

CRS Report for Congress

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Agricultural Issues in the 109th Congress

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Summary

A number of issues affecting U.S. agriculture are receiving attention in the 109th Congress. The conference agreement on the FY2006 omnibus budget reconciliation bill includes a net reduction in spending on U.S. Department of Agriculture (USDA) mandatory programs of \$2.7 billion over five years, and the reauthorization of a dairy income support program. Other issues of importance to agriculture during the second session of the 109th Congress include the possible consideration of emergency farm disaster assistance; multilateral and bilateral trade negotiations; concerns about agroterrorism, food safety, and animal and plant diseases (e.g., “mad cow” disease and avian flu); high energy costs; environmental issues; agricultural marketing matters, and the reauthorization of the Commodity Futures Trading Commission. This report will be updated as significant developments ensue.

Farm Production Support

Budget and Spending. Pressure to reduce the federal budget deficit has required Congress to consider reductions in spending on USDA programs. The 109th Congress has addressed USDA spending levels on two fronts: in budget reconciliation and in the annual agriculture appropriations bill. The conference agreement on the FY2006 omnibus budget reconciliation bill (H. Rept. 109-362, S. 1932) contains net reductions in USDA mandatory spending of \$2.7 billion over five years. Nearly one-half of this reduction was achieved in the measure through a change in the timing of farm commodity payments, and the balance through cuts to conservation, rural development and research spending. Proposed cuts to food stamps were not adopted by conferees. Final action on the measure is expected in February 2006. Separately, Congress completed action on the FY2006 agriculture appropriations bill (P.L. 109-97, H.R. 2744) which contains funding levels for most USDA discretionary programs. Tight budget constraints required agriculture appropriators to keep FY2006 discretionary spending close to the FY2005 level. The FY2007 budget cycle begins in February 2006 when the Administration releases its FY2007 budget request, which will be followed by a series of hearings in the appropriations committees. (See CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation* and CRS Report RL32904, *Agriculture and Related Agencies: FY2006 Appropriations*.)

Commodity Support Programs. Farm income and price support programs are dictated primarily by Title I of the 2002 farm bill (P.L. 107-171), which expires in 2007. The House Agriculture Committee has scheduled field hearings this year, with more intensive deliberations and markup expected in both committees likely in 2007. Two key variables that are expected to drive the policy debate in the next farm bill are budget limitations and the outcome of pending World Trade Organization negotiations. (See CRS Report RS21999, *Farm Commodity Policy: Programs and Issues for Congress*.)

Farm Disaster Assistance. Several major weather events in 2005, particularly Hurricanes Katrina and Rita and a severe Midwest drought, have increased the chances that the 109th Congress will consider emergency disaster assistance for farmers in the second session. In past years, Congress has authorized crop disaster payments and various livestock assistance programs when natural disasters strike. Some agricultural assistance, primarily for the cleanup and rehabilitation of farmland and rural areas affected by hurricanes, was provided in the supplemental attached to the FY2006 defense appropriations act (P.L. 109-148). (For more information, see CRS Report RS21212, *Agricultural Disaster Assistance*.)

Payment Limits. Most crop payments are subject to annual per-person limits. Past legislative efforts to reduce the maximum amount of payments that producers can receive, and to count certain benefits (i.e., the value of commodity certificates producers receive) toward the limits, have been thwarted by strong opposition from Southern cotton and rice growers. In the 109th Congress, S. 385 and H.R. 1590 would reduce payment limits to a total of \$250,000, and count commodity certificates and loan forfeiture toward the limits. CBO estimates that a plan similar to S. 385 would save \$1.2 billion over five years. (See CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.)

Dairy. The conference agreement on the FY2006 omnibus budget reconciliation bill (H.Rept. 109-362, S. 1932) provides a two-year extension of the Milk Income Loss Contract (MILC) program, which has provided over the past three years more than \$2 billion in direct payments to dairy farmers when farm milk prices are below a specified target level. The program expired September 30, 2005. Program extension is supported by the Administration and small- to medium-sized dairy farmers, but generally is opposed by larger dairy farmers because of a limit on eligible annual production. (See CRS Issue Brief IB97011, *Dairy Policy Issues*.)

WTO Cotton Case. On March 3, 2005, a World Trade Organization (WTO) appellate review upheld an earlier WTO dispute settlement panel finding (of September 2004) against the United States on several key complaints brought by Brazil that elements of the U.S. cotton program are not consistent with U.S. trade commitments. The United States has been asked to bring various existing program operations into compliance with the WTO panel recommendations including the removal of prohibited export subsidies such as Step 2 cotton user payments and certain export credit guarantees. U.S. cotton program changes were not fully implemented by the WTO-mandated deadline of July 1, 2005. However, the Administration announced administrative changes to the export credit guarantee program in late June, and proposed in early July the elimination of the Step 2 cotton program. The conference agreement on the FY2006 budget reconciliation bill (H.Rept. 109-362, S. 1932) contains a provision that repeals the Step 2 program,

effective August 1, 2006. (See CRS Report RL32571, *Background on the U.S.-Brazil WTO Cotton Subsidy Dispute*.)

Conservation Programs. Spending for conservation programs, which help producers protect and improve natural resources on some farmed land and retire other land from production, have grown rapidly since the 2002 farm bill, reaching a total of more than \$5.2 billion in FY2005. This growth in spending reflects the expanded reach of conservation programs, which now involve many more land owners and types of rural lands. Budget pressures forced the 109th Congress to weigh the resource and other benefits of these programs against growing costs. The conference agreement on the omnibus budget reconciliation bill (H.Rept. 109-362, S. 1932) reduces spending on several mandatory conservation programs by a combined \$934 million over five years. Another topic that continues to attract congressional interest is implementation of the Conservation Security Program, enacted in 2002. Some stakeholders have questioned why USDA has implemented the program in only a few watersheds, and why Congress has limited funding even though the program was enacted as a true entitlement. The agriculture community also is starting to address conservation issues that might be addressed in the next farm bill. The Senate Agriculture Committee has started to identify conservation issues, holding hearings on endangered species and the Conservation Reserve Program in July 2005. (See CRS Issue Brief IB96030, *Soil and Water Conservation Issues*.)

Energy. Although not as energy-intensive as some industries, agriculture is a major consumer of energy — directly, as fuel or electricity, and indirectly, as fertilizers and chemicals. In early September 2005, energy prices jumped to record levels in the wake of Hurricanes Katrina and Rita. By raising the overall price structure of production agriculture, sustained high energy prices could result in significantly lower farm and rural incomes in 2006, and are generating considerable concern about longer-term impacts on farm profitability. Agriculture also is viewed as a potentially important producer of renewable fuels such as ethanol and biodiesel, although farm-based energy production remains small relative to total U.S. energy needs. The energy bill (P.L. 109-58) enacted in July 2005 includes a renewable fuels standard (RFS) for biofuels that grows from 4 billion gallons in 2006 to 7.5 billion gallons in 2012. The RFS, along with tax credit incentives, is expected to encourage significant increases in U.S. ethanol production. (See CRS Report RL32677, *Energy Use in Agriculture: Background and Issues*, and CRS Report RL32712, *Agriculture-based Renewable Energy Production*.)

Agricultural Trade Policy

Building export market opportunities for U.S. farm products remains a priority for Congress. Some Members of Congress express concern about growing competition from major producers and exporters like Brazil; they note that the U.S. share of world agricultural exports declined from 17% in 1980 to 10% in 2004, according to the WTO. At the same time, the U.S. share of world agricultural imports rose from 8.7% in 1980 to 10.5% in 2004.

Trade Negotiations. U.S. trade policy seeks to improve market access for U.S. agricultural products through multilateral, regional, and bilateral trade agreements. U.S. officials also seek to hold countries to commitments made under existing agreements, and to resolve disputes impeding farm exports. The 109th Congress passed legislation (P.L.

109-53) to implement the Dominican Republic-Central America-U.S. free trade agreement (DR-CAFTA) despite strong opposition from the U.S. sugar industry which fears those countries would gain increased access to the U.S. market. Separately, the Administration is participating in the current Doha round of multilateral trade negotiations and also negotiating new free trade agreements with Panama, the Andean countries, Thailand and the Southern African Customs Union, among others. (See CRS Report RL32110, *Agriculture in the U.S.-Dominican Republic- Central American Free Trade Agreement*, and CRS Report RL33114, *WTO Doha Round: Agricultural Negotiating Proposals*).

Other Trade Issues. Other ongoing issues of interest to Congress include changes needed in U.S. cotton support programs pursuant to an adverse litigation in WTO dispute settlement (see “WTO Cotton Case” above); rules of trade for the products of agricultural biotechnology (see CRS Report RL32809, *Agricultural Biotechnology: Background and Recent Issues*); the scope of restrictions that should apply to agricultural sales to Cuba (see CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*); and funding for U.S. agricultural export and food aid programs (see CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*).

Protecting the Food Supply

Agroterrorism. Border inspections have been the first defense against livestock and plant diseases and, more recently, the threat of terrorist attacks against agricultural targets. The agriculture committees remain concerned whether the Department of Homeland Security (DHS, which has jurisdiction over border inspections) is devoting enough attention to agricultural inspections, staffing, and training; they note that controlling a disease outbreak depends on quick and coordinated responses. Recent homeland security programs have improved the capacity of federal, state, and university agencies to detect and diagnose emerging animal and plant diseases. In the 109th Congress, S. 572 and S. 573 would improve federal responsiveness to agroterrorism, and give additional agricultural biosecurity responsibilities to DHS. S. 1532 would criminalize agroterrorism and improve prevention, detection, and recovery planning. Project Bioshield II (S. 975) contains a section on agroterrorism countermeasures to assess preparedness and improve interagency coordination. (See CRS Report RL32521, *Agroterrorism: Threats and Preparedness*.)

Food Safety. Approximately 76 million people get sick and 5,000 die from food-related illnesses in the United States each year, it is estimated. Congress frequently conducts oversight and periodically considers legislation on food safety and could do so again. Some Members continue to be interested in the control of animal diseases that also threaten human health; the regulation of bioengineered foods, human antimicrobial resistance (which some link partly to misuse of antibiotics in animal feed), and the safety of fresh produce. In the 109th Congress, for example S. 729 and H.R. 1507 are proposals to consolidate U.S. food safety oversight under an independent U.S. agency. H.R. 3160 and S. 1357 clarify USDA’s authority in prescribing performance standards for the reduction of pathogens in meat and poultry products. (See CRS Report RL31853, *Food Safety Issues in the 109th Congress*, and CRS Report RL32922, *Meat and Poultry Inspection: Background and Selected Issues*.)

BSE. Bovine spongiform encephalopathy (BSE or “mad cow disease”) continues to attract interest, as the fifth North American case (the second in the United States) was confirmed in June 2005. Authorities characterize the risk to human health from these cases as extremely low. However, the beef industry has suffered economically due to foreign borders being closed to U.S. beef. The 109th Congress has held hearings on trade impacts since the first confirmed U.S. BSE case in December 2003. H.Res. 137 and S.Res. 87 would have demanded economic sanctions if Japan had not readmitted U.S. beef, which it began at the end of 2005. Elsewhere, the Senate early in 2005 approved a resolution (S.J.Res. 4) to disapprove a January 2005 USDA rule to reopen the U.S. border to some Canadian cattle imports (the rule also was blocked by a federal judge). A similar House resolution (H.J.Res. 23) has not been approved to date. Other bills addressing various aspects of BSE include H.R. 187, H.R. 384/S. 108, S. 294, S. 73, S. 135, S. 2002, H.R. 1254, and H.R. 3170. (The latter two bills require the establishment of a nationwide electronic animal identification system). (See CRS Report RS22345, *BSE (“Mad Cow Disease”): A Brief Overview.*)

Avian Influenza. Since 2003, highly pathogenic avian influenza (H5N1) has spread throughout Asia and portions of Europe. No cases of H5N1 have been found in the United States. The virus has infected mostly poultry but also a limited number of humans. Officials are concerned that the virus could mutate to allow human-to-human transmission. In 2004, two different and less virulent strains were found and eradicated in the U.S. Because the virus may be spread by wild birds, farm personnel, or equipment, strict biosecurity measures are necessary on poultry farms. Congress has responded to the threat by providing an emergency FY2006 supplemental appropriation (included in P.L. 109-148) to combat avian flu, including \$91 million for USDA operations. This supplements the regular funding of \$28 million for FY2006, which includes \$15 million in unused funds from prior years. For more information, see CRS Report RS21747, *Avian Influenza: Agricultural Issues.*

Marketing

Country of Origin Labeling (COOL). Mandatory COOL for fresh meats, produce, and peanuts was scheduled to take effect September 30, 2006. However, the FY2006 agriculture appropriations act (P.L. 109-97) again postpones mandatory COOL for two additional years. Some Members continue to support mandatory COOL, and a few of them would prefer that it take effect sooner (e.g., S. 1331), or expanded to processed meats (e.g., S. 135). Others have sought to replace mandatory COOL with voluntary labeling programs. A bill (H.R. 2068) sponsored by the chairman of the House Agriculture Committee (and an identical Senate bill, S. 1333) would make COOL labeling voluntary for fresh meats. S. 1300 would make COOL voluntary for meat, fish and produce. (See CRS Report 97-508, *Country-of-Origin Labeling for Foods.*)

Livestock Marketing. Continuing concentration and other changes in business relationships within livestock markets (such as contractual relationships between producers and processors) have raised concerns about the impacts on farm prices and on smaller operations. USDA currently is conducting an in-depth examination of livestock marketing, including issues surrounding proposals to ban packer ownership of animals. Two bills to regulate control of livestock have been offered (S. 818, S. 960). Also, Livestock Mandatory Price Reporting expired on September 30, 2005. It was originally passed in 1999 to address some producers’ concerns about low prices, price transparency,

and industry concentration. The system generally has found acceptance among industry players. However, a House-passed bill (H.R. 3408) extends reporting for five years with amendments to the hog reporting provisions. A Senate-passed bill (S. 1613) extends it for one year. Voluntary reporting is underway while the two sides attempt to resolve their differences. (See CRS Report RS20079, *Livestock Mandatory Price Reporting*.)

Farm Animal Protection. Both the Senate- and House-passed versions of the FY2006 agriculture appropriation bill (H.R. 2744) prohibited the slaughter of horses for human food by banning appropriated funds to pay for federal inspection of the plants. The enacted version (P.L. 109-97) makes the funding ban effective only for approximately the last six months of the fiscal year, but it nonetheless has caused uncertainty for the three foreign-owned plants in the U.S. that currently slaughter horses, primarily for European and Japanese consumers. Also in the bill, the Senate adopted a floor amendment to prohibit nonambulatory livestock (also called “downers”) from being used for human food, but the amendment was deleted in conference. Other pending bills (S. 1779; H.R. 3931) have the same purpose. (See CRS Report RS21842, *Horse Slaughter Prevention Bills and Issues*, and CRS Report RS21978, *Humane Treatment of Farm Animals: Overview and Issues*.)

Grain Standards Reauthorization. On September 28, 2005, Congress completed action on a reauthorization (S. 1752, P.L. 109-83) of the U.S. Grain Standards Act. This continues Federal Grain Inspection Service (FGIS) activities for the coming 10 years. FGIS establishes and maintains official grades for grains and oilseeds, provides for official weighing and grading at export locations, conducts oversight of domestic weighing and grading, and investigates complaints made by importers. The House Agriculture Committee considered but did not adopt a grain industry supported proposal to allow for federally supervised private inspection of exports (See H.R. 3421, and Review of U.S. Grain Standards Act, Hearing, May 24, 2005, Serial 109-8).

CFTC Reauthorization

The Commodity Futures Trading Commission (CFTC) is an independent federal regulatory agency that regulates the futures trading industry. The CFTC is subject to periodic reauthorization; current authority expired on September 30, 2005. Congress traditionally uses the reauthorization process to consider amendments to the Commodity Exchange Act (CEA), which provides the basis for federal regulation of commodity futures trading. The House and Senate Agriculture Committees, with jurisdiction over CFTC, conducted hearings on CFTC reauthorization in March 2005. The full House passed its version of CFTC reauthorization (H.R. 4473) on December 14, 2005. Floor action on a Senate-reported measure (S. 1566) is pending. Among the issues in the debate are: (1) the market in security futures, or futures contracts based on single stocks, for which trade has been in much lower volumes than their proponents had hoped, (2) regulation of energy derivatives markets, where some see excessive price volatility and a lack of effective regulation, and (3) the legality of futures-like contracts based on foreign currency prices offered to retail investors. (See CRS Report RS22028, *CFTC Reauthorization in the 109th Congress*.)