idled ARP land. The 1996 and 2002 Farm Acts did not reauthorize ARPs.

Additional peanuts—Under the peanut program prior to 2002, peanuts sold from a farm in any marketing year in excess of the amount of the farm s peanut poundage quota. The higher of two price support loan rate levels applied only to the quantity of peanuts within the annually determined poundage quota. Additional peanuts were eligible only for the lower price-support loan rate, the level of which was determined by the Secretary of Agriculture, 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.

Adjusted world price, cotton (AWP)—As part of the upland cotton marketing assistance loan program, USDA calculates and publishes, on a weekly basis, what is known as the adjusted world price. The AWP is the prevailing world price for upland cotton, adjusted to account for U.S. quality and location. Producers who have taken out USDA marketing assistance loans may choose to repay them at either the lesser of the established commodity loan rate for upland cotton, plus interest, or the announced AWP for that week. The AWP for cotton also is used for determining Step 2 cotton program payments.

Aggregate measurement of support (AMS)—An index that measures the monetary value of the extent of government support to a sector. The AMS, as defined in the Agreement on Agriculture, includes both budgetary outlays as well as revenue transfers from consumers to producers as a result of policies that distort market prices. The AMS includes actual or calculated amounts of direct payments to producers (such as deficiency payments), input subsidies (on irrigation water, for example), the estimated value of revenue transferred from consumers to producers as a result of policies that distort market prices (market price supports), and interest subsidies on commodity loan programs

Agreement on Agriculture—The Uruguay Round Agreement on Agriculture reached in 1994 and implemented in U.S. law by the Uruguay Round Agreements Act of 1994 brings agricultural trade more fully under international trade rules and obligations. Under the Agreement, quantitative barriers to trade are converted to tariffs or tariff-rate quotas and then are reduced over time, and export subsidies and trade-distorting domestic support policies are reduced.

Agricultural Act of 1949—P.L. 89-439 (October 31, 1949), along with the Agricultural Adjustment Act of 1938, makes up the major part of the permanent law that mandates commodity price and farm income support. The original 1949 Act designated mandatory support for basic commodities and the following nonbasic commodities: wool and mohair, tung nuts, honey, Irish potatoes (excluded in the Agricultural Act of 1954), as well as milk, butterfat, and their products. Provisions of this law are often superseded by more current legislation. If the current legislation expires and new legislation is not enacted, the law reverts back to the permanent provisions of the 1949 Act.

Agricultural Adjustment Act (AAA) of 1938—P.L. 75-430 (February 16, 1938) was enacted as a replacement for the farm subsidy policies found unworkable in the AAA legislation of 1933. The 1938 Act was the first to make price support mandatory for corn, cotton, and wheat to help maintain a sufficient supply in low production periods, along with marketing quotas to keep supply in line with market demand. It established permissive supports for butter, dates, figs, hops, turpentine, rosin, pecans, prunes, raisins, barley, rye, grain sorghum, wool, winter cover-crop seeds, mohair, peanuts, and tobacco for the 1938-40 period. Title V of the Act established the Federal Crop Insurance Corporation. The 1938 Act is considered part of permanent legislation for commodity programs and farm income support (along with the Commodity Credit Corporation Charter Act and the Agricultural Act of 1949). Provisions of this law are often superseded by more current legislation. If the current legislation expires and new legislation is not enacted, the law reverts back to the permanent provisions of the 1938 Act.

Agricultural and food science—Congress defines "agricultural and food science" as basic, applied, and developmental research, extension, and teaching activities in food and fiber, agricultural, renewable natural resources, forestry, and physical and social sciences.

Agricultural Market Transition Act (AMTA)—Title I of the 1996 Act allowed farmers who participated in the wheat, feed grain, cotton, and rice programs in any one of the previous 5 years to enter into 7-year production flexibility contracts for 1996-2002. Total production flexibility contract payment levels for each fiscal year were fixed. The AMTA allowed farmers to plant 100 percent of their total contract acreage to any crop, except for limitations on fruits and vegetables, and receive a full payment. Land had to be maintained in agricultural uses, including idling or conserving uses. Unlimited haying and grazing was allowed, as was the planting and harvesting of alfalfa and other forage corps—with no reduction in payments.

Agricultural use—Refers to cropland planted to an agricultural crop, used for haying or grazing, idled for weather-related reasons or natural disasters, or diverted from crop production to an approved cultural practice that prevents erosion or other degradation.

Amber box policies—An expression that developed during the General Agreement on Tariffs and Trade (GATT) trade negotiations using a traffic light analogy to rank policies. The traffic light analogy was that an amber policy be subject to careful review and reduction over time. Amber box policies include policies such as market price support, payments related to current production or prices, and input subsidies.

Base acreage (or crop acreage base)—A farm s crop-specific acreage of wheat, feed grains, upland cotton, rice, oilseeds, or peanuts eligible to participate in commodity programs under the 2002 Farm Act. Base acreage includes land that would have been eligible to receive production flexibility contract payments in 2002 and producers of other covered commodities (oilseed and peanut producers). Producers had the option to choose base acres to reflect contract acreage that would otherwise have been used for 2002 pfc payments or to update base acres to reflect the 4-year average of planted plus prevented from planting for the commodity during the 1998-2001 crop years. Producers must select one of the two options for all covered commodities, including oilseeds.

Bill Emerson Humanitarian Trust—A special wheat, corn, grain sorghum, and rice reserve of up to 4 million metric tons, to be used for humanitarian food aid purposes. The Trust was formerly the Food Security Commodity Reserve and the Food Security Wheat Reserve. The Africa: Seeds of Hope Act of 1998 allows the retention and use of funds from P.L. 480 reimbursements to purchase grain to replace supplies released from the reserve. The purchases are limited to no more than $20 million per fiscal year. CCC also is authorized to hold money as well as commodities in the reserve.

Commodity certificates—Payments issued by the Commodity Credit Corporation (CCC) in lieu of cash payments to participants in farm subsidy or agricultural export programs. Holders of certificates are permitted to exchange them for commodities owned by the CCC. Certificates were used not only to compensate program beneficiaries but also to reduce the large, costly, and price-depressing commodity surpluses held by the CCC during the mid-1980s.

Commodity Credit Corporation (CCC)—A federally owned and operated corporation within the USDA created to stabilize and support agricultural prices and farm income by making loans and payments to producers, purchasing commodities, and engaging in various other operations. The CCC handles all money transactions for agricultural price and income support and related programs.

Commodity loan rate—The price per unit (pound, bushel, bale, or hundredweight) at which the Commodity Credit Corporation provides commodity-secured loans to farmers for a specified period of time.

Competitive grants—Funds that are allocated by panels of relevant scientific peers after consideration of research proposals submitted to the review panel.

Conservation of Private Grazing Land Initiative—The 1996 Farm Act authorized a coordinated technical, educational, and related assistance program for owners and managers of non-Federal grazing lands, including rangeland, pasture land, grazed forest land, and hay land. The purpose of the program is to enhance water quality and wildlife and fish habitat, address weed and brush problems, enhance recreational opportunities, and maintain and improve the aesthetic character of non-Federal grazing lands.

Conservation plan—A combination of land uses and farming practices to protect and improve soil productivity and water quality and prevent deterioration of natural resources on all or part of a farm. Conservation plans for conservation compliance must be both technically and economically feasible.

Conservation practice—Any technique or measure used to protect soil and water resources, for which standards and specifications for installation, operation, or maintenance have been developed. Practices approved by the Natural Resources Conservation Service are compiled at each conservation district in its field office technical guide.

Conservation Reserve Enhancement Program (CREP)—This program was initiated following the 1996 farm bill. CREP is a State-Federal conservation partnership program targeted to address specific State and nationally significant water quality, soil erosion, and wildlife habitat issues related to agriculture. The program offers additional financial incentives beyond the CRP to encourage farmers and ranchers to enroll in 10-15 year contracts to retire land from production. CREP is funded through CCC.

Conservation Reserve Program (CRP)—Established in its current form in 1985 and administered by USDA s Farm Services Agency, this is the latest version of long-term land retirement programs used in the 1930s and 1960s. CRP provides farm owners or operators with an annual per-acre rental payment and half the cost of establishing a permanent land cover, in exchange for retiring environmentally sensitive cropland from production for 10-15 years. In 1996, Congress reauthorized CRP for an additional round of contracts, limiting enrollment to 36.4 million acres at any time. The 2002 Farm Act increased the enrollment limit to 39 million acres. Producers can offer land for competitive bidding based on an Environmental Benefits Index during periodic signups or automatically enroll more limited acreages in such practices as riparian buffers, field windbreaks, and grass strips on a continuous basis. CRP is funded through the Commodity Credit Corporation.

Conservation Reserve Program (CRP) Continuous Sign-up—This program was initiated following the 1996 farm bill. Continuous sign-up allows enrollment of land in riparian buffers, filter strips, grass waterways, and other high priority practices without competition. Eligible land is automatically accepted into the program. A total of 4 million acres (under the CRP acreage cap) are reserved for continuous sign-up enrollment.

Conservation Security Program (CSP)—This newly created program will provide payments to producers for maintaining or adopting structural and/or land management practices that address a wide range of local and/or national resource concerns. As with Environmental Quality Incentives Program, a wide range of practices can be subsidized. But CSP will focus on land-based practices and specifically excludes livestock waste handling facilities. Producers can participate at one of three tiers; higher tiers require greater conservation effort and offer higher payments. The lowest cost practices that meet conservation standards must be used.

Conservation Technical Assistance (CTA)—Since 1936, CTA, administered by USDA s Natural Resources Conservation Service (NRCS) and local conservation districts, has provided technical assistance to farmers for planning and implementing soil and water conservation and water quality practices. Farmers adopting practices under USDA conservation programs and other producers requesting assistance in adopting approved NRCS practices can receive technical assistance. In recent years, CTA has prepared conservation plans for highly erodible lands to help farmers maintain eligibility for USDA program benefits.

Conserving use acreage—Farmland diverted from crop production to an approved cultural practice that prevents erosion or other degradation. Though crops are not produced, conserving use is considered an agricultural use of the land.

Considered planted—Refers to a provision of the Agricultural Act of 1949 that was used to implement the base acreage and yield system for 1991-95 crops, a provision suspended by the FAIR Act of 1996. Acreage considered planted includes acreage idled for weather-related reasons or natural disasters, acreage devoted to conservation purposes or planted to certain other allowed commodities, and acreage USDA determines is necessary to include for fair and equitable treatment.

Contract acreage—Land voluntarily enrolled in a production flexibility contract (PFC) under the 1996 Farm Act. Land was eligible for the PFC enrollment if it had at least one crop acreage base for a contract crop that would have been in effect for 1996 under previous farm law, prior to its suspension by the 1996 Act. A farmer could voluntarily choose to reduce contract acreage in subsequent years. Upon leaving the Conservation Reserve Program, base acreage under previous farm law could be entered into a PFC. Otherwise, the maximum amount of contract acreage was established during the one-time signup for the PFC in 1996.

Contract crops—Crops eligible for production flexibility contract payments under Title I of the 1996 Act: wheat, corn, sorghum, barley, oats, rice, and upland cotton.

Cost-sharing—Payments to producers to cover a specified portion of the cost of installing, implementing, or maintaining a conservation (structural or land management) practice.

Counter-cyclical payment—Counter-cyclical payments are available to eligible commodities under the 2002 Farm Act whenever the effective commodity price is less than the target price. The effective price is equal to the sum of 1) the higher of the national average farm price for the marketing year, or the commodity national loan rate and 2) the direct payment rate for the commodity. The payment amount for a farmer equals the product of the payment rate, the payment acres, and the payment yield. Payments are considered counter-cyclical since they vary inversely with market prices.

Crop insurance—Insurance that protects farmers from crop losses due to natural hazards. A subsidized multiperil Federal insurance program, administered by the USDA's Risk Management Agency, is available to most farmers. Federal crop insurance is sold and serviced through private insurance companies. The Federal Government subsidizes a portion of the premium, as well as some administrative and operating expenses of the private companies. The Federal Crop Insurance Corporation reinsures the companies by absorbing the losses of the program when indemnities exceed total premiums. Various types of yield and revenue insurance products are available for major crops. Hail and fire insurance are offered through private companies without Federal subsidy.

Cropland—Land used primarily for the production of row crops, close-growing crops, and fruit and nut crops. It includes cultivated and noncultivated acreage, but not land enrolled in the Conservation Reserve Program. For details on land use of U.S. non-Federal lands, see USDA National Resources Conservation Services' National Resources Inventory.

Crop year (marketing year)—The 12-month period starting with the month when the harvest of a specific crop typically begins. The 1998 wheat crop year, for example, is June 1, 1998, through May 30, 1999. The amount harvested during this time is then considered the 1998 crop.

Dairy Export Incentive Program—A program that offers subsidies to exporters of U.S. dairy products based on the volume of exports. The intent is to make the U.S. products more competitive in world markets, thereby increasing U.S. exports. The Commodity Credit Corporation receives export-price bids from exporters and makes the payments either in cash or through certificates redeemable for commodities. The program was originally authorized by the 1985 farm acts, and reauthorized by subsequent Acts. The 2002 Farm Act extends the program through 2007.

Decoupled payments—Government program payments to farmers that are not linked to the current levels of production, prices, or resource use. When payments are decoupled, farmers make production decisions based on expected market returns rather than expected government payments.

Deficiency payments—Direct government payments made prior to 1996 to farmers who participated in an annual commodity program for wheat, feed grains, rice, or cotton. The crop-specific payment rate for a particular crop year was based on the difference between an established target price and the higher of the commodity loan rate or the national average market price for the commodity during a specified time period. A deficiency payment to the farmer was calculated as the product of the payment rate, the farm's eligible payment acreage, and the farm's established program payment yield.

De minimis rule—The total aggregate measurement of support (AMS) includes a specific commodity support only if it equals more than 5 percent of its value of production for developed countries such as the United States. The noncommodity-specific support component of the AMS is included in the AMS total only if it exceeds 5 percent of the value of total agricultural output. The de minimis exemption for developing countries is 10 percent.

Direct payment—Fixed payments provided under the 2002 Farm Act for eligible producers of wheat, corn, barley, grain sorghum, oats, upland cotton, rice, soybeans, other oilseeds, and peanuts. Producers enroll annually in the program to receive payments based on payment rates specified in the 2002 Farm Act and their historic program payment acres and yields.

Disaster payment—Payments made to producers through existing or special legislation due to crop and livestock losses because of natural disasters such as floods, drought, hail, excessive moisture, or related conditions.

Diversion payment—See paid land diversion.

Environmental Quality Incentives Program (EQIP)—EQIP was established by the 1996 Farm Act as a new program to consolidate and better target the functions of the Agricultural Conservation Program, Water Quality Incentives Program, Great Plains Conservation Program, and Colorado River Basin Salinity Program. The objective of EQIP, like its predecessor programs, is to encourage farmers and ranchers to adopt practices that reduce environmental and resource problems through 5- to 10-year contracts. The program provides education, technical assistance and financial assistance, targeted to watersheds, regions, or areas of special environmental sensitivity identified as priority areas. The 1996 Farm Act called for half of EQIP funds to be devoted to conservation practices related to livestock production and for maximized environmental benefits per dollar expended. EQIP is designed to consider all sources of conservation funding from CRP, Wetland Reserve Program, other Federal programs, State or local programs, and nongovernmental partners. Proposed projects with greater funding from these sources receive more favorable scoring for EQIP funding. EQIP is run by Natural Resources Conservation Service and funded through Commodity Credit Corporation.

Erodibility Index (EI)—The natural erosion potential of a soil divided by the soil's tolerance level.

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 receive subsidies based on the volume of exports to specifically targeted countries. The program was reauthorized by the 1985 Farm Act and subsequent farm acts. The 2002 Act extends the program through 2007.

Farmed wetland—Farmed wetlands are wetlands that have been partially drained or are naturally dry enough to allow crop production in some years but otherwise meet the soil, hydrological, and vegetative criteria defining a wetland.

Farmland Protection Program (FPP)—Established in the 1996 Farm Act, FPP provides funding to State, local, or tribal entities with existing farmland protection programs to purchase conservation easements or other interests in order to keep agricultural land in farming. The goal of the program, run by Natural Resources Conservation Service, is to protect between 170,000 and 340,000 acres of farmland. Priority is given to applications for perpetual easements, although a minimum of 30 years is required.

Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) (P.L. 104-127)—The omnibus food and agriculture legislation (Farm Act) 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 redesigned income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and upland cotton. Production flexibility contract payments were made available under Title I of the 1996 Act (see Agricultural Market Transition Act). Acreage reduction programs were suspended. Federal milk marketing orders were revised and consolidated under the Act. Program changes were also made for sugar and peanuts. Trade programs were targeted and environmental programs were 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 55 percent of the expected price, for a nominal processing fee. Additional coverage, sometimes called "buy-up," provides higher levels of coverage.

Federal milk marketing orders—Regulations issued by the Secretary of Agriculture specifying minimum prices that processors must pay for milk and other 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 Farm Act required consolidation of the Federal milk marketing orders into 10-14 regional orders, down from 33.

Flex acreage—See normal flex acreage and optional flex acreage.

Food, Agriculture, Conservation and Trade Act of 1990 (1990 Act) (P.L. 101-624)—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. Commodity programs were continued, with modifications, such as creation of optional flex acreage, making the programs more market oriented.

Food Security Act of 1985 (1985 Act) (P.L. 99-198)—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. The law provided for lower price and income supports, a dairy herd buy-out program, marketing loans and loan deficiency payments, and the Conservation Reserve Program.

Food Security Commodity Reserve—Renamed the Bill Emerson Humanitarian Trust, 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. Created by the Agriculture Act of 1980 (P.L. 96-494), the reserve is generally used to provide famine and other emergency relief when commodities are not available under P.L. 480. The 1996 Farm Act expands the reserve to include corn, grain sorghum, and rice in addition to wheat, and makes other administrative changes.

Formula funds—Formula funds consist of funds allocated equally to all States and funds allocated by formula. The Amended Hatch Act (1955) established a formula for distributing Hatch Act funds based on (among other things) the number of farms and percentage of rural population in a State. In addition to Hatch funds, the McIntire-Stennis Act provided for research funds to State Agricultural Experiment Stations and forestry schools. Evans-Allan appropriations are formula funds granted to the 1890 Institutions and Tuskegee University. Animal Health and Disease Research funds are also administered by the Cooperative State Research, Extension, and Education Service of the USDA.

General Agreement on Tariffs and Trade (GATT)—An international 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 Trade Agreement modified the code and the framework and established the World Trade Organization on January 1, 1995, to replace the institutions created by the GATT.

Grassland Reserve Program (GRP)—This newly established program will assist owners, through long-term contracts or easements, in restoring grassland and conserving virgin grassland. Up to 2 million acres of restored, improved, or natural grassland, rangeland, and pasture, including prairie, can be enrolled. Tracts must be at least 40 contiguous acres, subject to waivers. Eligible grassland can be enrolled under 10- to 30-year contracts or under 30-year or permanent easements.

Green box policies—Domestic or trade policies that are deemed to be minimally trade distorting and that are excluded from domestic support reduction commitments in the Uruguay Round Agreement on Agriculture. Examples are domestic policies dealing with research, extension, inspection and grading, environmental and conservation programs, disaster relief, crop insurance, domestic food assistance, food security stocks, structural adjustment programs, and direct payments not linked to production. Trade measures or policies, such as export market promotion, are also exempt (but not export subsidies or foreign food aid).

High-tier tariff rate—See over-quota tariff rate.

Highly erodible land (HEL)—Soils with an erodibility index (EI) equal to or greater than eight are defined as HEL. An EI of eight indicates that without any cover or conservation practices, the soil will erode at a rate eight times the soil tolerance level. Fields containing at least one-third or 50 acres (whichever is less) of HEL are designated as highly erodible for the purpose of Highly-Erodible Land Conservation Provisions.

Highly Erodible Land Conservation (Compliance and Sodbuster)—First established in 1985, this provision requires that farm program participants with highly erodible cropland develop and implement an approved conservation plan for their land to maintain program eligibility. Conservation compliance pertains to farming existing cropland but is commonly known as the Sodbuster provision when applied to newly planted cropland. Natural Resources Conservation Service certifies technical compliance, and USDA's Farm Services Agency administers changes in farm program benefits.

IFAFS—Initiative for Future Agriculture and Food Systems.

Incentive payments—Payments to producers in an amount or at a rate necessary to encourage producers to adopt one or more land management practices.

Initiative for Future Agriculture and Food Systems (IFAFS)—Research, extension, and education grants to address critical emerging agricultural issues related to 1) future food production, 2) environmental quality and natural resource management, or 3) farm income; and also for activities carried out under the Alternative Agricultural Research and Commercialization Act of 1990. IFAFS was a new initiative authorized in the Agricultural Research, Extension and Education Reform Act of 1998.

Land-Grant Institutions—Originally, Land-Grant Colleges and University were educational institutions that arose from or met the mission of the Land-Grant College Act of 1862, also known as the Morrill Act of 1862. The legislation provided funding for institutions of higher learning in each State. Each State received 30,000 acres of federal land per congressional representative. The land was intended for sale to provide an endowment for at least one college where the leading object was learning related to agriculture and the mechanical arts. The original act was supplemented through the years to provide additional funding for the Land Grant Institutions. Also, additional colleges and universities with land-grant status were established, and certain existing institutions have received land-grant status (see 1890s colleges/ universities and 1994 Institutions).

Land management practice—A conservation practice that is carried out as part of production management. For example, nutrient or manure management, integrated pest management, irrigation management, tillage or residue management, and grazing management are land management practices.

Loan deficiency payments—A provision initiated in the Food Security Act of 1985 giving the Secretary of Agriculture the discretion to provide direct payments to wheat, feed grain, upland cotton, rice, or oilseed producers who agree not to obtain a commodity loan on their production for a particular crop year. Loan deficiency payments (LDP) continue to be available for all loan commodities except extra-long staple cotton. The LDP provision is applicable only if a marketing loan provision has been implemented; in which case a commodity loan may be repaid at a price less than the original loan rate (the repayment rate). The intent of these two provisions is to minimize the accumulation of stocks by the government, minimize the costs of government storage, and allow U.S. commodities to be marketed freely and competitively. The LDP payment amount is determined by multiplying the local marketing loan payment rate by the amount of the commodity eligible for a loan. The marketing loan payment rate at a point in time is the announced local commodity loan rate minus the then current local repayment rate for marketing loans.

Loan rate—See Commodity loan rate.

Market Access Program (MAP)—Formerly the Market Promotion Program, designed to encourage development, maintenance, and expansion of commercial commodity exports to specific markets. Participating organizations include nonprofit trade associations, state regional trade groups, and private companies. Fund authority is capped at $90 million annually for fiscal years 2002-07.

Market loss assistance payments—Payments authorized by emergency legislation in 1998-2001. Payments were made to recipients of production flexibility contract payments. Similar payments were also authorized for oilseed and dairy producers for selected years.

Marketing allotments—When in effect, provide each processor or producer of a specified commodity a specific limit on sales for the year, above which penalties would apply. Sugar allotments, for example, were authorized during 1991-95, suspended by the 1996 Farm Act, and reauthorized under the 2002 Farm Act.

Marketing assessments—A fee, or charge per unit of domestic production or sales, that producers, processors, or first purchasers must pay to the Government to help pay for commodity program costs.

Marketing loan program—Provisions first authorized by the Food Security Act of 1985 (P.L. 99-198) that allow producers to repay nonrecourse commodity loans at less than the announced loan rate whenever the world price or loan repayment rate for the commodity is less than the loan rate. Prior to 1985, commodity loans had to be repaid at the original loan rate, which often resulted in the accumulation of surplus commodities in Government inventories. Marketing loan provisions are aimed at reducing government costs of stock accumulation. Marketing loan provisions were originally mandated only for rice and upland cotton. The Secretary of Agriculture had the option of implementing marketing loans for wheat, feed grains, soybeans, and honey under the 1985 Farm Act and the subsequent farm acts. The 1996 Farm Act mandates that marketing loan provisions be implemented for feed grains, wheat, rice, upland cotton, and all oilseeds. The 2002 Farm Act established marketing loan provisions for peanuts, chickpeas, lentils, dry beans, wool, mohair, and honey.

Marketing orders—Federal marketing orders authorize agricultural producers in a designated region to take various actions to promote orderly marketing, such as influencing supply and quality and pooling funds for promotion and research. Marketing orders are initiated by the industry, but must be approved by the Secretary of Agriculture and by a vote among affected producers. Once approved, a marketing order is mandatory for all producers in the marketing order area. There are marketing orders for a number of fruits, nuts, and vegetables, and for milk.

Marketing year—See Crop year.

Milk marketing orders—See Federal milk marketing orders.

The National Research Initiatives for Food, Agriculture and Environment of 1990—The 1990 Farm Act extended the role of competitive grants within USDA by formalizing the competitive process via the National Research Initiatives for Food, Agriculture and Environment.

No net cost—A requirement that a price support program be operated at no cost to the Federal Government. The No-Net-Cost Act of 1982 required participants in the 1982 and subsequent tobacco programs to pay an assessment to cover potential losses in operating the tobacco price support program. A no-net-cost provision for sugar was initiated under the Food Security Act of 1985, suspended under the 1996 Farm Act, and reimplemented under the 2002 Farm Act.

Nonrecourse loan program—Provides commodity-secured loans to producers for a specified period of time (typically 9 months), after which producers may either repay the loan and accrued interest or transfer ownership of the commodity pledged as collateral to the Commodity Credit Corporation (CCC) as full settlement of the loan, without penalty. These loans are available on a crop year basis for wheat, feed grains, cotton, peanuts, tobacco, rice, and oilseeds. Sugar processors are also eligible for nonrecourse loans. Participants in commodity loan programs agree to store and maintain a certain quantity of a commodity as loan collateral, for which they receive loan funds from the CCC based on the announced commodity-specific, per-unit loan rate. The loans are called nonrecourse because, at the producer s option, the CCC has no recourse but to accept the commodity as full settlement of the loan. 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). Some commodity loans are recourse loans, meaning producers must pay back the loans in cash.

Nontariff barriers (NTB)-Any restriction, charge, or policy other than a tariff that limits access of imported goods. Examples of nontariff barriers include quantitative restrictions, mainly import quotas and embargoes; import licenses; exchange controls; some practices of state trading enterprises; and certain rules and regulations on health, safety, and sanitation. The Uruguay Round Agreement on Agriculture requires that NTBs be converted to bound tariffs and tariff-rate quotas and that sanitary and phytosanitary measures be based on sound science.

Normal flex acreage—A term given to the 15 percent of a farmer's acreage base that was not eligible for deficiency payments during 1991-95. Under planting flexibility provisions, however, producers were allowed to plant any crop on this normal flex acreage, except fruits, vegetables, and some other prohibited crops.

NRI—The National Research Initiatives for Food, Agriculture and Environment of 1990.

Oilseeds—Soybeans, sunflower seed, canola, rapeseed, safflower, mustard seed, and flaxseed.

Olympic average—A 5-year average, dropping the highest and lowest values.

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508)—A law covering a range of government budget issues that also amended the 1990 Farm Act to address budgetary concerns for 1991-95. It mandated a reduction in payment acreage equal to 15 percent of base acreage and established assessments on certain crop loans and incentive payments.

Optional flex acreage—A term given to an additional 10 percent of a farmer's acreage base in 1991-95 beyond the 15 percent normal flex acreage that farmers could choose to plant to crops other than the base program crop. Under the planting flexibility provision of the 1990 Farm Act, producers could choose to plant up to 25 percent of their base acreage for a specific crop to other CCC-specified crops (except fruits and vegetables) without a reduction in their base acreage. Optional flex acreage was eligible for deficiency payments when planted to the original program crop. However, no deficiency payments would be received on optional flex acreage if planted to another crop.

Other oilseeds—Sunflower seed, canola, rapeseed, safflower, mustard seed, and flaxseed.

Over-quota tariff—The tariff applied on imports in excess of the quota volume. The over-quota tariff is greater than the in-quota tariff.

Paid land diversion—Programs that offered payments to producers for reduction of planted acreage of program crops, if the Secretary determined that planted acreage should be reduced more than under ARPs. Farmers were given a specific payment per acre idled. The idled acreage was in addition to an acreage reduction program. This program has continued to be authorized under the 1996 and 2002 Farm Acts.

Parity-based support prices—Commodity support prices (such as loan rates or commodity program purchase prices) whose level in a given year is mandated to be calculated in a way that will maintain the commodity s purchasing power at the level it had in the 1910-14 base period. Under permanent provisions of farm legislation (provisions that would automatically apply in the absence of current farm acts that suspended the permanent provisions), prices of some commodities would be supported at 50-90 percent of parity through direct government purchases or nonrecourse loans.

Payment acres—Equal to 85 percent of the base acres for calculating direct and counter-cyclical payments under the provisions of the 2002 Farm Act.

Payment limitation—The maximum annual amount of commodity program benefits a person can receive by law. Persons are defined under payment limitation regulations, established by USDA, to be individuals, members of joint operations, or entities, such as limited partnerships, corporations, associations, trusts, and estates, that are actively engaged in farming. The 2002 Farm Act sets payment limits at $40,000 per person per fiscal year for direct payments, sets a limit of $65,000 for counter-cyclical payments, and limits marketing loan benefits to $75,000. The three-entity rule limits the number of farms from which a person can receive program payments. Producers with adjusted gross income of over $2.5 million, averaged over 3 years, are not eligible for payments, unless more than 75 percent of adjusted gross income is from agriculture.

Payment yield (also called program yield)—Farm commodity yield of record (per acre), determined by a procedure outlined in legislation. Payment yields for direct payments are unchanged since 1985. Under the 2002 Farm Act, producers could update payment yields for counter-cyclical payments during the initial enrollment in 2002 by adding 70 percent of the difference between program yields for 2002 crops and the farm's average yields for the 1998-2001 to program yields, or by using 93.5 percent of 1998-2001 average yields.

Peanut poundage quota—The maximum quantity of peanuts that was eligible for the higher of two price support loan rates under legislation prior to 2002. The Food and Agriculture Act of 1977 (P.L. 95-113) initiated the current two-price poundage quota program for peanuts where a national poundage quota is established and each producer receives a share of the national total. Producers can market more than their quota, but only the quota amount is eligible for domestic edible use and for the higher of the two commodity loan rates. Over-quota marketings are called additional peanuts and can only be sold for export or processing (crush). Under the 1990 Farm Act, each years 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 Farm 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. This program was ended under the 2002 Farm Act.

Permanent legislation—Legislation that would be in effect in the absence of all temporary amendments (farm acts). 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. They serve as the basic laws authorizing the major commodity programs. Generally, each new farm act amends the permanent legislation for a specified period.

Posted county price (PCP)—Calculated for wheat and feed grains for each county by USDA's Farm Service Agency, the PCP reflects price changes in major terminal grain markets (of which there are 18 in the United States) corrected for the cost of transporting grain from the county to the terminal. PCP is used under the marketing loan repayment provisions and loan deficiency payment provisions of the wheat and feed grains commodity programs. Rice and cotton use an adjusted world price as the proxy for local market prices.

Precision agriculture—An integrated information and production-based farming system designed to increase long-term, site-specific, and whole-farm production efficiencies, productivity, and profitability while minimizing unintended impacts on wildlife and the environment.

Prevented planting acreage—Land on which a farmer intended to plant a program crop or insurable crop but was unable to do so because of drought, flood, or other natural disaster. Used in the calculation of disaster payments and crop insurance indemnity payments.

Price support loans—See Nonrecourse loan program.

Production flexibility contract (AMTA) payments—Payments to farmers during 1996-2002 who enrolled "contract acreage," under Title I, Subtitle B of the 1996 Farm Act. The annual total amount was first determined for all contract crops combined (wheat, rice, feed grains, and upland cotton) and then allocated to specific crops based on percentage allocation factors established in the 1996 Act. Each participating producer of a contract crop received payments equal to the product of their production flexibility contract payment quantity and the national average production flexibility contract payment rate.

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

Production flexibility contract payment rate—The amount paid to farmers per unit of participating production under the 1996 Farm Act. A farm s contract acreage and farm program payment yield was established in 1996 during the sign-up period. A national average payment rate per unit for each crop was calculated each year based on the then total participating production (production flexibility contract quantity) and the total amount to be paid out for each crop, largely predetermined by the 1996 Act.

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 make individual farm program yields equal to the average of the preceding 5 years harvested yield (dropping the highest and lowest yield years). This provision has not been implemented in recent years. Program yields continue to be frozen at 1985 levels.

Program yield—See payment yield.

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 progress 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. Government donations for humanitarian food needs are provided under Title II. Title III authorizes "food for development" grants.

Recourse loan program—A provision allowing farmers or processors participating in Government commodity programs to pledge a quantity of a commodity as collateral and obtain a loan from the Commodity Credit Corporation (CCC), subject to the condition that the borrower must repay the loan with interest within a specified period. This provision is unlike the condition with nonrecourse loans whereby producers may settle their loans by giving the collateral to the CCC.

Revenue insurance—An insurance policy offered to farmers that pays indemnities based on revenue shortfalls. These programs are subsidized and reinsured by USDA s Risk Management Agency.

RFP—Request for Proposals.

SAES—State Agricultural Experiment Stations.

Safety net—A policy that ensures a minimum income, consumption, or wage level for everyone in a society or subgroup. It may also provide people (businesses) with protection against risks, such as lost income, limited access to credit, or devastation from natural disasters.

Section 32—Section 32 of Agricultural Adjustment Act Amendment of 1935 was enacted to widen market outlets for surplus agricultural commodities as one means of strengthening farm prices. Section 32 programs are financed by a permanent appropriation equal to 30 percent of the import duties collected on all items entering the United States under the customs laws, plus any unused balances up to $300 million. Most funds are annually transferred by appropriators to pay for child nutrition programs.

Section 416—A section of the Agricultural Act of 1949 that provides for the disposition of agricultural commodities held by the Commodity Credit Corporation to prevent waste. Disposal is usually carried out by donation of commodities to charitable groups and foreign governments.

Special grants—The Special Research Grants Act of 1965 created a mechanism for the distribution of funds to State Agricultural Experiment Stations, public institutions, and individuals to study problems of concern to USDA, as defined by Congress. Sometimes referred to as earmarked funds.

State Agricultural Experiment Stations (SAES)—SAES work with land-grant universities to carry out a joint research-teaching-extension mission. The Hatch Act of 1887 offered States the option of establishing stations to perform science-based research and acquire and disseminate information of use to the agricultural sector. Each State (as well as some territories) now has an SAES and some States have additional substations as well. The SAES cooperate closely with USDA.

Structural practice—A practice that involves a constructed facility, land shaping, or permanent vegetative cover. Examples include animal waste-management facilities, terraces, grassed waterways, contour grass strips, filterstrips, tailwater pits, permanent wildlife habitats, and constructed wetlands.

Target price—Prices established in the 2002 Farm Act used for calculating counter-cyclical payments (CCP) for wheat, corn, grain sorghum, barley, oats, rice, upland cotton, oilseeds, and peanuts. Target prices are fixed for 2002-03 and then raised to fixed levels for 2004-07, except for soybeans and rice, which remain at the 2002-03 levels. Prior to 1996, target prices were used to calculate deficiency payments.

Tariff-rate quota (TRQ)—An import restriction system based on tariffs and quantity quotas agreed to in the Uruguay Round Agreement on Agriculture. A certain quantity of imports, called the quota amount, is allowed to enter a country after payment of a relatively low tariff. A higher, over-quota tariff is imposed for imported quantities above the quota amount.

Three-entity rule—Limits the number of farms from which a person can receive program payments. Under the rule, an individual can receive a full payment directly and up to a half payment from two additional entities.

Thrifty Food Plan (TFP)—The TFP is one of four USDA-designed food plans specifying foods and amounts of foods to provide adequate nutrition. Used as the basis for designing Food Stamp Program benefits, it is the lowest cost food plan that can be priced monthly using the price data collected for the consumer price index. The monthly cost of the TFP used for the Food Stamp Program represents a national average of prices (four-person household consisting of an adult couple and two school-age children) adjusted for other household sizes through the use of a formula reflecting economies of scale. For food stamp purposes, the TFP as priced each June sets maximum benefit levels for the fiscal year beginning the following October.

Uruguay Round (UR)—The multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) during 1986-94, leading up to the Uruguay Round Agreement on Agriculture, among other provisions. The Agreement on Agriculture covers four areas: export subsidies, market (or import) access, internal (or domestic) supports, and sanitary and phytosanitary rules. The agreement was implemented over a 6-year period, 1995-2000.

Wetlands Conservation (Swampbuster)—First established in 1985, the so-called Swampbuster provision states that farmers or ranchers lose eligibility for farm program benefits if they produce an agricultural commodity on a wetland converted after December 23, 1985, or if they convert a wetland after November 28, 1990, and make agricultural production possible on the land. Natural Resources Conservation Service certifies technical compliance, and USDA's Farm Services Agency administers changes in farm program benefits.

Wetlands Reserve Program (WRP)—Congress authorized WRP under the 1985 Farm Act. Natural Resources Conservation Service administers the program in consultation with USDA's Farm Services Agency and other Federal agencies. WRP is funded through Commodity Credit Corporation and has an enrollment cap of 1,075,000 acres. Landowners who choose to participate in WRP may sell a permanent or 30-year conservation easement or enter into a 10-year cost-share restoration agreement to restore and protect wetlands. The landowner voluntarily limits future use of the land yet retains private ownership. USDA pays 100 percent of restoration costs for permanent easements and 75 percent for 30-year easements and restoration cost-share agreements.

Wildlife Habitat Incentives Program (WHIP)—The 1996 Farm Act created WHIP to provide cost-sharing assistance to landowners for developing habitat for upland wildlife, wetland wildlife, threatened and endangered species, fish, and other types of wildlife. Participating landowners, with the assistance of the Natural Resources Conservation Service district office, develop plans for installing wildlife habitat development practices and requirements for maintaining the habitat for the 5- to 10-year life of the agreement. Cost-share payments of up to 75 percent may be used to establish and maintain practices. Cooperating State wildlife agencies and nonprofit or private organizations may provide expertise or additional funding to help complete a project. WHIP funds are distributed to States based on State wildlife habitat priorities, which may include wildlife habitat areas, targeted species and their habitats, and specific practices.

World price (rice)—As part of the rice marketing assistance loan program, USDA calculates the world price for each class of milled rice (long grain, medium grain, and short grain) based on the prevailing world market price for each of the classes, modified to reflect U.S. quality and the U.S. cost of exporting milled rice. USDA sets this prevailing market price after reviewing milled rice prices in major world markets, and taking into account the effects of supply-demand changes, government-assisted sales, and other relevant price indicators. The steps for calculating and announcing the world prices are prescribed in more detail in Federal regulations.

World Trade Organization (WTO)—An international organization established by the Uruguay Round trade agreement to replace the institution created by the General Agreement on Tariffs and Trade, known as the GATT. The Uruguay Round trade agreement modified the code and the framework and established the WTO on January 1, 1995. The WTO provides a code of conduct for international commerce and a framework for periodic multilateral negotiations on trade liberalization and expansion.

0,50/85-92 provisions—Refers to the so-called 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 idled land in a conserving use, and still receive deficiency payments for part of the acreage. A minimum planting requirement of 50 percent of maximum payment acreage was required in order to receive these payments in the case of rice and cotton.

1862 colleges/universities—The original land grant colleges and universities established by the Land Grant College Act of 1862 (see Land-Grant Institutions).

1890s colleges/universities—These institutions resulted from provisions of the second Morrill Act, which forbid racial discrimination in Land-Grant Colleges and Universities. States had the option of creating separate institutions to serve African-American students. The Southern States elected to have separate educational institutions, sometimes referred to as "historically black colleges and universities." While not a land-grant college, Tuskegee University traditionally has been associated with the African-American land-grant institutions. It was granted 25,000 acres of land by the U.S. Congress in 1899 and has espoused the land-grant philosophy throughout its history.

1994 Institutions—Land-Grant Institutions that traditionally served Native Americans. The Equity in Educational Land-Grant Status Act of 1994 conferred land-grant status for 29 tribal colleges that address agriculture and mechanical arts.

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Briefing Rooms [ARCHIVE]

Farm and Commodity Policy: Questions and Answers

How are loan deficiency payments and other loan related benefits provided?
What is the Commodity Credit Corporation (CCC)?
What is "permanent" agricultural legislation?
What were the estimated costs of the 2002 Farm Act?

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

Q. How are loan deficiency payments and other loan-related benefits provided?

A. Producers of eligible commodities are entitled to obtain a marketing assistance loan for each crop year, with the amount based on the per-unit loan rate and the quantity of the crop the producer pledges as collateral for the loan. There are a number of benefits producers may receive (at their option) from related loan provisions, including marketing loan gains, loan deficiency payments, interest subsidies, and a guaranteed minimum price. Commodities covered include feed grains, wheat, rice, cotton, soybeans, other oilseeds, sugar, tobacco, peanuts, wool, mohair, honey, small chickpeas, lentils, and dry peas.

Marketing loan gains - Loan program repayment rates must be administered to minimize potential loan forfeitures, minimize accumulation of stocks by the Federal Government, minimize costs, and encourage free and competitive marketing of the commodity. Therefore, when forfeitures seem likely, the Secretary of Agriculture sets the repayment rate at a level below the usual level required for the settlement of loan obligations. When loans are settled at this lower level, there is an implicit direct payment to producers evaluated as the difference between the original loan rate and the actual repayment rate, multiplied by the quantity of the commodity that was under loan. This payment is often referred to as the marketing loan gain. Marketing loan repayment rates are based on local posted county prices (PCPs) for wheat, feed grains, and oilseeds, and on a prevailing world market price for rice and upland cotton.

Loan deficiency payments (LDP) - The Secretary of Agriculture has the option of implementing a loan deficiency payment program for all loan commodities, except for ELS cotton. Eligible producers are those who, although eligible to obtain a marketing assistance loan, instead agree to forgo obtaining the loan in return for LDP's. The payment rate for an LDP is the same as the amount of benefits per unit being received in the local county as a marketing loan gain under the repayment provisions of the marketing assistance loan program. These are local, county payment rates, as commodity loan rates and repayments rates differ by area of the country.

Interest subsidies - Another source of benefits from the CCC commodity loan program is the availability of the loan funds at below-market interest rates, or in some cases without any interest charge at all. Producers pay 1 percentage point more than the rate charged the CCC for its funds by the Department of Treasury. This rate is typically less than the rate farmers would have to pay for commercially available short-term loans. Furthermore, no interest charges are paid if the commodities (or commodity certificates) are delivered to the CCC instead of cash to repay the loan. And no interest is charged if the loan is repaid under the lower marketing loan gain repayment provision.

Guaranteed minimum price - Because the farmer may deliver the loan collateral instead of cash to settle the loan, the original commodity loan rate is an effective minimum per-unit return under the CCC commodity loan program. With the advent of the marketing loans and loan deficiency payments, this means that a market price minimum is not established, but the combined effect provides a minimum per-unit return.

For additional details see the description of the 1996 and 2002 commodity loan programs.

Q. What is the Commodity Credit Corporation (CCC)?

A. The Commodity Credit Corporation (CCC) is a federally owned and operated corporation within the U.S. Department of Agriculture created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC. Programs that are mandated to be funded through the CCC do not require separate appropriations from Congress. CCC transactions with farmers include (1) direct payments made to producers under various programs, (2) direct purchases of dairy products under the dairy price support program, and (3) the commodity loans provided under the marketing assistance loans for wheat, feed grains, cotton, rice, sugar, peanuts, soybeans, and minor oilseeds. Temporary, emergency laws have also provided for honey and mohair loans. Tobacco loans are mandated under earlier legislation.

In the past, the CCC has played a larger role than at present in facilitating storage, release, and marketing of current production. This has occurred through operation of the 3-5 year farmer-owned reserve during 1977 to 1995, for example, and through the accumulation of commodities under the commodity loan program in years before 1990 when the loan rate was essentially the minimum market price. Occasionally, the CCC has purchased, sold, and/or transferred commodities for various uses in support of various feed assistance or consumer food aid or other programs. The availability of short-term loans at reasonable interest rates continues to facilitate orderly marketing by producers within a crop-marketing year by encouraging them to temporarily store their production in anticipation of future prices changes. This stabilizes market prices to an important degree.

For additional information see About the Commodity Credit Corporation, USDA Farm Service Agency.

Q. What is "permanent" agricultural legislation?

A. Permanent legislation refers to those laws that would be in force to authorize various agricultural programs in the absence of all temporary amendments (farm acts). The Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949, as subsequently amended, serve as the basic laws authorizing the major commodity programs. Technically, each new short-term farm act amends the permanent legislation for a specified period. The permanent statutory provisions, as amended over the years, dictate how commodity programs can be implemented unless steps are taken to amend, suspend, or repeal parts of them. The most recent legislation modifying the effect of the permanent provisions through such actions was the 2002 Farm Act. As usual, some permanent provisions were left unchanged by the 2002 Farm Act, and therefore still apply to current programs.

Selected features of permanent legislation include:

- acreage allotments and marketing quotas,
- parity price support, and
- farmer-owned reserve.

Q. What were the estimated costs of the 2002 Farm Act in May 2002?

Answer, on a separate page, seeks to address the considerable confusion concerning cost estimates for the 2002 Farm Act following passage of the legislation.

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Briefing Rooms [ARCHIVE]

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Q. What were the estimated costs of the 2002 Farm Act in May 2002?

A. The Farm Security and Rural Investment Act of 2002 (the 2002 Farm Act) covers a range of programs, including price and income support, conservation, trade, nutrition, rural development, credit, research, forestry, and energy. When new legislation is reported by a committee, the Congressional Budget Office (CBO) is required to estimate (or score) the projected costs to the Federal budget. Considerable confusion exists concerning cost estimates for the 2002 Farm Act, as reports of estimates following passage of the legislation varied widely. This discussion attempts to eliminate the confusion.

Cost Estimates and Budget Baselines

The confusion surrounding the cost estimates for the 2002 Farm Act stem from the various ways the costs are measured and reported:

- whether the estimates are reported for 6 years (the life of the legislation) or 10 years;
- whether the estimates indicate the projected *additional* costs of mandated changes, or the projected *total* costs of programs;
- whether projections are based on the April 2001 or the March 2002 CBO baseline budget, and how the baselines are constructed; and
- whether projections cover only agricultural programs funded through the Commodity Credit Corporation (CCC) or also include nonfarm spending (particularly food stamps).

Congressional budget rules require that legislation be scored (the costs be estimated) over a 10-year time horizon, even when legislation such as a farm bill covers a shorter time period. Moreover, a CBO cost estimate shows the expected change in future Federal costs if new legislation is enacted—it is **not** the total cost after enactment. Most of the apparent discrepancies in cost estimates relate to uncertainty whether the reported estimates are totals or increases, and to a lack of understanding of the benchmark against which cost changes are measured.

The benchmark, called the budget baseline, is an estimate of expected future costs of existing programs in the absence of new legislation. For the 2002 Farm Act, the baseline assumed that then-current farm legislation (the 1996 Farm Act) remained in effect through the projection period. To develop a baseline and analyze the impacts of new legislation, CBO analysts must estimate supply, demand, and prices of selected agricultural commodities and macroeconomic conditions, because the costs of many agricultural and food assistance programs vary depending on market conditions. CBO's estimates are based on ranges of possible outcomes. The supply, demand, and price estimates in the baseline represent the most likely points within those ranges. CBO excludes ad hoc emergency assistance, such as market loss assistance payments, in its baseline, since these payments were authorized as one-time responses to emergency conditions, not as ongoing programs under the 1996 Farm Act. (In instances where emergency assistance provisions apply to current and future years, legislated payments are included in the CBO baseline.)

CBO scored the 2002 Farm Act against two significantly different baselines—one created in April 2001 and a second created in March 2002 (see table). Most importantly, the March 2002 baseline assumed that commodity prices would be lower than those projected in the April 2001 baseline and that macroeconomic conditions would be weaker. Lower commodity prices in 2002 implied higher government costs (in either 1996 or 2002 farm legislation) for price-sensitive provisions such as the marketing loan benefits, while the weaker macroeconomy means higher spending on food assistance programs.

Typically when Congress passes legislation, it is scored relative to the most recent baseline in effect at that time. At the time of passage of the 2002 Farm Act, the March 2002 CBO baseline was the most recent. However, in a May 2001 budget resolution, the Congress had agreed that funding for the 2002 farm bill (using a 10-year time horizon) would be increased by $73.5 billion over projected levels in the April 2001 baseline. In keeping with that resolution, the April 2001 baseline and related assumptions continued to be used to estimate if the new Farm Act fit within budget guidelines.

The 2002 Farm Act

April 2001 baseline assumptions. Using the assumptions underlying the April 2001 baseline as agreed to in the budget resolution, CBO estimated in May 2002 that the 2002 Farm Act would add **$73.5** billion to the budget over 10 years for all programs included in the Act (see table). Spending for specifically agricultural programs (**$47.7** billion for commodity programs, **$17.1** billion for conservation programs, and **$1.1** billion for trade programs) funded primarily through the Commodity Credit Corporation (CCC) comprised about 90 percent—$66 billion—of the increase in spending under the 2002 Farm Act. Over the 6-year life of the 2002 Farm Act (FY 2002-07), CCC-funded programs account for $40.9 billion out of the **$45.1**-billion increase in spending.

Baseline budgetary expenditures—i.e., outlays for all Farm Act programs had the 1996 legislation continued in effect—were projected at **$673.4** billion over the 10-year period from 2002-11. Spending for CCC-funded programs (**$77** billion for commodity support, **$21.4** billion for conservation, and **$2.6** billion for trade) was projected at $101.1 billion in the baseline. About 79 percent of the estimated baseline spending was for food and nutrition entitlement programs (food stamps, child nutrition, etc.).

Total projected 10-year spending under the 2002 Farm Act (baseline plus projected increase) was almost **$747** billion. CCC-funded programs accounted for about 22 percent of the total, and nutrition programs accounted for about 72 percent.

March 2002 baseline assumptions. When the March 2002 assumptions were used as a benchmark for measuring cost increases, the projected 10-year cost increase for 2002 Farm Act programs was **$82.8** billion (see table). In other words, when the March 2002 assumptions were used in place of the April 2001 baseline, the budget score widened by $9.3 billion over 10 years (**$82.8** billion minus **$73.5** billion). Commodity programs in Title I of the legislation account for almost all ($8.9 billion) of the difference. Lower commodity prices in the March 2002 baseline assumptions result in higher projected outlays for marketing loan benefits and for the new counter-cyclical payments. Weaker projected macroeconomic conditions increase the costs for nutrition programs. Miscellaneous costs also increase due to the lower commodity prices and weaker macroeconomic conditions.

Baseline budgetary expenditures for all programs included in the Farm Act (assuming continuation of 1996 legislation) also were higher under the March 2002 assumptions—**$699.2** billion for the 10-year period from 2002 to 2011 compared with **$673.4** billion under the April 2001 baseline assumptions. The higher costs reflect increased projected expenditures for commodity programs due to lower commodity prices, and for food and nutrition programs due to the weaker macroeconomic conditions. Total projected spending for all 2002 Farm Act programs under March 2002 assumptions (over 10 years) is **$782** billion—$35 billion above the April 2001 figure.

Total estimated costs for commodity programs (Title I) are $17.3 billion higher (**$142.1** billion minus **$124.8** billion) when the March 2002 baseline assumptions are used rather than the April 2001 baseline assumptions. Lower projected commodity prices in the March 2002 baseline compared with the April 2001 baseline account for the difference. About 52 percent of the higher costs are associated with the counter-cyclical payments and the higher marketing loan rates in the 2002 Farm Act.

Actual costs. As economic conditions change over time, the actual costs for the 2002 Farm Act will reflect changes in the agricultural sector and underlying macroeconomic conditions.

Table 1. Farm Act funding for mandatory programs—Congressional Budget Office (CBO) baseline assumptions 1/

		CBO baseline assumptions			
		April 2001		March 2002	
Title	Description	FY 2002-07	FY 2002-11	FY 2002-07	FY 2002-11
		$ million		$ million	
I	Commodity programs				
	Baseline funding (1996 Act)	55,534	*77,045*	61,337	85,365
	Additional funding (2002 Act)	31,169	*47,771*	37,587	56,714
	Subtotal	86,703	*124,816*	98,924	*142,079*
II	Conservation				

	Baseline funding (1996 Act)	11,583	*21,412*	12,075	22,089
	Additional funding (2002 Act)	9,198	*17,079*	9,198	17,079
	Subtotal	20,781	38,491	21,273	39,168
III	Trade				
	Baseline funding (1996 Act)	1,566	*2,610*	1,572	2,640
	Additional funding (2002 Act)	532	*1,144*	532	1,144
	Subtotal	2,098	3,754	2,104	3,784
IV	Nutrition				
	Baseline funding (1996 Act)	302,291	528,657	315,130	548,742
	Additional funding (2002 Act)	2,657	6,400	2,793	6,625
	Subtotal	304,948	535,057	317,923	555,367
V	Credit				
	Baseline funding (1996 Act)	0	0	0	0
	Additional funding (2002 Act)	0	0	0	0
	Subtotal	0	0	0	0
VI	Rural development				
	Baseline funding (1996 Act)	0	0	160	160
	Additional funding (2002 Act)	870	870	870	870
	Subtotal	870	870	1,030	1,030
VII	Research				
	Baseline funding (1996 Act)	360	360	240	240
	Additional funding (2002 Act)	520	1,323	520	1,323
	Subtotal	880	1,683	760	1,563
VIII	Forestry initiatives				
	Baseline funding (1996 Act)	0	0	0	0
	Additional funding (2002 Act)	100	100	100	100
	Subtotal	100	100	100	100
IX	Energy				
	Baseline funding (1996 Act)	0	0	0	0
	Additional funding (2002 Act)	405	405	405	405
	Subtotal	405	405	405	405
X	Miscellaneous provisions				
	Baseline funding (1996 Act)	24,373	43,316	22,652	39,970
	Additional funding (2002 Act)	(336)	(1,594)	(303)	(1,441)
	Subtotal	24,037	41,722	22,349	38,529
Total baseline funding (1996 Act)		395,707	*673,400*	413,166	*699,206*
Total additional funding (2002 Act)		*45,114*	***73,497***	51,702	***82,819***
Total		440,821	*746,897*	464,868	*782,025*

1/ Excludes funding for discretionary programs, which is provided through annual appropriations.

Source: Congressional Budget Office projections for budget authority.

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Farm and Commodity Policy: Related Links

USDA Farm Service Agency, Commodity Operations.

U.S. House of Representatives Committee on Agriculture. Farm legislation and legislative proposals.

U.S. Senate Committee on Agriculture, Nutrition, and Forestry. Farm legislation and legislative proposals.

USDA Risk Management Agency, Crop Policies. Crop and revenue insurance.

USDA Natural Resources Conservation Service, Conservation Programs.

USDA Foreign Agricultural Service, Export Programs.

Contents:

- Farm and Commodity Policy Briefing Room
- Basics of U.S. Agricultural Policy
- Background and Issues
- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
- Farm and Commodity Policy Analysis

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Farm and Commodity Policy: Maps and Images

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- 2002-07 Program Provisions
- Analyses of the 2002 Farm Act
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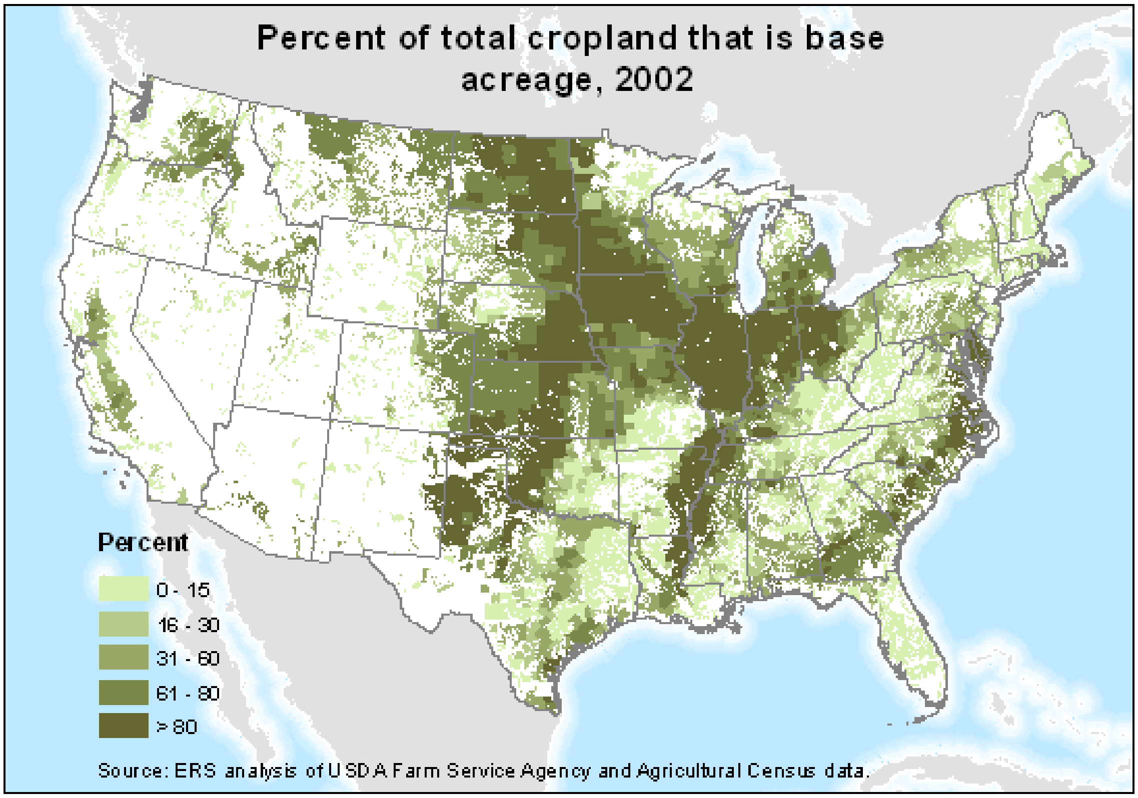
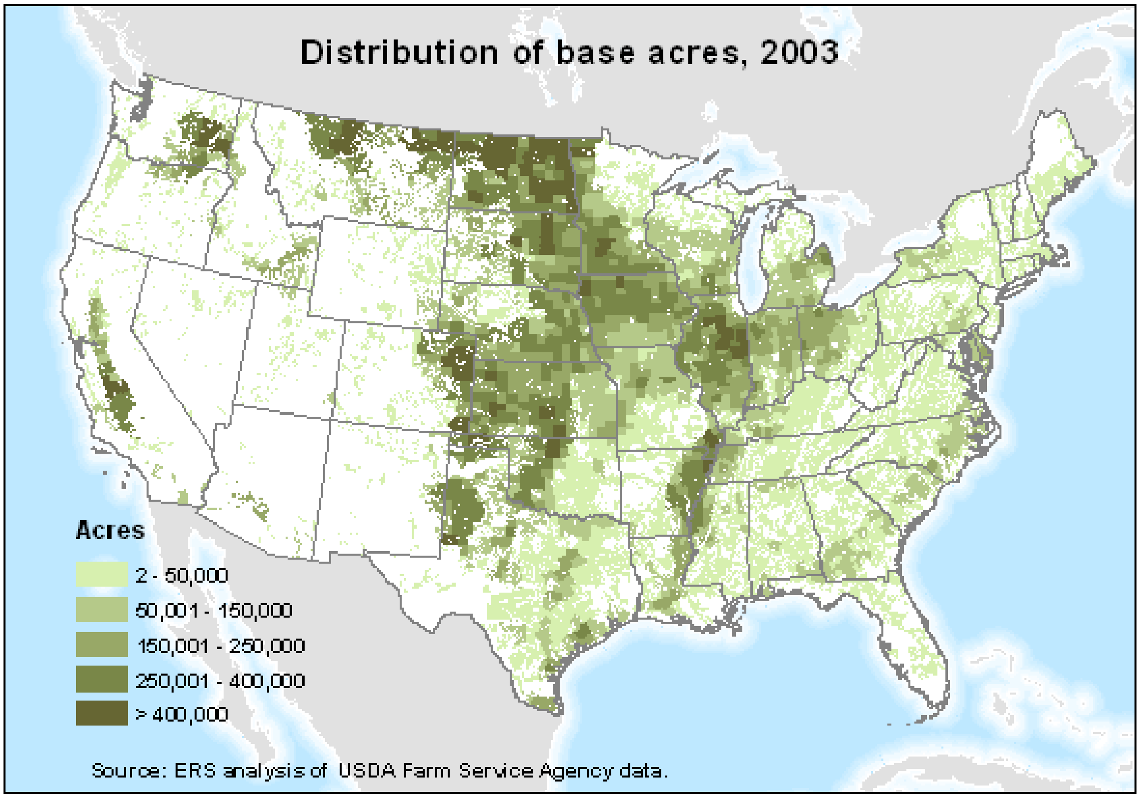
Geographical Distribution of Farm Program Characteristics

- Percent of total cropland that is base acreage, 2002
- Distribution of base acres, 2003
- Distribution of CRP acres, 2007
- Distribution of commodity program payments per cropland acre, FY2005
- Per acre direct payments, 2003
- Government payments as a proportion of gross cash income from farming, 2005
- Cotton plantings relative to 2002 Farm Act cotton base acres, by county, 2003
- Percent of total payments to farms, by payment type

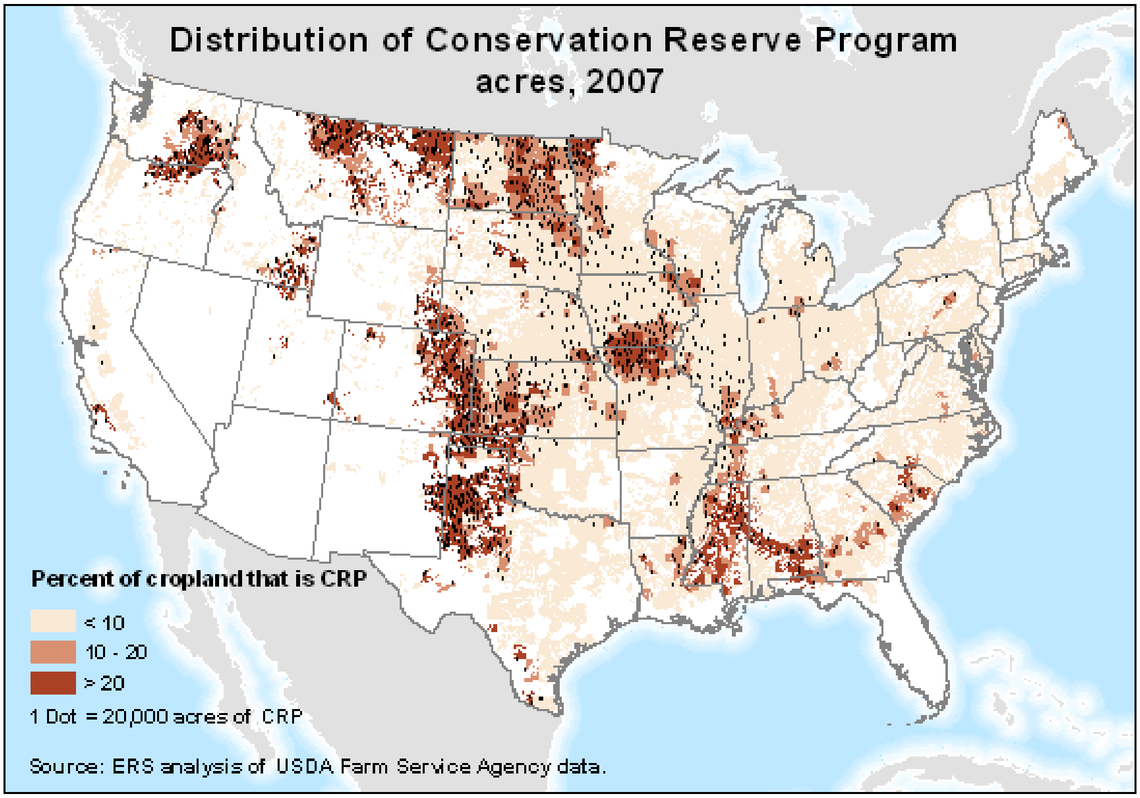
Maps showing base acres by commodity can be generated using ERS's Farm Program Acres Data Mapping Product. For a definition of regions, see USDA's Farm Production Regions.



Base acres account for over 60 percent of total cropland in the Corn Belt, the eastern Plains States, and along the Mississippi River. Base acreage also constitutes a large share of cropland in the piedmont region of the Southeast. The lower share of base acreage in California and the Pacific Northwest reflects the importance of fruit and vegetable production there.

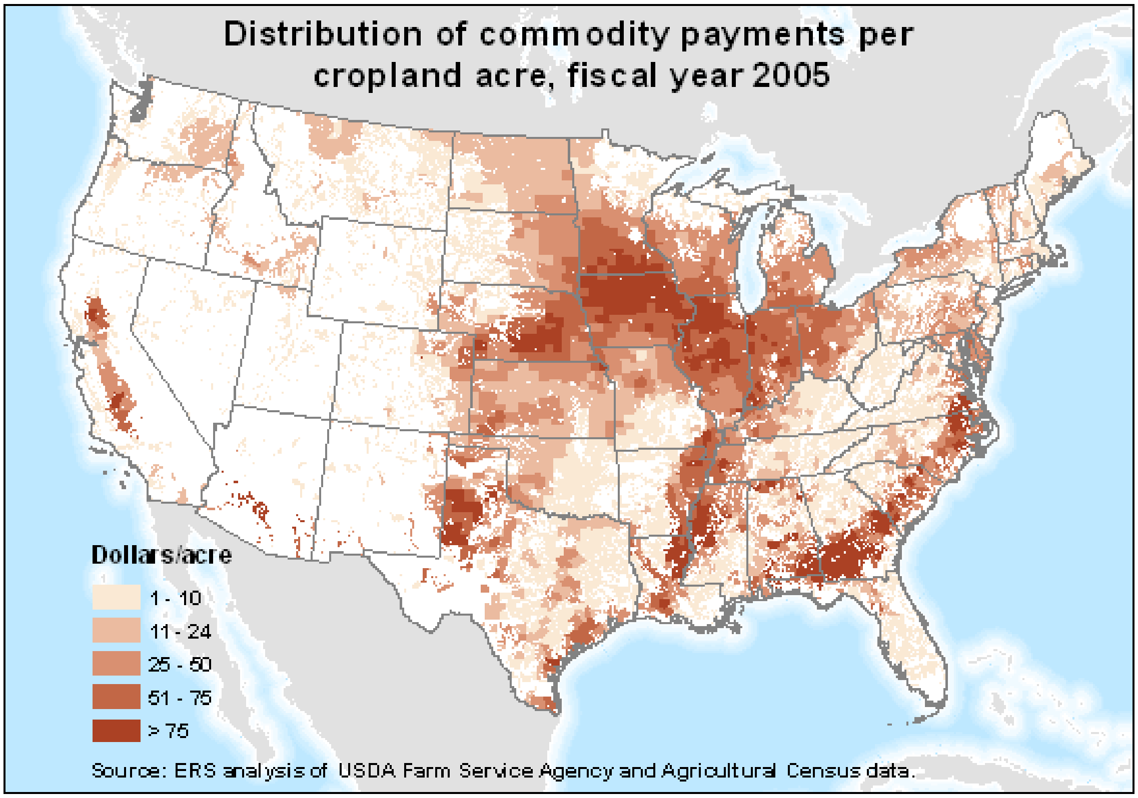


The distribution of base acres in the United States reflects historical production of program crops. Base acres are concentrated along the Mississippi River, in the Corn Belt, in the Plains States, in eastern Washington and Oregon, and in central California.



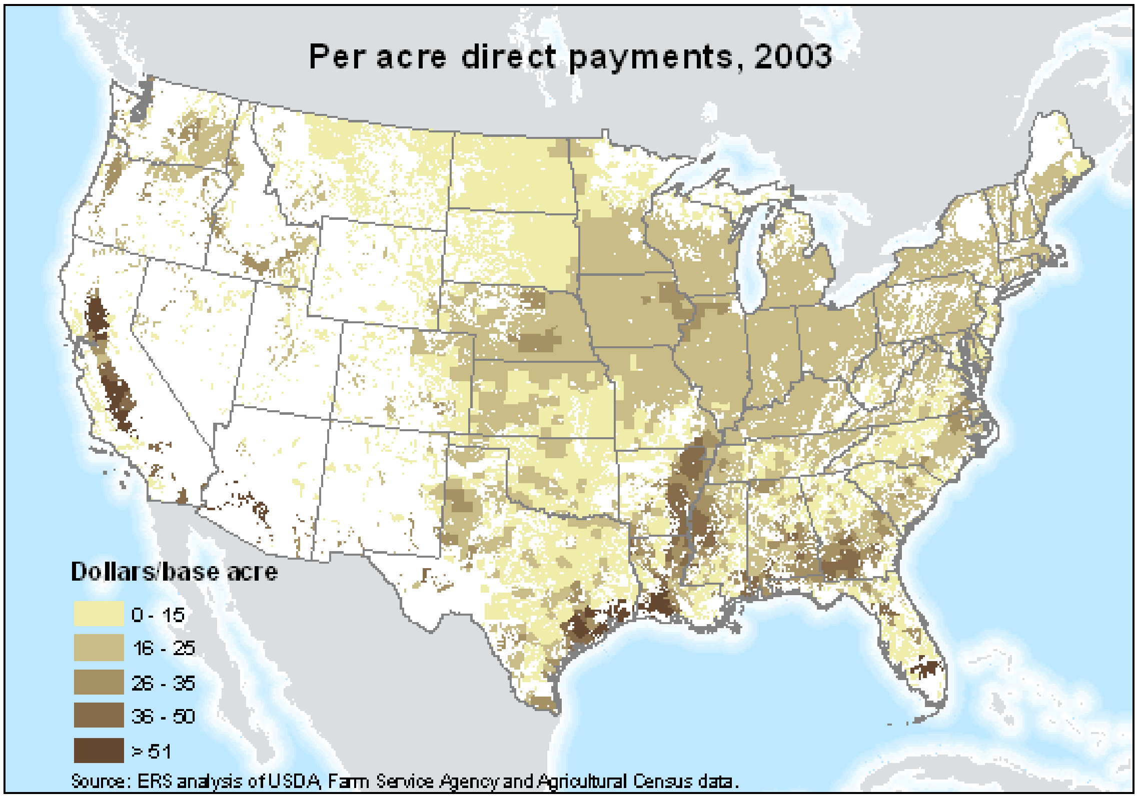
Most areas of the Plains States, eastern Washington and Oregon, and the Mississippi Delta have high concentrations of Conservation Reserve Program (CRP) acreage, and those acres represent a significant percentage of cropland. The Corn Belt, however, shows overall low concentrations of CRP land relative to cropland with just pockets of relatively high levels of

CRP acreage.

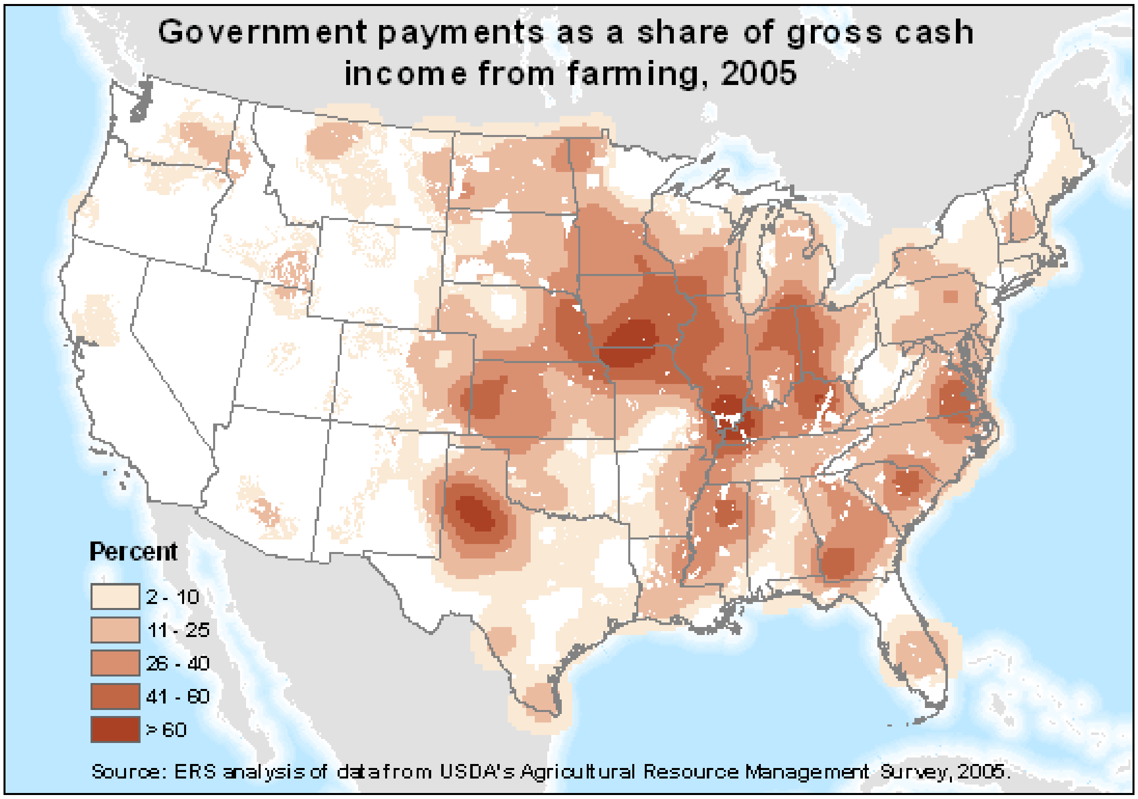


Commodity program payments are concentrated in major producing areas:

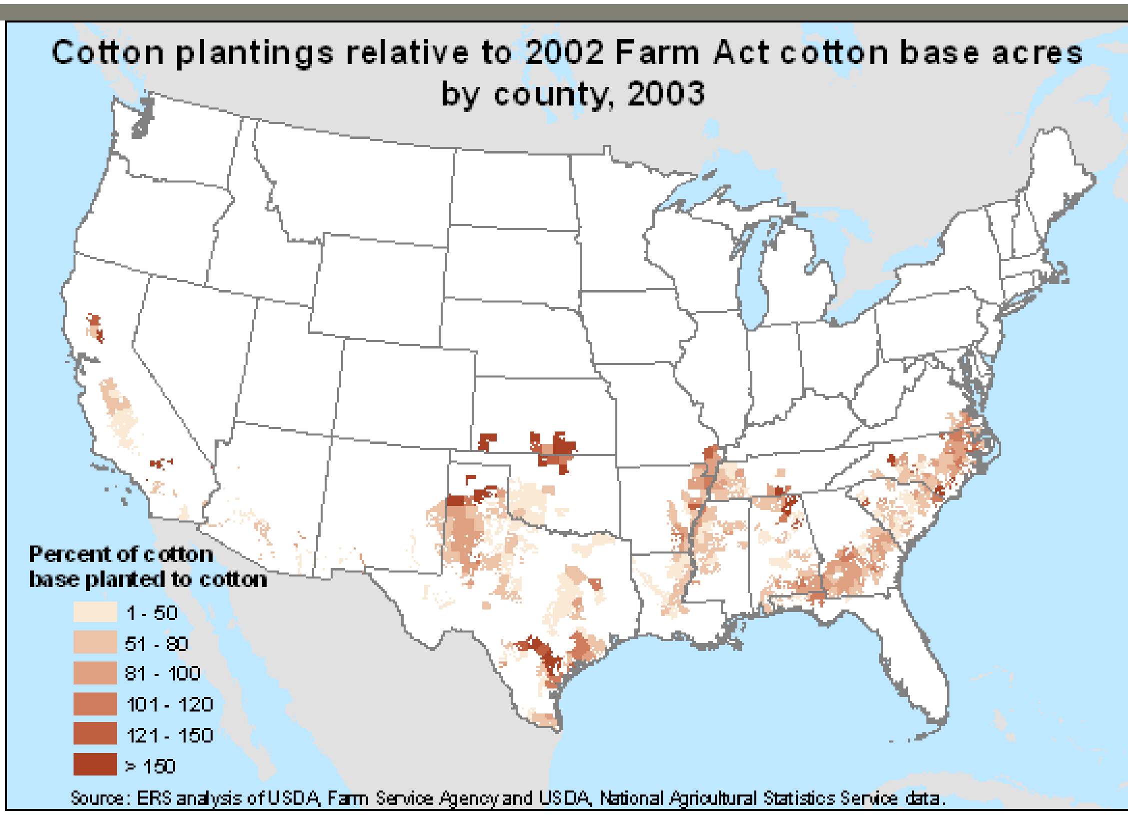
- The Corn Belt, where corn and soybeans are the leading crops;
- The Plains States and the Pacific Northwest, where wheat predominates;
- The southeastern Coastal Plain, where cotton and peanuts are produced;
- The lower Mississippi River area, where cotton and rice are produced;
- West Texas and southern Arizona, where cotton is grown; and
- California, where rice and cotton are important.



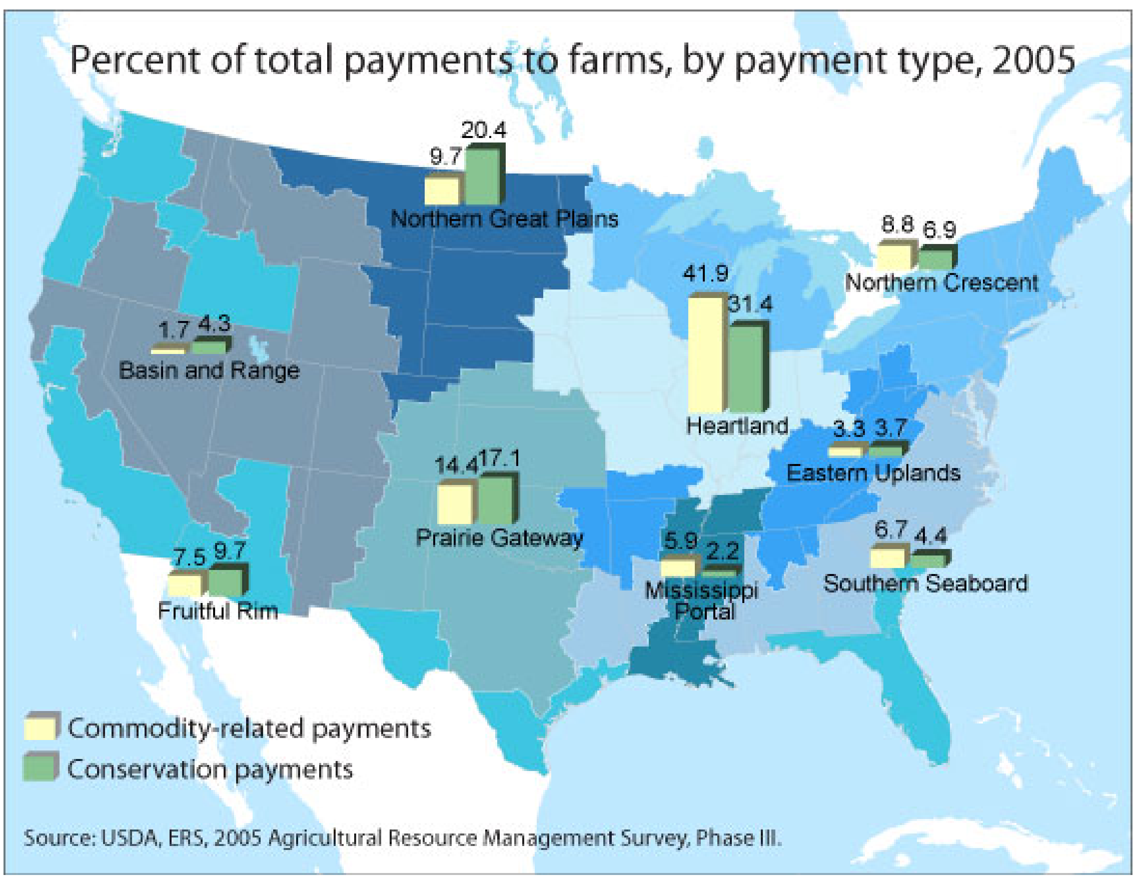
The value of direct payments to U.S. producers depends on historical acreage and yields. The legislated payment rates are commodity dependent—and result in payments averaging about $1 per acre for oats and close to $100 per acre for rice. Direct payments are concentrated in the major producing areas. They are highest in California, where rice and cotton are produced; in the southeastern Coastal Plain, where cotton and peanuts are produced; and along the lower Mississippi River, where cotton and rice are produced. Direct payments per acre are also high in the midwestern Corn Belt, where corn and soybeans are the leading crops.



A substantial proportion of government payments to farmers is based on historical production of specific commodities, such as corn, oilseeds, wheat, rice, and cotton. Thus, payments represent a higher share of cash income in areas where production of these commodities is concentrated. When commodity prices are low, these payments become even more significant as components of farm income.



Planting flexibility can be illustrated by comparing base and planted acres of upland cotton. In 2003, 13.3 million acres were planted to upland cotton, down 2.2 million acres from 2001. In 367 of the 459 counties that reported county-level cotton plantings in 2002, base acres exceed planted acreage by a total of about 5.2 million acres. In the remaining 92 cotton counties, planted acres exceed base by 0.3 million acres.



In 2005, farms in the Heartland received the largest share of both commodity-related and conservation payments. Heartland farms' 42 percent share of commodity program payments was roughly in line with the region's 50-percent share of production of program crops.

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