

# CRS Report for Congress

## Farm Bill Legislative Action in the 110<sup>th</sup> Congress

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Renée Johnson, Coordinator,  
Geoffrey S. Becker, Tom Capehart, Ralph M. Chite,  
Tadlock Cowan, Ross W. Gorte, Charles E. Hanrahan,  
Remy Jurenas, Jim Monke, Jean M. Rawson, Randy Schnepf,  
Jasper Womach and Jeffrey A. Zinn  
Resources, Science, and Industry Division

Joe Richardson  
Domestic Social Policy Division

David L. Brumbaugh  
Government and Finance Division



Prepared for Members and  
Committees of Congress

# Farm Bill Legislative Action in the 110<sup>th</sup> Congress

## Summary

The farm bill governs federal farm and food policy and is renewed about every five years. The 110<sup>th</sup> Congress is seeking to revise the current farm bill (P.L. 107-171), which covers a wide range of programs including commodity price and income support, agricultural conservation, farm credit, research, rural development, and foreign and domestic food programs, among others. The House completed floor action on its version of the farm bill (H.R. 2419) on July 27, 2007. The Senate Agriculture Committee approved its version (S. 2302) on October 25, 2007. On December 14, the Senate completed floor action on the farm bill, which was offered as a substitute to the House bill. Conference negotiations have been delayed because of differences between committee leadership and the Administration. Consequently, Congress temporarily extended portions of the expiring 2002 farm bill until March 15, 2008, as part of the Consolidated Appropriations Act for FY2008 (P.L. 110-161). On March 12, Congress approved a second one-month extension (S. 2745) that lasts through April 18, 2008.

Both the House and Senate farm bills seek many of the same types of changes to existing legislation and programs, but there are numerous differences. For farm commodities (Title I), both the House and Senate bills generally continue the framework of the 2002 farm bill, revise payment limitations (both by tightening and relaxing certain limits), and adjust support prices for some commodities. The House bill offers a one-time choice between a new national-based “revenue counter-cyclical payment” and the traditional counter-cyclical program. The Senate bill offers a one-time choice between a new state-level “average crop revenue” program and the traditional direct, counter-cyclical and marketing loan programs. Both bills would add new provisions to address horticulture and livestock issues, some in new stand-alone titles. Both bills add new mandatory funding for specialty crop block grants and support organic production. New animal provisions address meat and poultry inspections, and country-of-origin labeling. The Senate bill also addresses meat packer ownership of livestock and other competition issues.

The nutrition title (Title IV) of both bills diverge substantially on both the total level of new funding provided for nutrition programs and the allocation of the new funding among programs. However, in most cases, the bills include very similar policy changes: increased food stamp benefits and loosened eligibility standards, and increased funding for fresh fruits and vegetables in most domestic food programs. For conservation (Title II), international trade and food aid (Title III), credit (Title V), rural development (Title VI), research (Title VII), forestry (Title VIII), and energy (Title IX), both bills reauthorize, expand, and/or modify many of the existing programs, create new programs and initiatives, or allow some programs to expire. For credit, both bills expand borrowing opportunities for beginning and socially disadvantaged farmers. For research, both bills would reorganize USDA’s research, extension, and economic agencies. Other provisions include changes to the current crop insurance program in both bills, and provisions in the Senate bill providing permanent disaster assistance and addressing agricultural security. Both the House and Senate bills also contain provisions that would make certain changes to tax laws, which are intended to offset new spending initiatives in the respective bills.

## Key CRS Policy Staff

Area of Expertise	Name	Telephone
Report Coordinator/Overview; Livestock and Competition	Renée Johnson	7-9588
Food and Feed Grain Support	Jim Monke Jasper Womach	7-9664 7-7237
Other Commodity Support Programs	Ralph M. Chite (dairy) Remy Jurenas (sugar) Randy Schnepf (cotton)	7-7296 7-7281 7-4277
Payment Limits Planting Flexibility Farm Credit	Jim Monke	7-9664
Crop Insurance Disaster Assistance	Ralph M. Chite	7-7296
Conservation	Jeffrey A. Zinn	7-0248
Energy	Randy Schnepf Tom Capehart	7-4277 7-2425
Agricultural Trade and Food Aid	Charles E. Hanrahan	7-7235
Specialty Crops; also Agricultural Research, Extension, & Economics	Jean M. Rawson	7-7283
Meat and Poultry Inspection; Marketing and Regulatory Programs; Food Safety	Geoffrey S. Becker	7-7287
Rural Development	Tadlock Cowan	7-7600
Forestry	Ross Gorte	7-7266
Domestic Food Assistance and Nutrition Programs	Joe Richardson	7-7325
Revenue-Raising Tax Provisions; Offsetting Cost Provisions	David Brumbaugh	7-7792

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# Farm Bill Legislative Action in the 110<sup>th</sup> Congress

## Most Recent Developments

The House and Senate completed action on their respective versions of a new farm bill in 2007. However, conference action has been delayed in part because of differences between committee leadership and the Administration over the inclusion of tax provisions in the bill, and the Administration's demand for additional reform of commodity programs. Only Senate conferees have been named, although committee staff have been conferring on many provisions. Consequently, Congress temporarily extended portions of the expiring 2002 farm bill until March 15, 2008, as part of the Consolidated Appropriations Act for FY2008 (P.L. 110-161). On March 12, Congress approved a second one-month extension (S. 2745) that lasts through April 18, 2008. Among the possible options facing Congress:

- Further extend the 2002 farm bill by several weeks in order for Congress to complete action this year.
- Allow the 2002 farm bill to expire and revert to 1949 permanent law, which covers only basic commodities and not many other programs in current law (see CRS Report RL34154, *Possible Expiration of the 2002 Farm Bill*, for more information).
- Extend current law for a year or more, postponing further consideration of a new farm bill until the next Congress.

## Overview

A periodic omnibus farm bill, renewed about every five years, governs federal farm and food policy. The Farm Security and Rural Investment Act of 2002 (P.L. 107-171) is the most recent farm bill, covering a wide range of programs including commodity price and income support, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs, among others. Many provisions of the 2002 farm bill expired in 2007.<sup>1</sup>

In anticipation of the 2007 farm bill, both the House and Senate Agriculture Committees conducted hearings in Washington and across the country during 2006, and continued to hold hearings early in 2007.<sup>2</sup> Early in 2007, the chairmen of both

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<sup>1</sup> As noted above, certain provisions were extended until March 15, 2008, under the Consolidated Appropriations Act for FY2008 (P.L. 110-161); and in March, Congress approved a second one-month extension (S. 2745) that lasts through April 18, 2008.

<sup>2</sup> Information on House and Senate Agriculture Committee hearings is at [<http://agriculture>].  
(continued...)

the House and Senate Agriculture Committees indicated their intention to complete work on a new farm bill prior to the August 2007 recess, with full congressional action by September. The House Agriculture Committee conducted its markup of its version of the farm bill (H.R. 2419) in mid-July, and completed House floor action on July 27, 2007. The Senate Agriculture Committee approved its version (S. 2302) on October 25, 2007. On December 14, the Senate completed floor action on the farm bill, which was offered as a substitute to H.R. 2419 (Farm, Nutrition, and Bioenergy Act of 2007). Conference negotiations have been delayed by ongoing differences between committee leadership and the Administration. Some of the provisions in the existing farm bill expired in 2007, and certain provisions were extended until March 15, 2008, under the Consolidated Appropriations Act for FY2008 (P.L. 110-161). On March 12, Congress approved a second one-month extension (S. 2745) that lasts through April 18, 2008. (See the **Appendix** for a chronology of major actions that have occurred during the farm bill debate.)

This report describes the major provisions that are in the House and Senate farm bills. These include proposed changes to commodity support and risk management policies and programs (such as direct payments, payment limits, revenue and counter-cyclical payments, crop insurance and disaster assistance, planting flexibility, and specialty crops), as well as provisions affecting conservation, bioenergy, rural development, forestry, agricultural research, competition, trade and food aid, agriculture credit, and domestic food programs and nutrition. Both the House and Senate bills also contain provisions that would make certain changes to tax laws, which are intended to offset new spending initiatives in the 2007 farm bill.

More detailed information on specific programs and provisions included in these two bills are available in a series of separate CRS Reports. CRS Report RL34228, *Comparison of the House and Senate 2007 Farm Bills*, provides a side-by-side comparison of how some of the major provisions in the House and Senate bills could change current law. Information about what might happen if Congress does not enact a new farm bill is provided in CRS Report RL34154, *Possible Expiration of the 2002 Farm Bill*. These reports and other farm bill information can be found at the CRS Farm Bill and Farm Policy current legislative issues Web page at [[http://apps.crs.gov/cli/cli.asp?PRDS\\_CLI\\_ITEM\\_ID=641&from=3&fromId=1](http://apps.crs.gov/cli/cli.asp?PRDS_CLI_ITEM_ID=641&from=3&fromId=1)].

CRS Report RS22131, *What Is the 'Farm Bill,'* describes the current policy setting that has influenced the development of the 2007 farm bill. In brief, the 2007 farm bill debate has differed from the 2002 debate in some important ways. First, this farm bill faces potentially significant budgetary and spending constraints. Second, current debate continues to be influenced by constraints due to U.S. trade commitments and obligations under existing multilateral agreements. Third, the Administration has submitted its own detailed proposal for the 2007 farm bill, whereas in recent farm bills the Administration has not issued specific recommendations. Finally, many other groups, including both traditional and non-agricultural interests, also have submitted specific recommendations that range from maintaining the status quo to making dramatic policy changes.

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<sup>2</sup> (...continued)

house.gov/hearings/index.html] and [<http://agriculture.senate.gov/Hearings/hearings.cfm>].

## Congressional Action

The House and Senate have completed action on their respective versions of the farm bill, passed as H.R. 2419 (Farm, Nutrition, and Bioenergy Act of 2007). Conference action is pending.

### Brief Bill Comparison

Both the House and Senate farm bills seek many of the same types of changes to existing legislation and programs, but there are numerous differences. For commodities (Title I), both bills generally continue the framework of the 2002 farm bill, revise payment limitations, and adjust target prices and loan rates for some commodities. Both bills cover the 2008 through 2012 crop years. The House bill would offer a one-time choice for a national-based “revenue counter-cyclical payment” beginning in 2008, while the Senate bill would offer a one-time choice for a state-level “average crop revenue” program beginning in 2010.

Both the House and Senate bills would add new provisions to address horticulture and livestock issues. However, whereas the House bill creates a new horticulture title, the Senate bill instead creates a new livestock title. The House and Senate bills both add new horticulture provisions providing mandatory funding for specialty crop block grants and add new provisions supporting organic production, among other provisions. New animal provisions include changes in meat and poultry inspections, and country-of-origin labeling requirements; the Senate bill also includes extensive provisions affecting packer ownership and other competition issues.

The nutrition title (Title IV) of the House and Senate farm bills diverge substantially on both the total level of new funding provided for nutrition programs and the allocation of the new funding among programs. However, in most cases, the bills include very similar policy changes: increased food stamp benefits and loosened eligibility standards, greater funding for the fresh fruit and vegetable program in schools and The Emergency Food Assistance Program (TEFAP). Under the farm bills’ international food aid and trade provisions (Title III), both the House and Senate bills would reauthorize funding for USDA’s international food aid export market development, export credits, and export guarantees, as well as address barriers to U.S. agriculture exports.

Under the conservation (Title II), energy (Title IX), rural development (Title VI), and forestry titles (Title IX), both the House and the Senate bills reauthorize, expand, and/or modify many of the existing programs, and create new programs and initiatives, or allow some programs to expire. In some cases, there are numerous differences between the House and Senate bills for individual provisions within these titles. Both the House and Senate bill also reauthorize, expand, and/or modify many of the existing provisions under the research title (Title VII). Both bills seek to reorganize the administration of USDA’s research, extension, and economic agencies; however, the House bill would further require the President to submit a unified annual budget across agencies and establish a new national institution to administer all competitive programs.

Both bills also would expand borrowing opportunities under USDA's Farm Service Agency loan program (Title V). Among other provisions are changes to the current crop insurance program. Provisions in the Senate bill would also provide for permanent disaster assistance and address agricultural security and animal quarantine inspections.

Both bills also include revenue and offsetting cost provisions that are outside the jurisdiction of the agriculture committees. These provisions would make certain changes to tax laws that are intended to offset additional spending in the farm bill, and were added by both chambers in order to comply with current pay-go budget rules (Titles XII and XIII).

The report section titled "Issue Summary of the House and Senate Farm Bills" provides a more detailed description of the major provisions in both bills.

## 2002 Farm Bill Extension

The Consolidated Appropriations Act for FY2008 (P.L. 110-161), which funds most domestic programs for FY2008, extended certain provisions of the 2002 farm bill until March 15, 2008. In March, Congress approved a second one-month extension (P.L. 110-196), with nearly identical language to that of P.L. 110-161, that extends through April 18, 2008. The duration of each extension was thought to be sufficient for conferees to resolve differences between the House- and Senate-passed farm bills. However, continued differences between the agriculture committees and the Administration over funding and policy issues might require another extension of the expiring farm bill. The Administration has stated that it will propose a one-year extension of the current farm bill if sufficient progress has not been made by April 18.<sup>3</sup> A new farm bill is expected to become effective for the 2008 crop year for most of the supported farm commodities, and for other programs for the remainder of FY2008 and beyond.

The short-term extension in P.L. 110-196 states that, unless otherwise excepted, 2002 farm bill provisions in effect on September 30, 2007, shall continue until April 18, 2008. Three conservation programs are funded at specific levels (Farmland Protection Program at \$97 million/year, Ground and Surface Water Conservation at \$60 million/year, and Wildlife Habitat Incentives Program at \$85 million/year). The dairy and sugar programs are included in the extension. The dairy price support program originally would have expired December 31 and would have been replaced with costlier support provisions in permanent law. Price support loan programs for wool and mohair also are extended since those crop years begin on January 1.

Programs that are *not* extended in P.L. 110-196 include the direct, counter-cyclical, and marketing loan programs for the 2008 crop year for all other supported commodities, peanut storage payments, agricultural management assistance for conservation, community food projects in the food stamp program, the rural broadband program, value-added market development grants, federal procurement

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<sup>3</sup> Telenews conference with USDA Secretary Ed Schafer and Deputy Secretary Chuck Conner on 33-day extension of the farm bill, March 18, 2008.



of biobased products (2002 farm bill, Sec. 9002), the biodiesel fuel education program (Sec. 9004), and the renewable energy systems program (Sec. 9006).

## Projected Cost of the 2007 Farm Bill

Over the five-year time frame (FY2008-FY2012) of the proposed 2007 farm bill, total spending is estimated by CBO to be \$286.0 billion in the House-passed bill and \$285.6 billion in the Senate version of the bill.<sup>4</sup> **Table 1** provides a breakdown of spending in each bill by major program area. Each bill has as its basis the March 2007 CBO baseline budget, which contains \$280.3 billion in projected spending for all farm bill-related programs.

**Table 1. CBO Estimated Costs for the House-Passed and Senate-Passed 2007 Farm Bills (FY2008-FY2012)**  
(outlays in billion \$)

	Commodity Support	Conser- vation	Energy	Trade/ Aid	Nutrition	Crop Insur.	Other <sup>a</sup>	Total
<b>House Farm Bill</b>	<b>5-Year Total (FY2008-FY2012)</b>							
March 2007 Baseline	36.5	21.6	0.0	1.7	192.2	25.7	2.6	280.3
CBO Score:House Bill	(1.1)	3.0	2.4	0.6	4.2	(4.0)	0.6	5.7
<b>Total Est. Spending</b>	<b>35.4</b>	<b>24.6</b>	<b>2.4</b>	<b>2.3</b>	<b>196.4</b>	<b>21.7</b>	<b>3.2</b>	<b>286.0</b>
Offsets/Revenue <sup>b</sup>	—	—	—	—	—	—	—	(6.0)
Estimated Cost after Offsets/Rev.	—	—	—	—	—	—	—	<b>280.0</b>
<b>Senate Farm Bill</b>	<b>5-Year Total (FY2008-FY2012)</b>							
March 2007 Baseline	36.5	21.6	0.0	1.7	192.2	25.7	2.6	280.3
CBO Score: Senate Bill	(4.0)	4.7	1.0	0.1	5.3	(3.7)	1.9	5.3
<b>Total Est. Spending</b>	<b>32.5</b>	<b>26.3</b>	<b>1.0</b>	<b>1.8</b>	<b>197.5</b>	<b>22.0</b>	<b>4.5</b>	<b>285.6</b>
Offsets/Revenue <sup>b</sup>	—	—	—	—	—	—	—	(5.0)
Estimated Cost after Offsets/Rev.	—	—	—	—	—	—	—	<b>280.6</b>

**Source:** Compiled by CRS using the Congressional Budget Office (CBO) March 2007 baseline and the CBO scores of the House-passed farm bill (H.R. 2419) and the Senate-passed substitute amendment to H.R. 2419, as of late January 2008. Both the House and Senate scores reflect enactment of the energy act and the Consolidated Appropriations Act, 2008.

- a. In the March 2007 baseline, the “other” category includes agricultural research, rural development, and forestry, among other areas of spending. “Other” in the House 2007 farm bill is primarily for new specialty crop assistance, and minority and beginning farmer assistance. “Other” in the Senate farm bill includes new spending for a permanent disaster payment program, specialty crop assistance, and rural development.
- b. “Offsets/revenue” represents offsetting receipts and increases in revenue that are included in the House and Senate farm bills, but are outside the jurisdiction of the agriculture committees. These are included in the bill to offset the cost of new spending in the House and Senate bills that is in excess of the budget baseline.

<sup>4</sup> Estimates reflect the cost of the bills’ mandatory programs only. The bills also include authorization of appropriations for discretionary programs not included in these estimates.

CBO estimates new authorized spending (above the baseline) of \$5.7 billion in the House bill and \$5.3 billion in the Senate version. As required by the FY2008 budget resolution, this new spending must be offset by comparable reductions in spending or increases in revenue. The House bill contains \$6.0 billion and the Senate version \$5.0 billion in revenue offsets that in effect make both versions close to budget-neutral. These offsets are outside the jurisdiction of the agriculture committees, but are provided by actions taken in the House Ways and Means and Senate Finance Committees.

Under the House bill, CBO estimates five-year spending increases of \$4.2 billion for the farm bill's nutrition programs (mostly food stamps), \$3.0 billion for farm conservation programs, and \$2.4 billion for energy programs. Under the Senate bill, CBO estimates spending increases of \$5.3 billion for nutrition programs, \$4.7 billion for conservation programs, and \$1.0 billion for energy programs. CBO estimates spending reductions in both bills for commodity support programs and other programs, particularly crop insurance, with some changes reflecting a shift in the timing of payments to score savings for budgetary purposes. For more background on the farm bill and the budget, see CRS Report RS22694, *Farm Bill Budget and Costs*.

## **Five-Year versus Ten-Year Estimated Costs**

The House and the Senate bills differ in their respective 5-year (FY2008-FY2012) and 10-year (FY2008-FY2017) budget estimates of new spending authority. According to CBO, both the House and Senate bills contain between \$5 billion and \$6 billion in new outlays over 5 years. However, over 10 years, the House bill has \$14.0 billion in net new spending compared with \$8.7 billion in the Senate bill. This difference reflects new spending in the House bill over the full 10-year period, whereas the Senate bill extends new spending only over the 5-year period for most authorized programs. This difference also reflects spending differences between the two bills for farm commodity support in Title I.

Both bills separately meet budget requirements by offsetting new spending with revenue (tax) provisions and other cost savings. However, for many of the Senate farm bill titles, new spending ends after the 5-year life of the farm bill or costs are delayed until the second 5 years. This affects new spending provisions in the nutrition, conservation, and energy titles, among other titles and programs. In the House bill, most of the new spending measures are effective over the 10-year budget horizon of the bill. Because of these budget differences and approaches to program changes, reconciling differences between the House and Senate may be difficult within budgetary restrictions.

For example, enhancements made to the nutrition title in the House bill are permanent, whereas the Senate terminates most of their enhancements after FY2012. This effectively removes the new spending provided by the Senate version of the farm bill. Likewise the commodity titles of the two bills have discrepancies in their 5- and 10-year costs. The House bill begins its changes in the first year, while the Senate bill delays implementation of a major new program. This results in the Senate bill scoring larger savings than the House in the first 5 years and delaying new program costs until later years.

## The Administration's Reaction and Recommendations

The Administration has indicated it would likely veto the House and Senate farm bills, if either is presented to the President as the final farm bill. Among the reasons cited by the Administration is the inclusion of certain revenue and tax-related provisions in both bills. Other cited reasons include concerns that the House and Senate bills do not go far enough to implement policy changes favored by the Administration, including cuts in farm income subsidies, as well as concerns about possible incompatibility with U.S. obligations under the World Trade Organization (WTO), among other policy issues and budgetary concerns.<sup>5</sup>

The Administration's position statement refers to its own policy recommendations for the 2007 farm bill, which were released in January 2007. These recommendations proposed to alter many aspects of the current commodity support system and other existing farm bill programs.<sup>6</sup> The Administration's stated approach for designing its 2007 farm bill recommendations was to take a "reform-minded and fiscally responsible approach to making farm policy more equitable, predictable and protected from challenge."<sup>7</sup> In part, this referred to the Administration's perceived need to more evenly distribute federal program spending and benefits across a larger share of the U.S. farm community, as well as the perceived need to modify current farm programs to better comply with WTO obligations and limit future legal challenges from other countries. For more information on the USDA proposal, see CRS Report RL33916, *The USDA 2007 Farm Bill Proposal: Possible Questions*.

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<sup>5</sup> See Office of Management and Budget (OMB), "Statement of Administration Policy H.R. 2419 — Food and Energy Security Act of 2007 (Senator Harkin (D) Iowa)," November 6, 2007, at [<http://www.whitehouse.gov/omb/legislative/sap/110-1/hr2419sap-s.pdf>]; and OMB, "Statement of Administration Policy H.R. 2419 — Farm, Nutrition and Bioenergy Act of 2007 (Rep. Peterson (D) MN)," July 25, 2007, at [<http://www.whitehouse.gov/omb/legislative/sap/110-1/hr2419sap-r.pdf>]. Also see USDA, "Transcript of Remarks by Acting Agriculture Secretary Chuck Conner," December 5, 2007, Release No. 0368.07.

<sup>6</sup> USDA, *USDA's 2007 Farm Bill Proposals*, January 31, 2007, at [<http://www.usda.gov/documents/07finalfbp.pdf>]. Reports and other related materials are at [[http://www.usda.gov/wps/portal/!ut/p/\\_s.7\\_0\\_A/7\\_0\\_1UH?navid=FARM\\_BILL\\_FORUMS](http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1UH?navid=FARM_BILL_FORUMS)].

<sup>7</sup> USDA, "Johanns Unveils 2007 Farm Bill Proposals," Release No. 0020.07, January 31, 2007, at [<http://www.usda.gov/wps/portal/usdahome>].

## Issue Summary of the House and Senate Farm Bills

The following is a discussion of the major topics and issues in the House and Senate farm bills.

### Commodity Support and Risk Management

**Farm Bill Extension.** Although the Consolidated Appropriations Act for FY2008 extends certain otherwise expiring provisions of the 2002 farm bill until March 15, 2008, it does *not* extend the direct, counter-cyclical, and marketing loan programs for the 2008 crop year. Only the price support loan programs for wool and mohair are extended since those marketing years begin on January 1. The dairy and sugar programs also are included in the extension. The dairy price support program would have expired December 31 and would have been replaced with costlier support provisions in permanent law. However, for all of the other supported commodities, permanent law would not begin to take effect until the wheat harvest begins in June 2008, leaving time for conferees to enact a new farm bill. For more background, see CRS Report RL34154, *Possible Expiration of the 2002 Farm Bill*.

**Grains, Oilseeds, and Cotton Support.** Both the House and Senate farm bills generally continue the framework of the 2002 farm bill, revise payment limitations by tightening some limits and relaxing others, and adjust target prices and loan rates for some commodities. Both bills cover the 2008 through 2012 crop years. The House bill would offer a one-time choice for a national-based “revenue counter-cyclical payment” beginning in 2008, while the Senate bill would offer a one-time choice for a state-level “average crop revenue” (ACR) program beginning in 2010.

The CBO estimate of the House bill’s Title I programs is a reduction of \$973 million over 5 years (-2.7% compared with the \$36.5 billion farm commodity support baseline budget estimate), and a reduction of \$825 million over 10 years. For the Senate bill, the CBO score for the comparable commodity provisions (excluding crop insurance and specialty crops) is a reduction of about \$4.2 billion over 5 years and a reduction of \$1.7 billion over 10 years. The Senate bill has a larger difference between the 5- and 10-year scores because of the delayed implementation of the ACR program and the relatively sooner reduction in direct payments for ACR participants compared with outlays in the ACR program. For more background, see CRS Report RS21999, *Farm Commodity Programs and the 2007 Farm Bill*.

**Payment Limits.** Payment limits in current law set the maximum amount of farm program payments that a person can receive at \$360,000 per year. In addition, an income test denies payments to households with adjusted gross income (AGI) over \$2.5 million, unless more than 75% comes from farming. The debate over payment limits usually focuses on the size of farms that should be supported, whether payments should be proportional to production or limited per individual, and the need to reduce spending. For more background, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Both the House and Senate farm bills make several changes to payment limits, some tightening the limits and others relaxing the limits. Limits are tightened in both bills by (1) reducing the AGI limit, (2) eliminating the “3-entity rule,” which allows individuals to double their payments by having multiple ownership interests, and (3) requiring “direct attribution” of payments to a natural person instead of to a corporation, general partnership, etc. Payment limits are relaxed in both bills by eliminating the \$75,000 limit on the marketing loan program. The latter change is in response to perceived abuse of commodity certificates, which were unlimited and used to avoid the limit. Instead of applying the existing marketing loan limit to all marketing loan options (as proposed in the Dorgan/Grassley amendment), both bills resolve the inconsistency by eliminating the marketing loan limit altogether. The House bill also raises the limit on direct payments from \$40,000 to \$60,000. The Senate bill lowers the limit on counter-cyclical payments from \$65,000 to \$60,000. The Senate bill preserves a separate limit for peanuts, which the House bill combines with other commodities.

Some opponents to further tightening payment limits point out that the limit is reduced from \$360,000 to \$250,000 in the House bill and to \$200,000 in the Senate bill, and that no additional restrictions are needed. However, advocates for tighter limits respond by saying that this comparison, which suggests a reduction, is misleading since payment limits are eliminated for marketing loans — one of the components of the \$360,000 limit. The lower limits in the House and Senate bill are only for two types of payments (direct and counter-cyclical) instead of three (direct, counter-cyclical, and marketing loans).

Regarding the AGI limit, the House bill lowers the AGI limit to \$1 million with no exceptions beginning in the 2008 crop year, and to \$500,000 for individuals who do not earn more than 67% of their income from farming. The Senate bill gradually lowers the AGI limit, but does not have a firm upper cap like the House bill and does not lower it by as much or as quickly. In the 2009 crop year, the Senate bill lowers the AGI limit to \$1 million for individuals who do not earn more than 67% of their income from farming. For 2010-2012, the Senate bill has a \$750,000 AGI cap for the same individuals.

Two Senate floor amendments on payment limits failed to get 60 votes to avoid a filibuster and thus were not adopted. An amendment by Senators Grassley and Dorgan to lower the limit on payments from \$360,000 to \$250,000 and apply the limits to all marketing loan options did not achieve a 60-vote requirement by a vote of 56-43 (S.Amdt. 3695). An amendment by Senator Klobuchar to tighten the AGI limit to \$250,000 unless more than 67% of AGI is farm income, and to \$750,000 with no exceptions, did not achieve a 60-vote requirement by a vote of 48-47 (S.Amdt. 3810).

CBO scores the payment limit changes in the House bill to save \$227 million over five years. For the Senate bill, the CBO score is lower, a savings of \$191 million over five years, owing to the smaller reduction and delayed implementation.

The Administration continues to express a veto threat over the lack of tighter payments limits in either bill, particularly the AGI limit, as the Administration had proposed (\$200,000 AGI limit with no exceptions).

**Direct Payments and Base Acres.** Direct payments are fixed annual payments based on historical production. Recent high commodity prices and high farm incomes have made it difficult for some to justify the annual \$5 billion in direct payments. Both the House and Senate bills would extend direct payments through the 2012 crop year. However, to score savings, both bills would eliminate the advanced installment of direct payments in the last year of the farm bill (2012). According to CBO, this would shift about \$1.1 billion of payments into a later fiscal year without reducing total payments to farmers. In the Senate bill, participants in the ACR program (described next) would not receive direct payments, but would instead receive a “fixed” \$15/acre payment regardless of the commodity as one component of the ACR program. Based on expectations of participation in the ACR program, the reduction in direct payments because of the interaction with ACR is estimated at about \$7 billion through FY2012, and \$25 billion over 10 years.

The House bill also would eliminate direct and counter-cyclical payments to recipients entitled to less than \$25, and permanently deny program participation to people convicted of defrauding USDA. The Senate bill adds a new rule that would eliminate base acres on land that had been subdivided into multiple residential units or other non-farming uses. Prior rules have eliminated base only for land developed for nonagricultural commercial or industrial use. The Senate bill also codifies into statute existing USDA regulations that commodity payments to estates be limited to two years (but without exception), and it requires annual reports to Congress on payments to estates. This provision is in response to a 2007 GAO report showing that farm commodity payments continue to be paid to deceased farmers or their estates beyond the two-year regulation.

**Counter-cyclical Payments.** Counter-cyclical payments provide automatic payments to farmers when market prices are below a target price set in statute. Historically, farm commodity programs have focused on price, while crop insurance programs have focused on yield. But producers have cited insufficient government support during drought years when yields are low and prices are high, because they have little to sell and receive no counter-cyclical price support. The National Corn Growers Association and the USDA advocate for revenue-based support.

The Senate bill would offer farmers a choice between traditional program payments and an ACR payment. The ACR plan is based on whether actual state-level revenue drops below an expected revenue target, crop by crop. The program would begin with the 2010 crop year and participation would apply to all of the covered crops on a farm for the remainder of the farm bill. Instead of the traditional direct, counter-cyclical, and marketing loan program, the ACR program offers a \$15 per acre direct payment for every crop, a revenue-based payment, and recourse loans. The ACR provision consumed much of the time during Senate Agriculture Committee markup, particularly over an amendment that was adopted that would not allow crop insurance premiums to be rerated (reduced) for ACR participants. The concern was that ACR participants in the lower-risk primary growing regions would no longer buy high levels of crop insurance, thus causing insurance premiums to rise for other growers who would be left in a smaller, riskier pool of farms. The CBO score of the Senate bill’s ACR program is an additional cost of \$4.1 billion through FY2012 and \$29 billion over 10 years. The 10-year score is relatively higher because the ACR does not begin until the 2010 crop year, and some payments are delayed

until the end of the marketing year, putting more costs into the second 5-year window. These costs include both the “fixed” and the revenue-counter components of ACR and thus must be combined with scoring of direct payments to make a complete comparison. In the 5-year score, the ACR and direct payment provisions together save about \$4 billion; in the 10-year score, they cost about \$3.4 billion.

The House bill would offer farmers a one-time choice between the existing price counter-cyclical payments and a new “revenue counter-cyclical payment.” The House bill’s option would replace only the price-based counter-cyclical payment, leaving direct payments and marketing loans unchanged. The House’s revenue-based option is modeled largely on the Administration’s proposal. CBO says the House’s counter-cyclical program changes would save \$652 million over 5 years.

For the traditional price-based counter-cyclical program, the House bill would increase target prices for six commodities and slightly reduce the target price for cotton. The Senate bill adjusts the same commodities plus sorghum, and adds counter-cyclical support for dry peas, lentils, and chickpeas. Both bills eliminate advance counter-cyclical payments in 2011 and delay final payments.

**Marketing Loans and Related Assistance.** The House bill increases support prices for seven commodities and reduces support prices for two. The Senate bill adjusts the same seven commodities as the House, plus one more, and adds large chickpeas to the list of eligible commodities. The House bill sets the loan repayment price for cotton at the Far East price. The Senate bill has only a recourse loan for participants in the ACR program, thus eliminating many of the subsidy benefits of the nonrecourse loan program. CBO estimates that the House bill changes would cost \$615 million over five years; the estimate for the Senate bill’s provisions would be for savings of \$538 million after adjusting for ACR changes that reduce participation in the marketing loan program. Both bills create a new payment for domestic users of upland cotton to build or modernize buildings and equipment. CBO scores this cotton users provision at \$427 million over five years in the House bill and \$337 million in the Senate bill.

**Planting Flexibility, Fruits and Vegetables, and the WTO.** The direct payments program gives producers the flexibility to make planting choices based on actual market conditions instead of subsidy rules, but there are prohibitions on planting fruits, vegetables, and wild rice on program crop base acres. The purpose of the planting restriction is to protect growers of unsubsidized fruits and vegetables from competing with production on subsidized cropland. However, there have been some reported problems with the policy. The WTO determined that the restrictions are inconsistent with the rules of a minimally distorting subsidy, which could jeopardize the “green box” classification for direct payments.

Both the House and Senate farm bills do not change the fruit and vegetable planting restriction, although they create a pilot program allowing up to 10,000 acres of tomatoes to be grown on base acres in Indiana with a corresponding one-year reduction in payment acres (the Senate’s provision applies only to the 2008 and 2009 crop years). For participants in the ACR program, the Senate bill offers additional planting flexibility for fruits and vegetable for processing on up to 10,000 acres in each of seven Midwestern states. These additional flexibilities, however, do not

address concerns about WTO compliance. USDA proposes to eliminate the fruit and vegetable planting restriction completely. For more information, see CRS Report RL34019, *Eliminating the Planting Restrictions on Fruit and Vegetables in the Farm Commodity Programs*.

**Dairy.** Two federal programs that support milk prices and dairy farm income are expiring in 2007 — the dairy price support program (DPSP) and the Milk Income Loss Contract (MILC) program. Both the House and Senate farm bills would extend the dairy support program for five years (through 2012), but would modify it to directly support the prices of certain manufactured dairy products at mandated levels rather than supporting the farm price of milk.

Under expiring current law, the MILC program pays participating farmers 34% of the difference between a target price of \$16.94 per hundredweight (cwt.) and the monthly market price for farm fluid milk in New England, when the market price is below the target. Per farm payments are limited to the first 2.4 million lbs. of annual milk production. Both the House and Senate bills extend the program through September 30, 2012. However, the Senate bill would increase the payment rate from 34% to 45% of the price shortfall, and would increase the payment limit to 4.15 million lbs. of annual production for the next five years. CBO estimates that these two Senate modifications would increase the cost of the program by \$441 million over five years. The House bill would extend the program at the expiring level of support.

A third federal dairy policy tool, federal milk marketing orders, require dairy processors to pay a minimum price for farm milk depending on its end use. Federal orders are permanently authorized, but a number of issues have been brought to the attention of Congress for the farm bill debate. Dairy processors are seeking a change in statute to exempt them from paying the federal milk marketing order minimum price whenever they forward contract prices with dairy farmers. Both bills authorize a temporary forward contract program (through September 30, 2012) and contain safeguards designed to ensure that dairy farmers are not compelled by processors to participate in the program. Both bills also would authorize a commission to review and evaluate federal milk marketing order policies and procedures and require the commission to report its findings within two years of its first meeting. For more information, see CRS Report RL34036, *Dairy Policy and the 2007 Farm Bill*.

**Sugar.** The sugar program is designed to guarantee the price received by growers and processors of sugarcane and sugar beets, but at no cost to the U.S. Treasury. To accomplish this, USDA limits the amount of sugar that processors can sell domestically under “marketing allotments” and restricts imports, in order to keep market prices above support levels. This way, the incentive exists for sugar cane processors and beet refiners to repay nonrecourse price support loans<sup>8</sup> extended by

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<sup>8</sup> A type of loan where farmers or processors pledge a commodity as collateral to obtain a loan from the Commodity Credit Corporation (CCC) at a commodity-specific, per-unit loan rate. The borrower may repay the loan, with interest, within a specified period and regain control of the commodity. Alternatively, the commodity can be forfeited to the CCC with (continued...)



USDA rather than hand over processed sugar as payment (commonly referred to as loan forfeitures).

To address the potential for a U.S. sugar surplus caused by unrestricted imports from Mexico under the North American Free Trade Agreement (NAFTA) and projected loan forfeitures, both the House and Senate farm bills would mandate a sugar-for-ethanol provision. USDA would be required to purchase U.S.-produced sugar roughly equal to excess imports, if necessary to maintain market prices above support levels. Sugar purchased would then be sold to bioenergy producers for processing into ethanol. USDA's Commodity Credit Corporation would provide open-ended funding for this program. Other provisions would increase the raw sugar and refined beet loan rates, and tighten the rules (i.e., remove discretionary authority) that USDA exercises to implement marketing allotments and/or administer import quotas. The key difference is that the Senate bill would increase loan rates by some 6-7% compared to the House measure's near 3%. Though CBO scores some savings with the ethanol program, it projects the sugar program will cost about \$650 million over five years.

For more background, see CRS Report RL34103, *Sugar Policy and the 2007 Farm Bill*.

**Crop Insurance and Disaster Assistance.** The federal crop insurance program is designed to protect crop producers from unavoidable risks associated with adverse weather, weather-related plant diseases, and insect infestations. Although the scope of the crop insurance program has widened significantly over the past 25 years, the anticipated goal that it would replace *ad hoc* disaster payments has not been achieved.

The crop insurance program is permanently authorized and hence does not require consideration in the farm bill. Some policymakers have expressed interest in expanding the crop insurance program in the context of the farm bill and/or complementing it with a permanent disaster payment program. However, many view the crop insurance program as a potential target for program cost reductions, where savings could be used to fund new initiatives in various titles of the farm bill. The Administration and others contend that the private companies should be required to absorb more of the program losses, and that the reimbursement rate for their operating expenses needs to be reduced as a means of reducing federal costs. The insurance companies and many farm groups are concerned that significant reductions in federal support will negatively impact the financial health of the crop insurance industry and possibly jeopardize the delivery of crop insurance, particularly in high-risk areas.

Both the House and Senate farm bills contain several revisions to the crop insurance program. Many of these changes are cost-saving measures, which CBO has estimated would save an estimated \$3 to \$4 billion in outlays over five years

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<sup>8</sup> (...continued)

no penalty if market prices fall below the loan rate at the end of the term. The government takes no recourse beyond accepting the commodity as full settlement of the loan.

(FY2008-FY2012). In both measures, approximately \$2.5 to \$2.7 billion of this estimated savings would be achieved through changes in the timing of premium receipts from farmers, and payments to the companies, neither of which would have any financial bearing on participating farmers or insurers. However, a portion of the five-year savings is realized by requiring insurance companies and farmers to share more in program costs and risks. In both bills, farmers would be required to pay higher fees for catastrophic coverage and for participation in the noninsured assistance program. The House bill reduces reimbursements to private companies for their administrative and operating expenses on all plans of insurance, while the Senate bill reduces the reimbursement for policies other than for catastrophic coverage. The House bill also requires the insurance companies to share more of their underwriting gains with the government. An amendment (S.Amdt. 3419) to the Senate farm bill that would have required the private companies to share their gains with the government and further reduce their expense reimbursement was defeated on the Senate floor.

The Senate farm bill also contains authority for a five-year, \$5.1 billion permanent disaster payment program that would be funded through a transfer of funds from customs receipts. A similar permanent disaster program was considered as part of the House farm bill in committee, but was removed because of cost considerations.

For more information on crop insurance and disaster assistance, see CRS Report RL34207, *Crop Insurance and Disaster Assistance: 2007 Farm Bill Issues*, and CRS Report RS21212, *Agricultural Disaster Assistance*.

**Specialty Crops.** Sales of specialty crops, such as fruits, vegetables, and tree nuts, account for nearly one-third of U.S. crop cash receipts and one-fifth of U.S. agricultural exports, according to USDA. When floriculture, greenhouse, and nursery crop sales are included, total specialty crops account for nearly 50% of all U.S. farm crop cash receipts. However, specialty crop producers are not eligible for commodity income support programs; also, few provisions in the farm bill's 2002 conservation, trade, research, and nutrition titles specifically address the specialty crop industry. For more information, see CRS Report RL33520, *Specialty Crops: 2007 Farm Bill Issues*.

One of the key provisions in both the House and Senate farm bills is the reauthorization of the specialty crop block grant program established by the Specialty Crops Competitiveness Act of 2004 (P.L. 108-465). Under this program, each state receives a grant to support marketing research and promotion to enhance the competitiveness of specialty crops grown in the state. Mandatory funding levels differ between the House and Senate bills: the House bill would provide \$365 million for the program over five years; the Senate bill would provide \$270 million over five years. Under the authority of the 2004 act, Congress appropriated \$7 million for the specialty crop block grant program in both FY2006 and FY2007. (Actual spending estimates cited here and below for the Senate-passed bill are subject to change pending completion of the final text of the Senate bill.)

A second component of the House and Senate bills is the addition of provisions supporting organic production. Both bills would reauthorize the National Organic

Cost-share Program<sup>9</sup> by providing a one-time transfer of \$22 million in FY2008 (available until expended) to help defray farmers' costs for obtaining certification under the National Organic Program; both bills would raise the amount that an individual farmer can receive in cost-share assistance from \$500 to \$750. Both the House and Senate farm bills also include mandatory funding for data collection on organically grown crops: the Senate provides \$5 million for organic data collection and price reporting; the House provides \$3 million in funding. Other provisions in the House bill would authorize appropriations of \$50 million over five years to provide technical assistance and cost-sharing grants to farmers seeking to convert from conventional to organic production. Other provisions in the Senate bill would increase authorized incremental funding levels for the National Organic Program for use in compliance and oversight; and would exempt organic farms from assessments under the commodity promotion programs.

Another provision in both bills is mandatory funding to expand the existing Farmers' Market Promotion Program into a Farmers Marketing Assistance Program: the House calls for \$32 million in mandatory funding; the Senate would provide \$30 million. Both bills also would create a Healthy Food Enterprise Development program, although each would take a differing approach. This program addresses the issue of the availability of affordable, nutritious fresh foods in low-income communities and neighborhoods. Both the House and Senate bills also specify the purchase of specialty crops using Section 32 funds, in addition to purchases required in the 2002 farm bill. Other provisions in the House bill include increased funding of specialty crops for USDA nutrition programs; authority for larger disaster payments to tree fruit producers for weather-related losses; and funding for pest and disease control programs. Other provisions in the Senate bill would provide \$24 million in new money for technical assistance to address export barriers for specialty crops, among other provisions.

A major organizational difference between the House and Senate bills is that the House bill contains a title on Horticulture and Organic Agriculture (Title X), whereas the Senate bill does not contain a separate title and instead includes these provisions under Subtitle F of Title I (Producer Income Protection).

## **Competition, Livestock Marketing, and Regulatory Programs**

Rapid changes have occurred in recent decades in the structure and business methods of agriculture in general and of animal agriculture in particular. Production and marketing have been moving toward fewer and larger operations (sometimes referred to as consolidation or concentration), and toward vertical integration, although the pace of these changes has varied widely across the sectors. Debate has revolved around the impact of such changes on farm prices, on the traditional system of independent, family-based agriculture, on consumers, and on global competitiveness. Inherent in these questions is the role government should play in monitoring and regulating agricultural markets. For more information see CRS Report RL33958, *Animal Agriculture: 2007 Farm Bill Issues*.

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<sup>9</sup> In the 2002 farm bill, Congress established this program and provided a one-time transfer of \$5 million in mandatory funds to help transition farmers to organic production.

The Senate bill contains a title on Livestock, Marketing, Regulatory, and Related Programs (Title X) that is based in part on a wide-ranging bill (S. 622) introduced earlier by its chairman. One major change in Title X would prohibit most major packers from owning, feeding, or controlling livestock except within 14 days of slaughter. Another major provision would establish at USDA a new Special Counsel for Agricultural Competition to investigate and prosecute violations of competition laws. Other provisions in Title X would: change the Agricultural Fair Practices Act to expand coverage to producer members of associations and handlers, and to strengthen USDA's oversight and enforcement of the act; give USDA stronger enforcement authorities over live poultry dealers under the Packers and Stockyards Act; require that any arbitration clauses in production contracts between integrators and animal producers are voluntary for both sides; and generally require integrators to provide at least 90 days' notice before terminating a contract with a producer who has made a capital investment of at least \$100,000 to fulfill the contract. The House-passed bill does not contain comparable "competition" provisions, although it does require USDA to issue regulations on what arbitration provisions are to be permitted in contracts.

The Senate livestock and marketing title would require USDA to issue rules to protect proprietary and/or confidential business information that farmers and ranchers disclose in the course of participation in an animal identification system. The Senate bill also establishes a new program for mandatory daily product information reporting for dairy, and amends existing swine and pork provisions, under the Livestock Mandatory Price Reporting program administered by USDA's Agricultural Marketing Service (AMS).

**Country-of-Origin Labeling.** The 2002 farm bill (§10816 of P.L. 107-171) required retailers to provide country-of-origin labeling (COOL) for fresh produce, red meats, peanuts, and seafood by September 30, 2004. Congress has twice postponed implementation for all but seafood; COOL now must be implemented by September 30, 2008. COOL does not apply to processed versions of these products, to poultry, a competing meat, or to dining-out establishments. Vigorous debate has continued over whether this new program is desirable and necessary, its purposes, and its likely impacts on farmers, processors, retailers and consumers. Opponents of mandatory COOL prefer a voluntary or market-driven program or at least some relaxation of the COOL law's compliance language. Supporters continue to seek Congress's and USDA's assurance that the mandatory program will be implemented expeditiously. For a more detailed description of the law, requirements and issues see CRS Report 97-508, *Country-of-Origin Labeling for Foods*.

Both the House and Senate farm bills would implement the mandatory program on its current schedule. However, for red meats, it creates several new types of label categories that are intended to facilitate and simplify compliance in specifying the country or countries of the products. For all covered commodities, the bill also would ease recordkeeping and verification requirements, and lower noncompliance penalties. The House bill also extends COOL to goat meat. The Senate bill further adds chicken (which competes with red meats in the market and which, unlike red meats, primarily is domestically produced) and macadamia nuts as covered commodities. The Senate bill also would create a separate new COOL requirement for ginseng.

**State-Inspected Meat and Poultry.** Federal law now prohibits state-inspected meat and poultry plants from shipping their products across state lines, a ban that many states and small plants want to overturn. Limiting state-inspected products to intrastate commerce is unfair, many state agencies and state-inspected plants argue, because the 27 current state-operated programs by law already must be, and are, “at least equal” to the federal system. Those who oppose allowing state-inspected products in interstate commerce argue that state programs are not required to have, and do not have, the same level of safety oversight as the federal, or even the foreign, plants. Both the House and Senate farm bills would enable state-inspected plants to sell products in interstate commerce, but under divergent policy approaches.

Under the Senate bill, state-inspected plants with 25 employees or less could opt into a new program that subjects them to federal laws and oversight, for which they would gain the federal mark of inspection and the ability to ship interstate. They would still be inspected by state employees, but these employees would be under the supervision of a federal employee who will oversee training, inspection, compliance, and other activities. States would receive at least 60% reimbursement of their costs (compared with 50% under the existing federal-state program, which could also continue), and 100% reimbursement if they test more frequently than USDA (i.e., the Department’s Food Safety and Inspection Service, or FSIS) does, among other things. The Senate language reportedly is a compromise package acceptable to both opponents and supporters of the House language (below).

The House-passed farm bill also would enable meat and poultry that is not federally inspected to be shipped across state lines, as long as the state programs adopted standards identical to those of USDA along with any additional changes USDA required. Moreover, the bill would enable many plants currently under federal inspection to apply for state inspection and continue to ship interstate. Opponents of this change fear that many would seek to opt out of the federal system if they believed that could receive more lenient oversight by the states — an assertion that state proponents dismiss. (For background, see CRS Report RL34202, *State-Inspected Meat and Poultry: Issues for Congress*.)

**Reportable Meat and Poultry Registries.** A provision in the Senate but not House bill would require USDA to establish “reportable food registries” for meat and poultry and their products, whereby establishments would have to report whenever there were a probability of such foods causing adverse health consequences. The FDA amendments legislation passed in 2007 (P.L. 110-85) establishes a similar registry for FDA-regulated foods. Another Senate-passed provision would require meat and poultry establishments to include a recall plan in their FSIS-approved risk prevention plans.

**Food Safety Commission.** Recent food safety incidents linked to both imported and domestic foods have brought into focus the need if any for changes in federal food safety oversight. At issue is whether the current system has the statutory authorities, resources, and structural organization to protect consumers from unsafe food. The Senate bill would establish a Congressional Bipartisan Food Safety Commission that would be required to report, within one year, on recommendations for modernizing food programs. Furthermore, the President would be required to

send to Congress proposed legislation based on the commission's recommended statutory changes. (See also CRS Report RL34152, *Food Safety: Selected Issues and Bills in the 110<sup>th</sup> Congress.*)

**Catfish Grading and Inspection.** The Senate bill would provide for two USDA initiatives affecting farm-raised domestic catfish: authorizing a voluntary grading program administered through the Agricultural Marketing Service, and mandating safety inspection of such products by FSIS (i.e., making catfish an amenable species along with the major meat and poultry species). The House bill lacks this language.

**Food from Cloned Animals.** FDA has asked companies to refrain voluntarily from marketing meat and milk from cloned animals or their progeny until it can complete a final assessment of their safety. The Senate bill contains a provision, not in the House version, that would prohibit FDA from issuing a final risk assessment or from lifting the voluntary moratorium until completion of newly mandated studies on the safety and market impacts of introducing products from cloned animals.

## Domestic Food Programs and Nutrition

The farm bill's nutrition title accounts for more than half of all spending on programs/activities covered by the bill; the majority of which finances the Food Stamp program. The most significant issues in (and provisions of) this title are those dealing with administration of, eligibility for, and benefits under the Food Stamp program, fruit and vegetable support policies, and spending for The Emergency Food Assistance Program (TEFAP).

Both the House and Senate farm bills diverge greatly in the amount of new spending (above that expected under current nutrition program laws) in their nutrition titles. Over the next five years (FY2008-FY2012), CBO estimates place the net cost of the House nutrition title at \$4.2 billion (budget authority and outlays) versus the Senate's \$5.4 billion (budget authority)/\$5.3 billion (outlays).<sup>10</sup> They also diverge in where they spend the money. The House bill devotes 78% of new funding to changes in law that would produce new food stamp spending, 14% to extra funding for The Emergency Food Assistance Program (TEFAP), and 7% to spending on an expanded program offering free fresh fruits and vegetables in schools. The Senate bill's food stamp provisions consume 66% of its total, compared to 21% for expansion of the fruit and vegetable initiative and 10% for TEFAP.

The House and Senate bills also differ in another matter. The House bill makes its changes part of permanent law, producing a 10-year cost estimate of \$11.5 million (budget authority and outlays). On the other hand, most of the Senate's major revisions (e.g., increased food stamp benefits) would terminate after FY2012, resulting in a much lower 10-year cost — added budget authority and outlays of \$5.6 billion (only slightly above its five-year cost).

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<sup>10</sup> Actual spending estimates subject to change pending completion of the final text of the Senate bill.

However, the House and Senate bills are very similar in *most* of the actual policy changes they propose. They both would rename the Food Stamp program (although with different names).<sup>11</sup> They both would significantly increase food stamp benefits: boosting the minimum disregard of income (the “standard deduction”), lifting caps on the disregard of income used for dependent-care expenses, and increasing the minimum benefit guarantee. They both would loosen eligibility rules for food stamps by indexing the dollar limit on allowable liquid assets and disregarding as assets all retirement savings/plans and education savings. They both significantly increase guaranteed spending for TEFAP. They both substantially expand support for the free fresh fruit and vegetable program. They both would allow the exercise of geographic preference when procuring food for child nutrition programs.

In addition to the basic differences over how much to spend it total and how much to direct to food stamps vs. the fresh fruit and vegetable program, the two bills differ in some policy choices, partially because of funding decisions. The House bill extends all expiring nutrition program authorities through FY2012; the Senate committee bill extends them indefinitely. The House bill imposes substantial limits on states’ ability to “privatize” administration of the Food Stamp program; the Senate bill opts for increased scrutiny of state privatization initiatives. The Senate bill includes a number of initiatives not in the House-passed version: e.g., loosened rules governing the food stamp eligibility of able-bodied adults without dependents (ABAWDs), revisions to food stamp administrative rules aimed at easing access to food stamps, added money for the Senior Farmers’ Market Nutrition program, community food projects, and farmers’ market infrastructure projects, funding for projects to evaluate the use of the Food Stamp program to promote health and nutrition, eventually allowing the use of food stamps to purchase dietary supplements.

For more information, see CRS Report RL33829, *Domestic Food Assistance: The 2007 Farm Bill and Other Legislation in the 110<sup>th</sup> Congress*.

## Conservation

Both the House and Senate farm bills would reauthorize almost all current conservation programs. A significant change in the Senate bill would be to create a new Conservation Stewardship Incentives Program by closely coordinating the Conservation Security Program (CSP) and the Environmental Quality Incentives Program (EQIP), and set a target of enrolling more than 13 million acres annually using about \$1.3 billion in additional funding above the current baseline. It would fund most conservation programs at FY2007 authorized levels through FY2012. The House bill also would greatly alter the CSP, but in very different ways. It would halt funding for new CSP signups until FY2012, and would increase funding for EQIP, the Wetland Reserve Program (WRP), the renamed Farm and Ranchland Protection Program (FRPP), and the Grasslands Reserve Program (GRP). Programs in which

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<sup>11</sup> The House-passed bill chooses the *Secure Supplemental Nutrition Assistance program*; the Senate committee bill opts for the *Food and Nutrition program*, as has the Administration (which also proposed renaming the program).

funding would not be increased under either bill include the Wildlife Habitat Incentives Program (WHIP), the Conservation Reserve Program (CRP), which would continue to be authorized at 39.2 million acres, and the WRP, which would continue to seek to enroll 250,000 acres per year. However, funding for WRP is counted as new budget authority and totals \$1.9 billion over five years.

Both the House and Senate bills would expand the range of USDA conservation activities. Topics receiving new or additional emphasis in the title in one or both bills include forestry, endangered species, invasive species, cooperative conservation among multiple land owners, innovative conservation efforts, pollinator protection, location-specific programs for places like the Chesapeake Bay, Upper Mississippi River and Sacramento River watersheds, and the development of a structure to support the use of market-based approaches in conservation. Both bills would authorize enhanced land retirement programs where states supplement federal funds for the WRP and the GRP, modeled after a similar component of the CRP. Each bill has provisions not found in the other bill. For example, the Senate bill would authorize a new conservation program to respond to emergencies, which would replace the two current programs; the House bill would set an overall fiscal year payment limit of \$60,000 for any single conservation program and \$125,000 for all but three programs (excluded programs are WRP, FRPP, and GRP). Also, the bills address some topics in different ways. For example, the Senate bill would create a stand-alone program for Chesapeake Bay restoration within EQIP, while the House bill has several Chesapeake Bay provisions scattered throughout the title.

The CSP would be altered by both bills, but in very different ways. The Senate bill would replace the CSP, with its complex three-tiered structure and four types of payments, with a Conservation Stewardship Program, under which participants would address priority resources of concern to specified standards, termed a stewardship threshold. It requires that more than 13 million acres be enrolled each year. Under the House bill, new enrollments could be accepted only after FY2012 and participants would receive a single payment, called a Stewardship Enhancement Payment.

Numerous other legislative proposals for conservation were introduced in both the House and Senate bills. For more information, see CRS Report RL34060, *Conservation and the 2007 Farm Bill*, for more information on conservation programs and past conservation funding, see CRS Report RL33556, *Soil and Water Conservation: An Overview*, and for more information on proposed program funding in both bills, see CRS Report RL34178, *Funding Levels for Conservation Programs in the 2007 Farm Bill*.

## **Bioenergy**

Interest in renewable energy has grown rapidly since late 2005 due, in large part, to a strong rise in domestic and international fuel prices and a dramatic acceleration in domestic biofuel production (mostly ethanol). Many policymakers view agriculture-based biofuels as both a catalyst for rural economic development and a response to growing energy import dependence. Renewable energy's current role in the 2002 farm bill is contained in the farm bill's energy title (Title IX) and concentrates on grants, loan, and loan guarantees to foster research on agriculture-



based renewable energy, to share development risk, and to promote the adoption of renewable energy systems. USDA's Bioenergy Program (Sec. 9006 of P.L. 107-171) — whose funding expired in FY2006 — has been the primary exception in that it provided incentives to expand actual production of bioenergy.

Both the House and Senate farm bills retain Title IX as the energy title, but with modifications. Both bills expand and extend several energy provisions from the 2002 farm bill with substantial increases in funding and a heightened focus on developing cellulosic ethanol production. Existing energy programs retained and extended with mandatory funding include the federal biobased product preference program, the biorefinery development grant and loan guarantee program, the renewable energy systems and energy efficiency improvements program, the Biomass Research and Development Act, the USDA bioenergy program, and the Biodiesel Fuel Education Program. Both bills establish a new program — the Bioenergy Reserve Program in the House version and the Biomass Crop Transition Assistance Program in the Senate — with mandatory funding to stimulate and facilitate the production, harvest, storage, and processing of cellulosic-based biomass feedstock. In addition, a variety of studies, research and demonstration projects, and pilot programs targeted to specific issues within the renewable energy purview that would be subject to annual appropriations are included in the two bills.

Funding levels for the provisions of the energy title vary somewhat under the two farm bills. The House-passed version authorizes \$3.2 billion in new mandatory funding and over \$1.4 billion in discretionary funding, whereas the Senate committee farm bill authorized \$1.1 billion in new mandatory funding and over \$2 billion in discretionary funding for provisions of the energy title.<sup>12</sup> These provisions would be funded through various revenue and cost offset provisions that are included in both the House- and the Senate-passed bills. These revenue and cost offset provisions vary significantly within each bill. The funding of new or extended energy provisions hinge on the ultimate resolution of such differences in conference.

For more information on agriculture and bioenergy, see CRS Report RL34130, *Renewable Energy Policy in the 2007 Farm Bill*; CRS Report RL32712, *Agriculture-based Renewable Energy Production*; CRS Report RL33290, *Fuel Ethanol: Background and Public Policy Issues*; and CRS Report RL33928, *Ethanol and Biofuels: Agriculture, Infrastructure, and Market Constraints Related to Expanded Production*. Also see CRS Report RL33572, *Biofuels Incentives: A Summary of Federal Programs*.

Many of the federal programs that currently support renewable energy production in general, and agriculture-based energy production in particular, are outside the purview of USDA and have legislative origins outside of the farm bill. For example, the new energy act signed into law by the President on December 19, 2007 (P.L. 110-140) covers a wide range of topics with extensive attention to biofuels. In particular, it includes a dramatic expansion of the renewable fuels mandate to 36 billion gallons by 2022 with carve-outs for biodiesel (1 billion gallons

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<sup>12</sup> Actual spending estimates subject to change pending completion of the final text of the Senate bill.

by 2012), cellulosic ethanol (16 billion gallons by 2022), and corn-starch ethanol (15 billion gallons by 2015). Legislative proposals focused on renewable energy are summarized in CRS Report RL33831, *Energy Efficiency and Renewable Energy Legislation in the 110<sup>th</sup> Congress*.

## Rural Development

More than 88 programs administered by 16 different federal agencies target rural economic development. The Rural Development Policy Act of 1980 (P.L. 96-355), however, named USDA the lead federal agency for rural development. USDA administers most of the existing rural development programs and has the highest average of program funds going directly to rural counties (approximately 50%). Three mission agencies, Rural Housing Service, Rural Business-Cooperative Service, and Rural Utilities Service, administer the various loan and grant programs. More information on these programs is in CRS Report RL31837, *An Overview of USDA Rural Development Programs*.

Both the House and Senate farm bills reauthorize and/or amend existing rural development loan and grant programs and create several new provisions. The Senate bill authorizes a new interest rate structure for water and wastewater projects. Unlike the House-passed bill, the Senate-passed bill includes four mandatory-funded programs. These provisions include loan guarantees to rural hospitals, loans and grants for rural child care facilities, a rural microenterprise assistance program, and one-time funding of backlogged applications for rural water projects. The House bill also authorizes new assistance to rural hospitals and clinics and a rural microenterprise program, but provides discretionary funding support.

Other new provisions in the Senate bill include a Center for Healthy Food Access and Enterprise Development, artisanal cheese centers, support for locally-produced agricultural food products, grants for assisting employment opportunities for disabled individuals in rural areas, and a rural collaborative investment program. This latter program, which would provide equity capital to rural areas, has similarities with the Rural Strategic Investment Program reauthorized by the House bill. The Senate bill would also change the 2002 definition of “rural area” to exclude certain areas (particular census blocks) based on housing density criteria. The Secretary would have certain discretionary powers in designating an area as “rural.” The Senate bill also includes a provision contained in the House bill that requires the Secretary to prepare a report assessing the various definitions of “rural” and the effect these various definitions have on programs administered by USDA Rural Development.

Broadband development in rural areas is also a prominent feature in both bills. Subtitle C to Title VI proposes a Connect the Nation Act to encourage state initiatives to improve broadband service. The Senate bill also reauthorizes the Distance Learning and Telemedicine program and amend the program’s title to include library connectivity, public television, and distance learning. Both bills reauthorize and amend the Access to Broadband Telecommunications Service in Rural Areas; authorize a National Center for Rural Telecommunications Assessment; and direct the Secretary to conduct a comprehensive rural broadband strategy.

Other provisions in the Senate bill reauthorize the Rural Economic Area Partnership, water and waste water programs, Rural Business Opportunity Grants, SEARCH grants, value-added product grants, and the National Rural Development Partnership. The Delta Regional Authority and the Northern Great Plains Regional Authority also are reauthorized. The Senate bill authorizes a new regional development authority, the Northern Borders Economic Development Commission, targeted to certain counties in New York, New Hampshire, Maine, and Vermont. Other provisions reauthorize and amend the Rural Business Investment Program and Multi-jurisdictional Regional Planning Organizations, which were not included in the House bill. The Senate measure also authorizes a new Northern Border Economic Development Commission that targets counties in New York, Maine, Vermont, and New Hampshire. Two provisions in the Senate bill would reserve funds under the Community Facilities program to particular areas and give priority to projects with high non-federal shares of funds.

For more information, see CRS Report RL34126, *Rural Development and the 2007 Farm Bill*.

## **Forestry**

Farm bills typically deal with forestry both directly, usually in a forestry title, and indirectly (such as including forests and forestry practices in more general conservation programs). For a description of existing programs, see CRS Report RL31065, *Forestry Assistance Programs*.

Both the House and Senate farm bills include a forestry title (Title VIII) with several sections addressing statewide forest resource planning. One section would establish “national private forest conservation priorities” as (1) conserving and managing working forest landscapes for multiple values and uses; (2) protecting forests from threats and restoring appropriate forest types; and (3) enhancing public benefits from private forests. Other sections would require statewide assessments and strategies for forest resources (with periodic revision). The House bill also would create a new Forest Resource Coordinating Committee, require the competitive allocation of a portion of state assistance funding (based on how the statewide assessments and strategies fulfill the national priorities), and allow up to 5% of state assistance funding for competitively allocated innovative projects to address the national priorities. The Senate bill would create a new community forest and open space conservation grant program for local entities to protect forests threatened with conversion to non-forest uses, would amend existing law to restrict imports of illegally logged wood, and would provide for forestry conservation bonds.

Both bills would extend, through 2012, the authorization for the Office of International Forestry. The House bill also would extend the authorization for the Rural Revitalization Technologies Program and for Healthy Forest Reserves under the Healthy Forests Restoration Act of 2003 (P.L. 108-148, 16 U.S.C. §§6501, et seq.), while the Senate bill would extend the authorization for Renewable Resource Extension. Other House bill provisions include an Emergency Forest Restoration Program to provide assistance for restoration efforts for forests damaged by natural factors, and a competitive grant program to Hispanic-serving institutions to increase diversity in forestry and related fields. Other Senate bill provisions provide for tribal-

Forest Service cooperative relations and assistance, allow contract modification options for certain Forest Service timber sales, and encourage the President to ensure lumber imports consistent with the U.S.-Canada Softwood Lumber Agreement.

## Agricultural Research

Under the mission area called Research, Extension, and Economics (REE), the USDA is responsible for conducting agricultural research at the federal level, and for providing partial support for cooperative research, extension, and post-secondary agricultural education programs in the states. The USDA's intramural activities are carried out by the Agricultural Research Service (ARS), Economic Research Service (ERS), National Agricultural Statistics Service (NASS), National Agriculture Library (NAL). The federally funded extramural activities are managed by the Cooperative State Research, Education, and Extension Service (CSREES). For more information on these agencies' activities, see CRS Report RL33327, *Agricultural Research, Education, and Extension: Issues and Background*.

The issues confronting Congress concerning federal agricultural research can be generally categorized under two topics: the structure of the management organization, and the level of research funding. These are long-standing issues. Congress addressed the management issue in the 2002 farm bill by directing the USDA to examine and report on the structure of Agricultural Research Service (ARS) management and the merits of establishing a National Institute of Food and Agriculture (possibly modeled after the National Institutes of Health). With respect to funding, there has long been a struggle under persistent budget constraints to obtain increased appropriations even sufficient to keep up with inflation. With farm commodity support as a model, the research community has attempted to obtain a portion of its money in of mandatory funds, with less reliance on discretionary appropriations.

The USDA task force report, *National Institute for Food and Agriculture: A Proposal*, was issued July 2004.<sup>13</sup> The proposal was presented to Congress in USDA's *2007 Farm Bill Proposals*.<sup>14</sup> While the USDA task force was conducting its review, the National Association of State Universities and Land-Grant Colleges (NASULGC) developed a proposal called *Create Research, Extension, and Teaching Excellence for the 21st Century* (CREATE-21).<sup>15</sup> CREATE-21 was presented to Congress as H.R. 2398 and S. 1094.

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<sup>13</sup> *National Institute for Food and Agriculture: A Proposal*, report of the Research, Education, and Economics Task Force of USDA, July 2004. The report is available online at [<http://www.ars.usda.gov/Research/Research.htm>].

<sup>14</sup> A link to the USDA farm bill research proposal is at [[http://www.usda.gov/wps/portal/tut/p/\\_s.7\\_0\\_A/7\\_0\\_1UH?contentidonly=true&contentid=2007\\_Farm\\_Bill\\_Title7.xml](http://www.usda.gov/wps/portal/tut/p/_s.7_0_A/7_0_1UH?contentidonly=true&contentid=2007_Farm_Bill_Title7.xml)].

<sup>15</sup> Available at [<http://www.create-21.org/>].

The research provisions in both the House and Senate farm bills draw heavily on the recommendations of the USDA and NASULGC.<sup>16</sup>

**Research Management.** The House version would create, within the Office of the Under Secretary for Research, Education, and Economics, an overall coordinating organization known as the National Agricultural Research Program Office (NARPO) with six specialized directors. Additionally, the House-passed bill would establish a National Institute of Food and Agriculture (NIFA) within the Cooperative State Research, Education, and Extension Service (CSREES) that would oversee extramural competitive research grants only.

The Senate bill explicitly designates the Under Secretary as the coordinator of research between ARS and NIFA. However, the bill would establish a NIFA that reports to the Secretary of Agriculture (not through the Under Secretary). NIFA would replace CSREES to plan, coordinate, and manage all extramural USDA research, education, and extension funds (competitive grants, capacity building grants, and formula funds).

**Funding.** The House bill authorizes \$865 million in total mandatory research funding over the five-year life of the farm bill. The Organic Research and Extension Initiative would receive \$25 million in total mandatory funds for FY2008-FY2012, and \$25 million in annual appropriations authority for FY2009-FY2012. A new Specialty Crop Research Initiative would receive a total of \$215 million in mandatory funds, in addition to annual appropriations authority of \$100 million for FY2008-FY2012. The effort to improve the safety of fresh cut produce would be provided an additional total of \$25 million in mandatory funds to supplement the annual appropriation. The House bill preserves mandatory funding of \$200 million for IFAFS for FY2010-2012. Discretionary programs would be maintained largely as in the previous farm bill and most would be authorized to receive appropriations of such sums as necessary.

The Senate bill would provide \$160 million in total mandatory research funds over the five-year life of the farm bill.<sup>17</sup> Like the House bill, the Senate would authorize a new Organic Research and Extension Initiative, but with \$16 million in mandatory funds for FY2008-FY2012. Also, a new Specialty Crop Research Initiative would receive \$16 million in annual mandatory funds for FY2008-FY2012. Mandatory funds for the Initiative for Future Agricultural and Food Systems (IFAFS) would be eliminated and replaced with annual appropriations of such sums as necessary. As with the House bill, discretionary programs in the Senate bill would be maintained largely as in the previous farm bill and most would be authorized to receive appropriations of such sums as necessary.

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<sup>16</sup> A more complete examination of the issues and legislative proposal is in CRS Report RS22693, *Agricultural Research, Education, and Extension in the 2007 Farm Bill*.

<sup>17</sup> Actual spending estimates subject to change pending completion of the final text of the Senate bill.

## Agricultural Trade and Food Aid

Farm bills have included a trade title with legislative authority for programs that subsidize, finance, or promote commercial agricultural exports and that provide international food assistance. Title III of the 2002 farm bill currently provides authorization for these two kinds of programs. Both the House and Senate farm bills extend authorization for these programs through FY2012, with increased funding for selected export and food aid programs.

**Trade.** The trade title of the Senate-passed bill extends USDA's export market development programs through 2012. It increases funding for export promotion in the Market Access Program (MAP) by \$94 million over five fiscal years and the Foreign Market Development Program (FMDP) by \$22 million, also over five fiscal years. The House-passed bill increases MAP funding by \$125 million over five years, but keeps FMDP funding at the current level of \$34.5 million annually. MAP promotes mainly high value farm exports, while FMDP promotes bulk or generic commodity exports. Both Senate and House bills revise the export credit guarantee programs to bring them into compliance with a WTO dispute settlement decision in the U.S.-Brazil cotton case which the United States lost. Both bills eliminate the 1% cap on origination fees for export credit guarantees and repeal legislative authority for an intermediate export credit guarantee program (3-10 years). Both bills repeal legislative authority for very short term (six months to one year) guarantees. The Administration requested repeal of this program because of defaults and evidence of fraudulent activity. The Senate bill repeals authority for the Export Enhancement Program (EEP), a direct export subsidy, while the House bill reauthorizes EEP through 2012. The Administration requested repeal of EEP because, it argued, the program had been inactive since 1995 and repealing it would be in line with the U.S. effort to eliminate all export subsidies in on-going multilateral trade negotiations.

Both bills increase funding for the Technical Assistance for Specialty Crops (TASC) program which focuses on eliminating sanitary and phytosanitary (food safety) barriers to U.S. agricultural exports. The House bill authorizes appropriations to strengthen U.S. representation in international standard-setting bodies, and both bills provide for assistance to limited-resources persons and organizations to address unfair trade practices and reduce foreign trade barriers.

**Food Aid.** The United States is the world's largest provider of food aid, accounting for about 60% of total global food aid over the last decade. Most U.S. food aid is provided via P.L. 480 Title II which authorizes the donation of U.S. agricultural commodities for emergency relief or for use in development projects. Both bills extend P.L. 480 food aid programs through 2012; the House bill authorizes appropriations for P.L. 480 Title II humanitarian donations of \$2.5 billion annually. If appropriated, that amount would represent a very substantial increase over the \$1.2 billion appropriated annually in recent years. Both versions of the farm bill also increase the amount of cash that could be allocated to private voluntary organizations to pay for project related expenses. Both bills contain hard earmarks, i.e., not subject to waivers, for non-emergency or development food aid. In this regard, the Senate bill stipulates that \$600 million of Title II funds would be made available for development assistance programs, while H.R. 2419 provides that not less than \$450 million annually would be made available for development programs.

Both bills reauthorize other smaller programs that provide food aid to countries that are promoting the development of market-oriented agricultural sectors (Food for Progress) or for school feeding and nutrition programs (the McGovern-Dole International School Feeding and Child Nutrition Program). The Senate bill raises the cap on CCC-funded transportation of commodities in the Food for Progress Program, while the House-passed bill reauthorizes this program without change. The Senate bill reauthorizes the McGovern-Dole program and provides for discretionary funding of \$300 million annually. The House bill, however, changes the funding basis of McGovern-Dole from discretionary to mandatory and increases spending from \$140 million in FY2009 to \$300 million in FY2012. Both bills reauthorize the Bill Emerson Humanitarian Trust, which provides food aid in the event of unanticipated food needs.

The Administration's sole farm bill food aid proposal was for legislative authority to allocate up to 25% of funds for humanitarian food aid (through P.L. 480 Title II) to local or regional purchase of commodities for emergency relief. Local or regional purchases, the Administration argued, would make the U.S. response to emergencies more timely and cost-effective. Opponents of the proposal, however, maintain that it would undermine the coalition of producers, shippers, and charitable organizations that support U.S. food aid and result in less U.S. food aid being provided. The Senate bill would authorize a \$25 million per year pilot program to explore how local or regional purchase of food in emergency situations might be used. While the House-passed bill did not make provision for the use of P.L. 480 funds for local or regional purchases of commodities, it stipulated that \$40 million of funds authorized annually for the International Disaster and Famine Assistance (IDFA) program, administered by the U.S. Agency for International Development, be made available for famine prevention and relief. IDFA funds have been used for local or regional purchases of agricultural commodities in emergency situations, in addition to other emergency supplies.

For background information on farm bill trade and food aid programs, see CRS Report RL33553, *Agricultural Export and Food Aid Programs*; for a discussion of food aid and the farm bill, see CRS Report RL34145, *International Food Aid and the 2007 Farm Bill*; for a discussion of export programs and the farm bill, see CRS Report RL34227, *Agricultural Exports and the 2007 Farm Bill*.

## **Agricultural Credit**

Farm bills usually contain provisions that modify the permanent statutes for two government-related farm lenders. First, the USDA Farm Service Agency (FSA) is a federal government lender of last resort that makes direct loans or guarantees loans to farmers who cannot qualify for commercial loans. Second, the Farm Credit System (FCS) is a private lender with a statutory requirement, and limitation, to lend to farmers and certain farm-related businesses. For more information, see CRS Report RS21977, *Agricultural Credit: Farm Bill Issues*.

**Farm Service Agency.** Both the House and Senate farm bills would (1) further prioritize and subsidize Farm Service Agency lending for beginning and socially disadvantaged farmers, (2) increase lending limits per individual to \$300,000 (up from \$200,000) for each of the direct farm ownership and direct operating loan

programs, and (3) extend and expand the guarantee program for seller-financed land loans. For conservation projects, the House-passed bill would create a conservation loan guarantee program, while the Senate-passed bill would make more conservation programs eligible for FSA farm loans and give priority to beginning farmers and ranchers. Regarding “term limits” on guaranteed operating loans, which require farmers to graduate from FSA credit to commercial lenders, the House bill would extend the suspension of the enforcement of “term limits,” but only until January 1, 2008; the Senate bill would permanently eliminate term limits for such loans. The Senate bill also would create a pilot program of “individual development accounts” for beginning farmers and ranchers.

**The Pigford Decision.** The Senate-passed bill would permit any claimant in the Pigford decision (a 1999 suit based on past discrimination against minority farmers applying for USDA loans) who has not received compensation to petition in civil court to obtain such compensation. The total amount of payment and debt relief would be limited to \$100 million. USDA would be restricted from beginning a foreclosure if the borrower can show foreclosure is related to a Pigford claim. A similar provision is also included in the House-passed bill. See CRS Report RS20430, *The Pigford Case: USDA Settlement of a Discrimination Suit by Black Farmers*.

**Farm Credit System.** In recent years, FCS has sought to expand its lending authority beyond traditional farm loans and into more rural housing and non-farm businesses. In early 2006, FCS released a report titled *Horizons*, which highlighted perceived needs for greater lending authority to serve rural America. Commercial banks oppose expanding FCS lending authority, saying that the availability of commercial credit in rural areas is not constrained, and that FCS’s government-sponsored enterprise (GSE) status provides an unfair competitive advantage.

Neither the House nor the Senate bill contain any expansion of Farm Credit System lending authority as proposed under *Horizons*. Although the House Agriculture Committee included limited expansions, an adopted floor amendment sponsored by the House Financial Services Committee chairman and ranking member removed those provisions (expansion of the population cutoff for rural housing loans from 2,500 population to 6,000 population; adding a general agribusiness category to the list of eligible borrowers, but limited to renewable energy projects only; and replacing the borrower stock-holding requirement with the discretion of the institution).

Committee jurisdiction had been called into question by letters from the House Financial Services Committee to the Agriculture Committee, in which Financial Services asserted their jurisdiction for nonfarm lending and its specific opposition to *Horizons*. The Administration came out against FCS expansion in a Statement of Administration Policy for the House bill. The past chairman of the Farm Credit Administration, the federal regulator, also voiced opposition.



## Agricultural Security

The Senate bill includes an Agricultural Security subtitle in Title XI (Miscellaneous). The House bill does not include any comprehensive section on agricultural security, but does include a provision related to possession of foreign animal disease viruses in the research title. Members of both the House and Senate considered, but did not offer or adopt, amendments to transfer agricultural border inspectors back to USDA.

Regarding foreign animal diseases, the Senate bill would compel USDA to issue a permit to DHS to possess and work with live foot and mouth disease (FMD) virus at the proposed and yet-to-be-built National Bio- and Agro-Defense Facility, subject to compliance with USDA rules for handling “select agents.” The House bill’s approach is more complicated, with possible contradictions between FMD restrictions and select agent rules. For more information, see CRS Report RL34160, *The National Bio- and Agro-Defense Facility: Issues for Congress*.

## Tax and Offsetting Cost Provisions

The tax portions of H.R. 2419 as originally passed by the House differ markedly from those approved by the Senate in both the number of provisions and their scope. The House-passed bill contains only two tax provisions — one applying to tax treaties, and the other to corporate estimated tax payments. Both provisions are designed to raise additional tax revenue so as to offset spending increases in the outlay side of the bill and thereby comply with House pay-as-you-go budgeting rules. The Senate bill includes a variety of tax-cut provisions for conservation, agriculture, and energy, along with a set of revenue-raising items designed to offset most of the revenue loss from the tax cuts.

The House bill’s treaty provision is designed to curb what is sometimes termed “treaty shopping” — situations where a foreign firm with a U.S. subsidiary routes payments from its U.S. subsidiary through a subsidiary in another country so as to take advantage of tax-treaty benefits. While the United States permits U.S. subsidiaries of foreign companies to deduct interest, royalties, and similar payments made to their foreign parents, it also imposes a “withholding tax” on such payments at a nominal rate of 30%. Like most developed countries, however, the United States is signatory to a network of bilateral tax treaties that, among other provisions, frequently provide for the reciprocal reduction or elimination of withholding taxes. Accordingly, a foreign firm whose home country does not have a treaty that substantially reduces the withholding tax may be able to save U.S. withholding tax by routing interest or royalty payments through a subsidiary firm chartered in a country that does have a U.S. treaty that reduces taxes. H.R. 2419’s proposal would apply where a foreign-owned U.S. subsidiary makes payments to a foreign subsidiary with a parent in another foreign country, and the withholding-tax rate would be higher if the payment were made directly to the common foreign parent. In such cases, H.R. 2419 would apply the higher of the two withholding tax rates.

The Senate bill’s tax cuts consist of four groups, respectively containing provisions for an agriculture disaster reserve fund, conservation, energy, and

agriculture. The single largest revenue-raising item in the bill is a provision designed to curtail the use of tax shelters: a codification of the judicial “economic substance” doctrine that has developed in court cases related to tax shelters. In general terms, the doctrine denies the use of tax-reducing items — e.g., tax deductions and credits — generated by transactions that do not result in a meaningful change in the taxpayer’s economic position. In general, the committee proposal integrates portions of the doctrine into the Internal Revenue Code. The committee’s provisions would not apply unless a court determines the economic substance doctrine to be relevant, but when such a determination is made it would apply a two-part (“conjunctive”) test to a transaction, requiring that (1) the transaction change the taxpayer’s economic position in a meaningful way (an “objective” test); and (2) the taxpayer has a substantial non-federal-tax purpose for engaging in the transaction. In addition, the proposal would apply a 30% penalty for tax understatements where economic substance is lacking.

For additional information on the tax provisions of the House and Senate farm bills, see CRS Report RS22759, *Farm Legislation and Taxes in the 110<sup>th</sup> Congress*. Other related reports include CRS Report RL34338, *Legal Analysis of the Conservation Easement Tax Credit in the Senate Version of H.R. 2419 (the 2007 Farm Bill)*, and CRS Report RS22851, *The Conservation Reserve Program: Legal Analysis of Proposed Legislation to Change the Structure and Taxation of Benefits Received*.

## Appendix: 2007 Farm Bill Timeline

- May 2005** — One of the first comprehensive sets of recommendations for the next farm bill is released by a major agricultural trade association, followed by proposal by other major interest groups and organizations (both traditional farm and other nonfarm groups).
- July 7, 2005** — U.S. Department of Agriculture (USDA) begins its series of 52 farm bill forums starting in Nashville, TN, and covering nearly all states (excl. Louisiana and Mississippi due to Hurricane Katrina.).
- February 6, 2006** — House Committee on Agriculture begins farm bill listening field hearings in Fayetteville, NC, and other hearings to review federal farm policy.
- June 23, 2006** — Senate Agriculture, Nutrition, and Forestry Committee begins regional farm bill hearings in Albany, GA, and other hearings to review federal farm policy.
- January 2007** — House and Senate Agriculture Committees begin hearings on selected farm bill topics.
- January 31, 2007** — USDA releases its farm bill recommendations, covering each title of the current law.
- February 2007** — One of the first comprehensive bills recommending broad changes to current law is introduced in the Senate, followed by other broad-based bill introduced by others in the House and Senate.
- March 21, 2007** — Congressional Budget Office (CBO) releases its multi-year March baseline estimate of spending, providing the starting point for the budget allocation for the new farm bill.
- March 21, 2007** — House Committee on Agriculture begins subcommittee markup on individual titles of the farm bill, proceeding through June 19, 2007.
- May 17, 2007** — Congress approves the FY2008 budget resolution, adopting the baseline budget as the fiscal parameters and including a \$20 billion reserve for the new farm bill.
- July 17, 2007** — House Committee on Agriculture begins full committee markup on individual titles of the farm bill (H.R. 2419), proceeding through July 19, 2007.
- July 26-27, 2007** — Floor debate and passage of H.R. 2419 in the House.
- October 4, 2007** — Senate Finance Committee approves a bill (S. 2242) that would create new tax credits and a disaster trust fund for farmers, as part of the 2002 farm bill reauthorization.
- October 24, 2007** — Senate Agriculture Committee begins full committee markup on individual titles of the farm bill (S. 2302), proceeding through October 25, 2007.
- November 5, 2007** — Senate floor debate begins, with the Senate Agriculture Committee Chairman offering an amended Senate bill as a substitute (S.Amdt. 3500) to H.R. 2419. The bill includes provisions in S. 2242.

**November 16, 2007** — Further action in the Senate is delayed when a key vote in the Senate fails to invoke cloture on the Senate version of the farm bill.

**December 14, 2007** — Floor debate and passage of the Senate version of the farm bill, which was offered as a substitute to H.R. 2419 (Farm, Nutrition, and Bioenergy Act of 2007).

**December 26, 2007** — The Consolidated Appropriations Act for FY2008 (P.L. 110-161) is signed into law and extends certain expiring provisions of the 2002 farm bill until March 15, 2008.

**February 4, 2008** — Senate appoints conferees.

**March 12, 2008** — Congress approves a second one-month extension (S. 2745) that lasts through April 18, 2008.