

Provisions of the Federal Agriculture Improvement and Reform Act of 1996. Edited by Frederick J. Nelson and Lyle P. Schertz. Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 729.

Abstract

The Federal Agriculture Improvement and Reform Act of 1996, signed into law in April, makes significant changes in long-standing U.S. agricultural policies. This report provides an item-by-item description and explanation of the Act, one that will guide agricultural programs from 1996-2002. The Act eliminates provisions for price-sensitive deficiency payments, provides for 7 years of predetermined direct payments to farmers, eliminates most acreage use restrictions, suspends the Farmer-Owned Reserve program, and eliminates dairy price support starting in the year 2000. Funds for commercial agricultural export programs are reduced. The conservation and wetland reserve programs are extended, and several new conservation programs are authorized. New rural development programs are authorized, including the Fund for Rural America. The Food Stamp Program and many research and extension programs are extended for 2 years. Farm credit and agricultural commodity promotion programs are modified by the Act.

Keywords: Commodity programs, farm legislation, direct payments, loan rates, marketing loans, production flexibility contracts, conservation, sodbuster, swampbuster, farm credit, agricultural trade, P.L. 480, export enhancement, food stamps, nutrition, rural development, agricultural promotion, research, extension.

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Summary

The Federal Agriculture Improvement and Reform Act of 1996, signed into law in April, makes significant changes in long-standing U.S. agricultural policies. This report provides an item-by-item description and explanation of the Act, one that will guide agricultural programs from 1996-2002. The Act eliminates provisions for price-sensitive deficiency payments, provides for 7 years of predetermined direct payments to farmers, eliminates most acreage use restrictions, suspends the Farmer-Owned Reserve program, and eliminates dairy price support starting in the year 2000. Funds for commercial agricultural export programs are reduced. The conservation and wetland reserve programs are extended, and several new conservation programs are authorized. New rural development programs are authorized, including the Fund for Rural America. The Food Stamp Program and many research and extension programs are extended for 2 years. Farm credit and agricultural commodity promotion programs are modified by the Act.

Title I: The Agricultural Market Transition Act

The most significant program changes in the 1996 Act are in Title I, known as the Agricultural Market Transition Act (AMTA). The approach used for making direct payments to farmers has been radically changed. A series of predetermined annual contract payments will be made to producers and owners who participated in any 1991-95 programs (or who had certified program acreage) for wheat, feed grains, cotton, or rice under the previous law, and who agree to implement a Production Flexibility Contract (PFC). The 1996 Act eliminates established (target) prices, deficiency payments, and production adjustment programs. Restrictions on the use of cropland enrolled in commodity programs have been lifted, except for some involving fruits and vegetables.

Nonrecourse commodity loans and marketing loan provisions are continued in the 1996 Act for 1996-2002 crops. Minimum levels of commodity loan rates (except for rice) continue to be based on a moving average of recent past market prices, but they cannot exceed specified maximums set equal to their respective 1995 levels. The authority for providing marketing loan gains and loan deficiency payments is continued for wheat, feed grains, rice, oilseeds, and upland cotton; benefits of these provisions must be made avail-

able to producers if market prices fall below commodity loan rates. Beginning in the year 2000, a recourse loan program for dairy products must be initiated, and the current milk price support system based on government purchases of dairy products must be discontinued. The Federal Milk Marketing Order System is to be significantly revised through consolidation of orders.

Production Flexibility Contract Payments

The Secretary must offer to eligible landowners or producers with eligible cropland Production Flexibility Contracts (PFC) covering the 1996 through 2002 crops of wheat, feed grains, upland cotton, and rice (contract commodities). A one-time sign-up period was mandated for PFC's (later set as May 20, 1996, to August 1, 1996), with special exception made for land initially covered by a subsequently terminating Conservation Reserve Program (CRP) contract. PFC participants will be paid annual contract payments for 7 years. The total amount of these payments is \$35.6 billion over 7 fiscal years, with some adjustments for refunded payments for 1994 and 1995 crops. This amounts to an annual average of \$5.1 billion for fiscal years 1996-2002, 13 percent less than the average amount for the previous 7 fiscal years of \$5.8 billion.

The share of total payments for each of the commodities is stated in the Act. Each participant's share of total annual commodity payments in a year is equal to the product of their given contract acreage, their farm program yield, and the national per unit payment rate. This payment rate is the total amount made available for a commodity in a given fiscal year, divided by the sum of all payment production in the country (program yield times participating acreage). Payments do not depend on the level of current production or market prices.

Individual payment limitations generally continue as under previous law, but they have been lowered from \$50,000 per person per year for deficiency and diversion payments to \$40,000 per person per year for PFC payments. The limitation on marketing loan gains and loan deficiency payments is continued at \$75,000 per person per year.

Land is eligible to be enrolled in a PFC only if it could have had at least one crop acreage base established on

it for a 1996 crop of wheat, feed grains, upland cotton, or rice, if the commodity programs for 1995 had been extended for at least another year. Also eligible for a PFC is land that was covered by a CRP contract that was subsequently terminated—if it also had a crop acreage base history. To obtain PFC payments, participants must abide by conservation compliance, wetland, and planting flexibility requirements, and they must use contract acreage for agricultural or related activities. Contract commodities can be planted on any acreage, and any crop can be planted on contract acreage, except some restrictions apply to planting of fruits or vegetables on contract acreage.

Commodity Loans

The 1996 Act provides nonrecourse marketing assistance loans under the same general concepts applied to nonrecourse price support loans under the Agricultural Act of 1949 (the 1949 Act), as amended prior to the passage of the 1996 Act. Production of a contract commodity on land participating in a PFC is eligible for marketing assistance loans. All production of extra-long staple (ELS) cotton, soybeans, and minor oilseeds is eligible for loans. Minimum loan rates for all eligible commodities (loan commodities), except rice, are initially calculated as 85 percent of the simple average of market prices for the preceding 5-year period, excluding the years with the highest and lowest price. These calculated loan rates are then subject to established maximums, minimums, and conditional adjustments. The rice loan rate is fixed at \$6.50 per hundredweight for all years, 1996-2002. Rye and honey loan programs are not authorized by the 1996 Act and are no longer in effect. Tobacco loan programs continue, based on prior law, and they are not affected by the 1996 Act.

Loan rates are subject to statutory maximums of \$2.58 per bushel for wheat, \$1.89 per bushel for corn, \$0.5192 per pound for upland cotton, \$0.7965 per pound for ELS cotton, \$5.26 per bushel for soybeans, and \$0.093 per pound for minor oilseeds. Grain sorghum, barley, and oats loan rates continue to be set by the Secretary at levels that are fair and reasonable in relationship to the corn loan rates, as under previous law.

The minimum upland cotton loan rate continues to be \$0.50 per pound, and minimum loan rates are set for soybeans of \$4.92 per bushel and for minor oilseeds of \$0.087 per pound. Wheat and feed grains loan rates may be temporarily reduced by specified percentages,

if annual stock-use ratios are estimated to be within certain ranges.

The interest rate charged by the government on commodity loans shall be 1 percentage point higher than the rate determined by the previous formula that resulted in the rate being the rate charged the Commodity Credit Corporation (CCC) for funds obtained from the Treasury.

Marketing Loan Gains and Loan Deficiency Payments

For all loan commodities, except ELS cotton, the Secretary must use marketing loan repayment provisions that allow producers the option of repaying marketing assistance loans at levels below the original loan rate plus accrued interest. These provisions reduce the chance that commodities pledged as collateral for a marketing assistance loan will become the property of the government through loan forfeitures. Loan deficiency payments may also be made available for producers who forego obtaining a marketing assistance loan for which they are eligible. The payment rate for loan deficiency payments would be set at the rate needed to make the per unit benefit the same as received by producers who took out loans and repaid them at the marketing loan repayment rates. All producers seeking a commodity loan or loan deficiency payment must be in compliance with conservation and wetland requirements.

Permanent Price Support Authority

The 1996 Act suspended until 2002 or repealed certain so-called “permanent provisions” (those with no termination date) of the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949. These permanent provisions would have been the basis for conducting agricultural commodity programs for all years after 1995, unless they were suspended or repealed at a later time.

Dairy

The dairy price support program is also to undergo substantial modification—but not until 2000. The price support level for milk is set at \$10.35 per hundredweight for 1996, and then reduced by \$0.15 per hundredweight per year to \$9.90 per hundredweight in 1999. The provision for a minimum support level for milk of \$10.10 per hundredweight is immediately repealed, along with provisions for assessments and

for increasing and decreasing support levels based on the estimated level of government purchases. Starting in the year 2000, the current system of supporting farm milk prices through government purchases of dairy products is to be discontinued. A system of recourse loans to processors of dairy products is to be initiated in 2000 to assist in the management of inventories; the loan rate will be fixed at \$9.90 per hundredweight. Also, by April 1999, the number of Federal milk marketing orders will be reduced from the current number of 34 to at least 10, but not more than 14.

Peanuts

The 1996 Act continues the two-tier price support program based on nonrecourse loans for quota peanuts and for additional peanuts for 1996 through 2002, with some significant modifications. The loan rate for quota peanuts shall be held constant from 1996 through 2002, at \$610 per ton—about 10 percent below the 1995 loan level. The loan rate level for additional peanuts must be set to ensure no losses by the CCC related to the loan program. Cost-of-production estimates no longer are used as a basis for increasing the support level, as they were pursuant to the Food, Agriculture, Conservation and Trade Act of 1990. The peanut program is further revised to reduce the chances of the CCC incurring costs due to peanut loan forfeitures. Such cost control can be accomplished by the CCC bringing quota peanut supply and demand into closer balance (the minimum quota is abolished), by increasing the assessments on quota and additional peanuts, and by increasing assessments on quota peanuts for specific area quota pools to cover losses in those pools.

Sugar

A loan program for sugar is authorized through 2002, with loan rates fixed at the 1995 levels for both beet and cane sugar. Loans may be recourse or nonrecourse, depending upon the import tariff-rate quota that is established. A 1-cent penalty must be paid to the CCC for any sugar that is forfeited under the nonrecourse loan program, thereby reducing the effective level of price support. Domestic marketing controls on sugar and crystalline fructose are suspended. Sugar marketing assessments are increased from slightly less than one-fifth of a cent per pound, to slightly over one-fourth of a cent per pound.

Other Title I Provisions

A new commission called the Commission on 21st Century Production Agriculture must complete a comprehensive review of effects of Title I of the 1996 Act, the future of production agriculture, and the appropriate role of the Federal Government in agriculture. Two reports from the Commission are to be submitted to Congress; one by June 1, 1998, and the other by January 1, 2001.

Risk management issues are addressed by the 1996 Act through provisions that call for educational programs to help producers learn about futures markets, insurance programs, and other risk management tools. A pilot program on futures and options markets may be implemented using CCC funds to determine if such risk management approaches can be helpful to producers. Modifications of the crop insurance program include: (1) changing methods of delivering catastrophic coverage (CAT), (2) eliminating mandatory linkage between crop insurance and other farm programs for producers who waive emergency crop loss assistance, (3) establishing an independent Office of Risk Management within the U.S. Department of Agriculture to supervise the Federal Crop Insurance Corporation and other activities of the Department, and (4) mandating a pilot revenue insurance program.

Title II: Agricultural Trade

Title II of the 1996 Act continues and modifies existing agricultural export programs through 2002. Funding for some commercial agricultural export programs is reduced. Changes to P.L. 83-480 international food assistance programs emphasize the program's market development objectives. Other changes allow programming of a wider range of commodities for food assistance and simplify procedures for administering the programs. The authority for the Food Security Wheat Reserve is repealed and a new Food Security Commodity Reserve established that includes authority to include corn, grain sorghum, and rice in the reserve.

The 1996 Act modifies commercial export programs. Product coverage is expanded for high-value products. Funding levels for the Export Enhancement Program and the Market Promotion Program (renamed the Market Access Program) are reduced. The 1996 Act also (1) revises the section of the Agricultural Trade

Act of 1978, as amended by the 1990 Act, that mandated the development of an export promotion strategy, (2) further protects producers from the adverse effects of trade embargoes, and (3) directs USDA to monitor other countries' implementation of Uruguay Round commitments.

Title III: Conservation

The conservation title amends the conservation compliance, sodbuster, and swampbuster provisions of the Food Security Act of 1985 to provide farmers with more flexibility to meet conservation requirements. Eligibility for crop insurance no longer depends on complying with conservation and wetland requirements. The CRP and the Wetland Reserve Program (WRP) are extended and several new programs are established to address other environmental protection goals. These new programs include the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Flood Risk Reduction Program, a Farmland Protection Program, a Conservation Farm Option, and a Conservation of Private Grazing Lands initiative. A new National Natural Resource Conservation Foundation is also created as a nonprofit corporation to fund research, education, and demonstration projects related to conservation.

Title IV: Nutrition Assistance

The Nutrition Assistance Title of the 1996 Act authorizes several food programs to continue to operate as they have during the past several years, with a few minor changes. However, the largest of the programs, the Food Stamp Program, is authorized for only 2 more years (fiscal years 1996 and 1997). A new authorization provides start-up assistance for community food projects.

Title V: Agricultural Promotion

The agricultural promotion title sets forth a new approach to assessing, developing, financing, and carrying out commodity research and promotion programs. USDA can now begin the process of establishing such industry-financed programs without, as previously required, first obtaining authorization from Congress for a specific commodity's research and promotion program. The Act also calls for periodic independent evaluations of each commodity promotion program. In addition, the title authorizes three new specific promotion programs—for canola and rapeseed, kiwifruit, and popcorn.

Title VI: Credit

Title VI amends the Consolidated Farm and Rural Development Act, affecting the credit programs and lending policies of the Farm Service Agency (FSA), programs that were transferred from the Farmers Home Administration to the newly created FSA in 1994. The title places stricter limits on the eligibility to borrow from FSA farm credit programs and limits the purposes for which the loans may be used. To encourage graduation from FSA credit programs, stricter time limits on borrowing eligibility were adopted. Numerous provisions provide assistance to beginning farmers and ranchers, including the targeting of annual loan authorities. New debt restructuring rules attempt to increase the likelihood that debt restructuring will be successful and that costs associated with these actions will be reduced. These provisions impose new limits on debt forgiveness and the eligibility of borrowers for further loans if FSA discharges indebtedness. Streamlined rules for real inventory property management and sale greatly expedite the disposal of acquired property in an attempt to reduce costs. Loan servicing rules are changed.

Title VII: Rural Development

Title VII repeals and amends several provisions of previous legislation related to rural development. In addition, it creates new authority for several activities, notably the Rural Community Advancement Program (RCAP) and the Fund for Rural America. RCAP is a rural assistance delivery system similar to the Administration's Rural Performance Partnership Initiative that was proposed in the 1996 budget. Under RCAP, State Rural Development Directors will be able to mix, to a degree, funding streams to provide a more flexible package of assistance aimed at meeting local needs. Under the new Fund for Rural America, \$100 million of Treasury money is to be made available in 1997, 1998, and 1999 for a wide variety of rural development activities and applied research projects.

Title VIII: Research, Extension, and Education

The 1996 Act amends and extends for 2 years (fiscal years 1996 and 1997) the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA), relevant sections of the Food, Agriculture, Conservation and Trade Act of 1990 (the 1990 Act), and other related acts. The purposes of agricultural research, education, extension, and economics are

expanded. A new advisory and review board is formed to replace the previously existing ones. The Act also authorizes new research and clarifies and strengthens existing research, extension, and education programs. A task force is provided for by the 1996 Act to prepare a 10-year strategic plan for development, modernization, construction, consolidation, and/or closure of Federal agricultural facilities and of facilities proposed to be constructed with Federal funds.

Title IX: Miscellaneous

Title IX contains a variety of provisions largely independent of the other titles. The provisions

authorize the Secretary of Agriculture to conduct a range of activities. These activities include establishing guidelines for regulating the commercial transportation of equine for slaughter; making user fees available to cover the cost, without appropriation, of quarantine and inspection services for international passengers, aircraft, vessels, rail cars, and trucks; and creating a permanent advisory panel on meat and poultry inspection. The provisions also provide authorizations for continued operation of the Graduate School of the U.S. Department of Agriculture, disposal of excess Federal personal property, the sale and conveyance of specified land, and support for student intern programs.