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Received through the CRS Web

Agriculture and the 106th Congress: A Summary of Major Issues

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Summary

Most congressional interest in agriculture in the 106th Congress was focused on persistent low prices for major commodities and proposals to redress declining farm income. Six emergency farm aid bills were approved, increasing agricultural spending by nearly \$27 billion for fiscal years 1999-2001. These bills provided disaster relief along with short term “market loss payments” to farmers to shore up farm income. Some longer term changes also were enacted as part of emergency farm legislation. Among these were the extension of the dairy price support program beyond 2000, increases in the farmer payment limit so farmers could receive the supplemental payments, and the exemption of agriculture products from unilateral U.S. trade sanctions. The Congress also approved a new law (P.L.106-224) increasing coverage and premium subsidies for crop insurance, which added another \$8.2 billion to agriculture spending over the next 5 years. Animal Plant Health Inspection reforms were part of the crop insurance measure. Other legislation (H.R.4444) strongly supported by the farm sector that approved permanent normal trade relations with China also was adopted (P.L.106-286).

Overview

For the last 3 years, abundant world supplies and declining export demand have kept prices for most U.S. farm commodities and farm income quite low. Despite economic recovery in world markets and some growth in export demand, the USDA projects that current supplies, especially of major field crops, are likely to maintain downward pressure on farm prices. In response, the 106th Congress approved several multi-billion dollar emergency farm aid laws. It also expanded crop insurance coverage and premium subsidies. Longer term efforts were less successful. These included proposals for farm policy changes that would provide automatic counter-cyclical farm income relief and restrict mergers in the agriculture sector (which some see as a contributor to low farm prices). Tax relief, in the form of Farm and Ranch Risk Management (FARRM), also was proposed but not enacted. These proposals are expected to resurface in the 107th Congress.

The “Farm Safety Net”. The 1996 farm law established a system of guaranteed annual lump-sum payments to wheat, feedgrain, cotton, and rice farmers.¹ These “contract” or “AMTA” payments replaced the longstanding system of price supports for individual commodities that paid farmers the difference between target prices and market prices when the latter were lower than target prices set by law for each commodity. In return for giving up price supports linked to market prices, eligible farmers were given nearly total planting flexibility, and acreage reduction programs were eliminated. The idea was that farmers would be able to plant in response to market signals, rather than federal program benefits. Opposition to this approach came from some who worried about what would happen without an automatic “safety net” for farmers if prices fell, which began to happen late in 1997. Advocates of the new approach contended that contract payments made to farmers when prices were good would provide a cushion for lean years, and that there still would be marketing loan assistance for field crops, albeit at capped loan rates.² After record highs in 1996 and 1997, U.S. farm income and prices for many major commodities began a sustained period of decline. Unusually good worldwide growing conditions had expanded supplies and an Asian financial crisis that spread to much of the rest of the world reduced demand.

As farm income fell, the Congress stepped in. For FY1999, it approved emergency farm aid packages that added \$6.6 billion to farm spending, most of which went for so-called “market loss payments,” and raised the 1999 crop year limit on the maximum amount of marketing loan assistance a farmer could receive (from \$75,000 to \$150,000 per farmer per farm, or \$300,000 per farmer for up to 3 farms). For FY2000, another \$15 billion was added to farm program spending for emergency assistance. As before, most of this aid went to farmers receiving AMTA payments (i.e., grain, cotton, and rice farmers), regardless of their income situation. Some also went to oilseed, tobacco, peanut and dairy farmers, and for disaster relief. The distribution of most of this aid to AMTA recipients, without regard to their income situation, was viewed as the quickest way to get payments out to farmers. Some, including the Administration and some congressional Democrats objected to this approach, favoring instead more targeted assistance to those farmers in economic distress, and the use of the marketing loan program to provide this aid. Complaints also were heard that “non-program” producers (i.e. fruit, vegetable, and livestock producers) who had suffered losses from natural disasters (droughts and floods), as well as falling prices received too little of the emergency assistance funding. For FY2001, the Congress again approved an emergency farm aid package adding some \$3.8 billion in assistance to farmers, and raised the limits on how much farmers could receive in federal farm payments.

There was less agreement on more permanent policy changes addressing farm income problems. These included proposals to: (1) extend marketing loan repayment terms (S. 30 and H.R. 1299); (2) reestablish the farmer-owned reserve (H.R. 2704 and S. 839); and (3)

¹ The 1996 farm law is formally entitled the Federal Agriculture Improvement and Reform (FAIR) Act. Title I, The Agriculture Market Transition Act (AMTA), also known as “Freedom to Farm,” substituted lump sum payments for target price support for wheat, feedgrains, cotton, and rice.

² Marketing loan assistance provides payments to field crop farmers when prices fall below loan rates established on the basis of three preceding year olympic average prices for commodities. High prices and expanding export markets when the farm bill was considered probably helped to mute some of the concerns about eliminating target price supports.

provide supplemental income payments (SIP) for producers of crops eligible for market loan assistance (H.R. 2792). The SIP proposal and others like it would have provided supplemental payments for wheat, feed grains, cotton, rice, and oilseeds whenever the current year's national gross revenue for a crop falls below a specified percentage (95% in H.R. 2792; 92% in the Administration proposal) of the previous 5-year average.

Except for raising the maximum payments a farmer can receive, efforts to change the marketing loan program did not meet with much success. In part, this was because of the price tag associated with some of these proposals when they were first offered.³ There also were concerns that this would undermine the "free market" direction of farm policy, and the efforts by U.S. trade negotiators to get other countries to reduce their high levels of domestic farm support. Nonetheless, marketing loan assistance is viewed by many as a more appropriate system for delivering farm payments to farmers suffering from low prices than AMTA payments, which make no price or income distinctions. (See CRS Issue Brief IB10043, *Farm Economic Relief: Issues and Options for Congress*, and CRS Report 98-744, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments*.)

Agriculture Spending. Two appropriations measures passed in 1999 (P.L. 106-78 and P.L. 106-113) added a total of \$9.3 billion to regularly programmed farm spending for FY2000. A third FY2000 farm aid package, approved in June 2000, was added to the conference agreement on crop insurance (H.R.2559, P.L.106-224). It provided another \$5.5 billion in farm aid for FY2000 (plus \$1.64 billion for FY2001), as well as some \$8.2 billion in new spending over the next 5 years for the crop insurance program. Further agriculture funding (\$210.4 million) was added to the conference agreement on the FY2001 military construction appropriation bill (H.R.4425, P.L.106-246). FY2001 agriculture appropriations contained another \$3.8 billion in supplemental spending for farm programs (P.L. 106-387), over half of which went for crop and quality losses and disaster assistance. For calendar year 2000, the USDA projects that direct government payments to farmers will reach a total of \$23.3 billion; \$13 billion of which will come from emergency farm aid. In addition to further supplemental aid for farm programs, the FY2001 agriculture appropriations law contained a provision exempting agriculture products from unilateral trade sanctions on certain countries (including Cuba). Agreement on the FY2001 funding bill was delayed by strong disagreement over the Cuba sanctions exemption, over half of which will go for crop and quality losses and disaster assistance. (See CRS Report RL30501, *Appropriations for FY2001: U.S. Department of Agriculture and Related Agencies*, and CRS Report RS20416, *Emergency Farm Assistance in FY2000 Appropriations Acts*.)

Crop Insurance. The federal crop insurance program insures participating farmers against losses from natural disasters. It provides: (1) "catastrophic" coverage to producers growing an insurable crop, with premiums fully paid by the federal government and a minimal administrative fee paid by farmers; (2) "Buy-up" protection to obtain additional coverage, at a less subsidized rate, and (3) Revenue insurance products

³ When proposed in 1998, raising the loan rate cap probably would have resulted in substantially higher deficiency payments for many farmers because of the high average prices for many commodities in the preceding 3 years. At this point, however, the last 3 years of very low prices for many commodities, probably would result in loan rates that are lower than the caps for many commodities.

protecting limited numbers of farmers against losses from low prices, low yields, or both. Many farmers have expressed dissatisfaction with the coverage and costs of crop insurance (particularly for additional “buy-up” protection) and either do not participate or waive additional coverage. The 1996 farm law required farmers to sign a waiver of eligibility for any federal disaster or other payments for crop losses if they chose not to participate in the crop insurance program. It was hoped this would encourage greater participation and lessen the need for almost annual ad hoc emergency disaster payments to farmers. Neither proved to be true: participation did not expand significantly and the Congress nullified the waiver of benefits in every disaster bill enacted since 1996. The main issue has been how to design a program that is affordable to those at high risk, attractive to those at low risk, and acceptable in terms of federal costs and private insurers’ willingness to underwrite. Crop insurance reform legislation passed in the 106th Congress and was signed into law on June 20, 2000 (P.L.106-224). Among other things this law increases federal subsidies for farmer premiums, expands coverage for multiple year natural disasters and authorizes pilot programs for livestock farmers. The additional cost of the crop insurance program under these reforms is just over \$8 billion over 5 years, and room was made in the FY2000 and 2001 budget resolutions for this additional spending. (See CRS Issue Brief IB10033, *Federal Crop Insurance: Issues in the 106th Congress.*)

Agricultural Trade. With some 25% of U.S. farm income derived from agricultural trade, many in Congress believe that long-term remedies for low farm prices and income depend upon enhancing U.S. trade policies. Thus, farm groups and legislators generally supported: (1) formally bringing China, which imported just over \$1 billion in U.S. farm products in FY1999, into the world trading community; (2) exempting agricultural exports explicitly from unilateral U.S. economic sanctions on foreign countries; (3) expanding export and food aid programs; and (4) pressing for tough negotiations to lower foreign-imposed barriers to U.S. farm products. A resolution of disapproval (H.J.Res. 103) of the President’s decision to extend for one year U.S. trade relations with China was rejected in the House on July 18, 2000. Subsequently, the House and Senate approved and the President signed legislation establishing permanent normal trade relations with China (P.L.106-286). The African Growth and Opportunity Act approved by the Congress (H.R. 434, P.L.106-200) also addressed agricultural issues. Among other things, it included a provision allowing rotation in the types of products targeted for trade retaliation (so-called “carousel retaliation”), which was intended to put more pressure on the EU to resolve the meat hormone dispute. Other provisions in P.L.106-200 created a chief agriculture negotiator in the office of the U.S. Trade Representative, addressed unfair trading practices of state trading enterprises, and set explicit U.S. objectives for agriculture in the next round of WTO negotiations.

U.S. policies restricting the sale of agriculture and medical goods to certain countries were an issue in the 106th Congress, as well. Most agriculture interests and many humanitarian relief groups strongly supported efforts to eliminate such restrictions. There was, however, strong opposition from many in the Cuban-American community and by some in the Congress. The Administration also raised concerns about restricting presidential flexibility in the conduct of foreign policy. Provisions were added to annual agricultural appropriations measures for the past 2 years to exempt agriculture and food products from sanctions only to be later deleted. This year, sanction exemption language was approved by the Senate, but dropped from the House-reported FY2001 agriculture appropriation measure, after the Senate rejected a compromise House proposal that would

have added modified language to the conference agreement on the FY2001 military construction spending bill (H.R. 4425) passed in June. House leaders promised to pursue this modified sanction language during conference deliberations on the FY2001 agriculture appropriations bill. Compromise language on a proposal that would allow trade, but not financing for sales to Cuba was adopted in the finally enacted fiscal measure (P.L.106-387). (See CRS Issue Brief IB10040, *Agricultural Trade Issues in the 106th Congress*, CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Current Issues and Proposals*, CRS Report RS20744, *Agricultural Support in the European Union and the United States*, CRS Report RL30612, *Farm Support Programs and World Trade Commitments*. and the CRS Trade Briefing Book [<http://www.congress.gov/brbk/html/ebtra1.html>].

Livestock and Dairy. For several years, prices in the livestock sector had been declining, with the heaviest declines in the hog sector, where average price per hundredweight fell from almost \$53 in 1997 to \$30.50 in the Spring of 1999 (after having sunk to a record low of \$14.70 in December 1998). Declining overseas markets, oversupply and slaughter capacity limitations were reasons given for the declines, along with the changing structure of the industry. Some price recovery has accompanied the revival of the Asian economy and rising demand; however, some believe concentration in the industry and the growing use of price contracting arrangements between producers and processors exacerbates low livestock prices. Mandatory price reporting by large meat packing firms was incorporated by conferees into the FY2000 agriculture appropriation law (P.L. 106-78). There also were proposals calling for country-of-origin labeling for imported meats (H.R. 169, H.R. 693, S. 675), and for extending eligibility for marketing loans to swine producers (H.R. 217). Crop insurance reform legislation signed by the President on June 20,2000 (P.L.106-224) included a provision for pilot projects for livestock insurance. Hearings in the Senate on dairy pricing policy were held on February 8 and 9, 2000. The lack of consensus on this issue was apparent at these hearings, and there was no agreement on anything other than a straight extension of the current dairy price support program by the end of the 106th Congress. (See CRS Issue Brief IB10063, *Animal Agriculture: Current Issues*, and CRS Issue Brief IB97011, *Dairy Policy Issues*.)

Industry Concentration. The changing structure of the agriculture sector, particularly with respect to mergers between major grain companies and concentration in the livestock sector, is seen by some as a cause of persistent low farm prices. A proposal (S. 1739) to restrict mergers and increase federal regulation of the non-farm sectors of the agriculture industry was offered in the first session as an amendment to FY2000 agriculture appropriations. It was not adopted in the finally-enacted law. Several bills (H.R. 3159, S.2411) call for more rigorous application of anti-trust laws and increased reporting requirements for processors and manufacturers in the agriculture sector. Bills also have been introduced to establish a position with responsibility for agricultural antitrust matters in the Department of Justice (S.1984, S.2252) and to make it illegal for meat packers to own, feed or control animals intended for slaughter (S. 1738/H.R. 3342). At issue are: (1) the adequacy and employment of existing federal antitrust statutes to protect farmers against anti-competitive practices; (2) the extent to which mergers influence farm prices and their impact on farmers and consumers, and (3) the appropriate role of the federal government in regulating industry. (See CRS Report RS20562, *Merger and Antitrust Issues in Agriculture*.)

Animal & Plant Health Inspection. The Animal & Plant Health Inspection Service (APHIS) is the USDA agency responsible for protecting the domestic food and fiber industry from foreign pests and diseases. It carries out its responsibilities under 10 major statutes. For several years policymakers have been concerned about conflicts among these laws and provisions in them that do not reflect current knowledge and practices in plant and animal protection. The major issues concern federal versus state authority in this area, and the degree to which APHIS should expand its plant protection authority to include the protection of natural ecosystems. Four bills (H.R. 1504, S. 321, S. 910, S. 983) proposing to modernize the APHIS statutes were introduced in the 106th Congress. Provisions similar to those in H.R. 1504 were added to the crop insurance reform legislation signed into law on June 20, 2000 (P.L.106-224) (For more information, see CRS Report RS20401, *Agricultural Quarantine: Congress Debates Reform of Plant Protection Authorities.*)

Biotechnology. Genetic engineering of plants and their use in food products is an increasing area of legislative interest. Genetically modified organisms (GMOs) are being used by growers to lessen plant susceptibility to pests and reduce the need for chemicals to prevent plant diseases and insect infestations. Concerns have arisen that the unregulated use of this technology will spill over to unharvested lands, interfere with the natural evolution of valuable species and possibly lessen their effectiveness, and pose a risk to human health. StarLink corn, a genetically modified corn approved only for animal feed by the EPA because it contains a protein that has potential hazards for the human digestive system, was detected in Taco shells in September 2000. Farmers are concerned that seed companies will increase their control over plant production and lessen farmers' ability to reuse seeds and maintain control over input and production costs. They also are concerned that restrictions by foreign countries on GMOs will reduce their markets. Supporters of GMO technology contend that it can help underdeveloped nations become agricultural producers and help feed millions of hungry people. Moreover, they argue that the environment and human health is made safer by less dependence on chemicals in agricultural production, and that stated human health concerns about GMOs often are influenced by the desire to protect native-produced agricultural products from U.S. competition. Restrictions on imports and labeling of GMO products are expected to be major issues in the next round of WTO trade negotiations and a potential subject of domestic regulation. Legislation (S. 3184) was introduced at the end of the session to require labeling of GMO foods. (See CRS Report 98-861 ENR, *U.S.-European Agricultural Trade: Food Safety and Biotechnology Issues*, and CRS Report RS20732, *StarLink Corn Controversy: Background.*)

CRS Reference Products on Agriculture

CRS Report RL30712, *Agriculture in the United States: Selected Data.*

CRS Report 97-905, *Agriculture: A Glossary of Terms, Laws, and Programs*, 3rd Edition. (also can be accessed on line through the House Agriculture Committee Website.)

CRS Report RL30313, *Agriculture: A List of Websites.*