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Abstract

The Federal Agriculture Improvement and Reform Act contains major revisions in farm commodity programs. This paper summarizes the major provision of legislation. Because many program implementation rules must be developed, program participants are advised to consult their local office of the USDA Farm Service Agency for final program provisions.

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THE FEDERAL AGRICULTURE IMPROVEMENT AND REFORM ACT OF 1996: COMMODITY AND CONSERVATION PROGRAMS

Department of Agricultural Economics
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The Federal Agriculture Improvement and Reform Act contains major revisions in farm commodity programs. This paper summarizes the major provisions of the legislation. Because many program implementation rules must be developed, program participants are advised to consult their local office of the USDA Farm Service Agency for final program provisions.

The Budget for Commodity Programs: 1996-2002

The budget cost of farm programs dominated the debate on the 1996 farm bill and was a major factor in the decision to revise U.S. commodity programs. The total deficiency payments paid for feed grains, wheat, cotton, and rice averaged $5.8 billion during the 5-year life of the 1990 farm bill. Farm program spending decreased in 1995 as market prices rose above the target price levels.

Early in the deliberations on the 1996 farm bill, the House and Senate Budget Committees established limits on farm program spending for the 1996-2002 period. These limits established the budget for commodity programs that the House and Senate Agriculture Committees were required to follow. Commodity program spending for the 1996-2002 period will average $5.1 billion, with the following limits in each of the next seven years:

- 1996: $5.570 billion
- 1997: $5.385 billion
- 1998: $5.800 billion
- 1999: $5.603 billion
- 2000: $5.130 billion
- 2001: $4.130 billion
- 2002: $4.008 billion

MAJOR PROVISIONS OF THE FAIR ACT

- Production Flexibility Contract payments will replace target prices for 1996 to 2002. The acreage reduction program is eliminated.
- Participants must enroll in a Production Flexibility Contract during the 1996 enrollment period from May 20 through July 12, 1996 to be eligible for payments from 1996 to 2002.
- Crop Acreage Bases are converted to Contract Acreage for calculation of contract payments.
- Any crop except fruits and vegetables may be planted on Contract Acreage. There are no restrictions on alfalfa production, haying or grazing on Contract Acreage.
- Farms or producers with a history of planting fruits and vegetables on Contract Acreage may plant fruits and vegetables on Contract Acreage, but contract payments will be reduced for each acre of fruits and vegetables planted.
- Marketing loans will be available for feed grains, wheat, soybeans, and other oilseeds.
- The loan rate on sugar is continued at 22.9 cents per pound for refined beet sugar.
- The Conservation Reserve Program and Wet-lands Reserve Program are extended to 2002.
- The Environmental Quality Incentives Program provides cost-sharing payments for environmental protection investments.

Commodity Program Provisions

The 1996 farm bill replaces the existing target price programs with Production Flexibility Contracts available to participants for the life of the act. The major changes in commodity programs include:

- Target prices and deficiency payments are eliminated for feed grains, wheat, cotton, and rice.
- All existing Acreage Reduction Program (ARP) provisions are eliminated.
- All 0/85 provisions are eliminated.
- All existing 1996 Crop Acreage Bases are converted into Contract Acreage for the payment of Production Flexibility Contracts.
- Eligible landowners and producers may sign 7-year Production Flexibility Contracts and receive contract payments (called Agricultural Market Transition payments) for 1996 to 2002. Contracts must be signed during the 1996 sign-up period from May 20 to July 12, 1996 if any contract payments are to be received between 1996 and 2002.
- Program participants are not required to purchase catastrophic risk protection crop insurance (CAT) to receive contract payments, but participants who do not purchase crop insurance must waive their eligibility for emergency crop loss assistance on the crops on which crop insurance coverage is waived. Coverage under the Noninsured Crop Assistance Program (NAP) will be available for some crops.
- The permanent legislation established by the 1938 and 1949 farm bills is retained.

Program eligibility: Production Flexibility Contract payments will be paid on eligible cropland that is enrolled in the program and that meets all compliance requirements. Landowners and producers enrolling farmland in a contract must comply with the conservation plan prepared for the farm under the Food Security Act of 1985, the wetland protection requirements in the 1985 act, and the planting flexibility provisions contained in the 1996 act.

Cropland will be eligible for a Production Flexibility Contract if it has Contract Acreage attributable to the land and if it meets one of the following criteria:

- A portion of the land was enrolled in the acreage reduction program for the contract commodity or was considered planted by USDA during at least one crop year from 1991 to 1995. Land that was "considered planted" includes acreage which was reported to the local Farm Service Agency office but did not participate in the acreage reduction program.
- The land was enrolled in a conservation reserve contract that expired or was voluntarily terminated after January 1, 1995.
- The land was enrolled in a conservation reserve contract that was released by the Secretary of Agriculture between the period from January 1, 1995 until the final day of sign-up in the 1996 act.

Any portion of the eligible Contact Acreage on a farm may be enrolled in a Production Flexibility Contract. Land enrolled in a contract must be used for agriculture or related activities and cannot be used for nonagricultural commercial or industrial uses.

Farmland owners and producers will be eligible to enter a Production Flexibility Contract if they meet one of the following criteria:

- The owner of the eligible cropland assumes all or part of the risk of producing a crop.
- The owner of the eligible cropland and the producer (other than the owner) share-rent the eligible cropland and enter into the same contract.
- The producer (other than the owner) on the eligible cropland cash rents the land with a lease expiring on or after September 30, 2002 (the owner is not required to enter into the contract).
- The producer (other than the owner) on the eligible cropland cash rents the land with a lease that expires before September 30, 2002. The owner may enter into the same contract. Consent of the owner is required if the producer intends to enroll less than 100 percent of the eligible cropland in the contract.
- The owner of the eligible farmland cash rents the land with a lease that expires before September 30, 2002 but whose tenant declines to enter a contract. The owner will be eligible to receive contract payments after the lease with the non-participating tenant ends.

The legislation also requires the Secretary of Agriculture to establish adequate safeguards in the division of payments to protect the interests of producers who are tenants or sharecroppers.

Calculation of Contract Payments: Production Flexibility Contract payments will be calculated for each farm enrolled in the program. Payments will be calculated for each year from 1996 to 2002 as:

	Contract Acreage
times	0.85
times	Farm Program Payment Yield
times	Annual Contract Payment Rate
equal	Annual Production Flexibility Contract Payment

The Contract Acreage for each farm is equal to the farm's 1996 established Crop Acreage Base for each program crop. The Farm Program Payment Yield is equal to the program payment yield established for the 1995 crop on the farm.

The Contract Payment Rate for each contract crop will be calculated by the USDA as the budget allocation for the contract crop divided by the total quantity of contract production enrolled in the program. Estimates of the contract payment rates are shown in Table 1. All payments will be made each year regardless of the market price.

Annual contract payments will be made no later than September 30 of each year. Participants may choose to receive advance payments of 50 percent of the total annual contract payment. Advance payments for 1996 will be paid no later than 30 days after a contract has been entered into by a landowner or producer. Advance payments will be paid on December 15 or January 15 of all subsequent years.

Planting Flexibility Provisions

This legislation allows greater planting flexibility on Contract Acreage. Participants who sign a Production Flexibility Contract are permitted to plant any commodity or crop except fruits and vegetables on Contract Acreage. There are no planting restrictions on any non-contract acres on the farm. Alfalfa may be harvested on Contract Acreage, and there will be no restrictions on haying and grazing on Contract Acreage.

Fruits and vegetables may be planted on Contract Acreage if the farm has a history of planting these crops or if a producer has a history of planting a specific fruit or vegetable. Contract payments will be reduced by an acre for each acre of fruits and vegetables planted on Contract Acreage. Producers interested in planting fruits and vegetables on Contract Acreage should visit their local Farm Service Agency office to determine their eligibility to plant these crops and the potential impact on their contract payments.

Nonrecourse Marketing Assistance Loans

This legislation provides nonrecourse marketing assistance loans for feed grains, wheat, soybeans and other oilseeds. Any participant entering into a Production Flexibility Contract will be eligible for nonrecourse marketing loans for all loan commodities produced on the farm. The legislation establishes a maximum loan rate (equal to 1995 levels) and conditions under which the Secretary of Agriculture may reduce loan rates.

The loan rate for corn is to be maintained at not less than 85 percent of an average of the price received by producers in three of the previous five marketing years (highest and lowest prices excluded). The maximum loan rate for corn during the life of the act is specified at $1.89 per bushel. The Secretary is permitted to lower the loan rate if carryover stocks are greater than 12.5 percent of total use in the previous marketing year. Loan rates for other feed grains will be established by the Secretary based on the feed value of these grains relative to corn.

The loan rate for wheat is to be maintained at not less than 85 percent of an average of the price received by producers in three of the previous five marketing years (highest and lowest prices excluded). The maximum loan rate for wheat during the life of the act is specified at $2.58 per bushel. The Secretary is permitted to lower the loan rate if carryover stocks are greater than 15 percent of total use in the previous marketing year.

The loan rate for soybeans will be maintained at not less than 85 percent of an average of the price received by producers in three of the previous five marketing years (highest and lowest prices excluded). The maximum loan rate for soybeans during the life of the act is specified at $5.26 per bushel and the minimum loan rate is specified at $4.92 per bushel. The loan rate on other oilseeds will be determined using the same formula based on the price of sunflower seed, with a maximum loan rate of 9.3 cents per pound and a minimum loan rate of 8.7 cents per pound.

As nonrecourse marketing loans, these loans may be repaid at the lesser of the loan rate or a repayment rate determined by the Secretary. If producers repay the loan at the repayment rate rather than the loan rate, the difference between the loan rate and the repayment rate will be the marketing loan gain. Producers who choose to forego the loan will be eligible to receive a loan deficiency payment equal to the difference between the loan rate and the repayment rate.

Payment Limitations

Production Flexibility Contract payments, marketing loan gains, and loan deficiency payments will be subject to payment limitations. Payments made under a Production Flexibility Contract will be subject to an annual payment limitation of $40,000 per person. Marketing loan gains and loan deficiency payments will be subject to an annual payment limitation of $75,000 per person. The 3-entity rule is maintained for payment limitations.

Sugar Program Provisions

This legislation freezes the loan rate on raw cane sugar at 18 cents per pound and the loan rate on refined beet sugar at 22.9 cents per pound. These loans will be provided as recourse loans. If the U.S. quota on sugar imports is greater than 1.5 million tons, these loans will be made available as nonrecourse loans. Marketing allotments for sugar established under the 1990 farm bill will be eliminated.

The act also establish forfeiture penalties designed to discourage the forfeiture of sugar to the Commodity Credit Corporation under a nonrecourse loan program. Cane sugar forfeited to the CCC will be assessed a penalty of one cent per pound. Beet sugar forfeited to the CCC will be assessed a penalty that bears the same relative relationship as the cane sugar and processed beet sugar marketing assessments.

Marketing assessments on cane sugar and processed beet sugar will be increased. The assessments will be paid by the first processor of sugar and will equal 1.1 percent of the value of the loan rate on raw cane sugar in 1996 and 1.1794 percent of the value of the loan rate on refined beet sugar in 1996. From 1997 until 2003, the assessment on raw cane sugar will be 1.375 percent of the value of the loan rate, and the assessment on refined beet sugar will increase to 1.47425 percent.

The Secretary of Agriculture is required to reduce the loan rates for sugar if other sugar exporting countries reduce their domestic and export subsidies beyond the reductions negotiated in the Uruguay Round of the GATT.

Conservation Provisions

Authority for the Conservation Reserve Program (CRP) is extended until 2002 under this legislation. CRP enrollment is limited to a maximum of 36.4 million acres Program participants will be allowed to terminate their CRP contracts before the scheduled expiration of the contract, provided that the contract has existed for at least five years and that the land is not a wetland, windbreak, filterstrip, highly erodible, or other land of high environmental value.

The Wetlands Reserve Program (WRP) is reauthorized and provides program participants with an opportunity to enroll prior converted or farmed wetlands into permanent easements. Not less than 75 percent of land value and restoration costs will be paid to participants entering permanent easements. Not less than 50 percent of these costs will be paid to participants entering 30-year easements. In addition, some wetlands may be eligible for restoration cost-sharing agreements without entering an easement.

The Natural Resources Conservation Service (NRCS) is designated as the lead agency in wetlands delineation. Current wetlands delineations remain valid until a producer requests a review. NRCS will have greater flexi-bility in assessing penalties for wetlands and conservation compliance violations.

The Environmental Quality Incentives Program (EQIP) provides technical and financial assistance to participants who adopt certain crop, pest, manure, nutrient or irrigation management practices that protect water quality. For most participants, cost-sharing payments are limited to $10,000 per year or $50,000 for a multi-year contract. Large confined livestock operations (as defined by the Secretary of Agriculture) will not be eligible for cost-sharing payments for animal waste management facilities.

Other provisions in the legislation include programs for flood risk reduction, private grazing lands conservation, wildlife habitat protection, farmland preservation, and consolidated program payments provided in exchange for compliance with an approved conservation plan.

Summary

This legislation represents a major revision of existing commodity programs. Producers and landowners should consider the following in making management decisions:

- Contract payments will provide less down-side price risk protection than the target price program.
- Planting flexibility provisions will allow greater freedom in making planting decisions.
- Rules must be written to clarify the distribution of payments between landowners and tenants.
- Participants must sign Production Flexibility Contracts in 1996 to receive payments from 1996 to 2002.

Table 1. PRODUCTION FLEXIBILITY CONTRACT PAYMENT WORKSHEET, 1996-2002

FSA Farm number: __________________ Contract commodity (corn, wheat, grain sorghum, oats, barley): ___________________________

	1996	1997	1998	1999	2000	2001	2002
1. Contract Acreage (1996 Crop Acreage Base)	_____	_____	_____	_____	_____	_____	_____
2. Farm Program Payment Yield (Bushels per acre)	_____	_____	_____	_____	_____	_____	_____
3. Contract Payment Quantity	_____	_____	_____	_____	_____	_____	_____
4. Estimated Contract Payment Rate (Dollars per bushel)*							
a. Corn	0.24	0.46**	0.36	0.35	0.32	0.26	0.25
b. Wheat	0.87**	0.61	0.65	0.63	0.57	0.46	0.45
c. Grain Sorghum	0.31	0.50**	0.42	0.40	0.37	0.30	0.29
d. Oats	0.03**	0.03	0.03	0.03	0.03	0.02	0.02
e. Barley	0.32**	0.25	0.26	0.24	0.22	0.18	0.17
5. Annual Contract Payment (Line 3 x Line 4a, 4b, 4c, 4d, or 4e)	_____	______	_____	______	_____	_____	_____

* All Production Flexibility Contract payment rates are official USDA estimates based on an assumption of 100 percent enrollment by eligible program participants. Final payment rates will depend on program enrollment.

** Includes the following adjustments in contract payments to redistribute funds repaid for advanced deficiency payments made during the 1995 crop year: Wheat – 25 cents per bushel; oats – 1 cent per bushel; barley – 9 centers per bushel; corn – 13 cents per bushel; grain sorghum – 1 cents per bushel.