

# 1996 Farm Bill



## 1996 FAIR Act Frames Farm Policy For 7 Years

After the longest farm bill debate in U.S. history, the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 became law on April 4, 1996, significantly changing U.S. agricultural policy. The new Farm Act (P.L. 104-127) removes the link between income support payments and farm prices by providing for seven annual fixed but declining “production flexibility contract payments” whereby participating producers may receive government payments largely independent of farm prices, in contrast to the past when deficiency payments were dependent on farm prices.

### Farm Payment Program Increases Market Reliance

Federal outlays to the farm sector will decline over the next 7 years. Constraints in individual farm decision making imposed as a condition for the receipt of payments by past programs

will be greatly reduced. Farmers will have much greater flexibility to make planting decisions, with the elimination of annual acreage idling programs and given the freedom to plant any crop on contract acres, with limitations on fruits and vegetables. As a result, producers will rely more heavily on the market as a guide for production decisions. Producers will also bear greater income risk because payments are fixed and not related to the level of market prices.

The FAIR Act specifies total annual payments for production flexibility contracts from 1996 through 2002. However, marketing loan gains will remain, in addition to specified contract payment levels. Cumulative outlays for contract payments for fiscal 1996-2002 are fixed at nearly \$35.6 billion. Payment levels for each crop will be adjusted for prior-year crop program payments still due to farmers in FY 1996, except for rice. Adjustments will also be made in FY 1996-2002 for any repayments still owed to the government.

To receive payments and loans on program commodities, producers must enter into a “production flexibility contract” for the period 1996-2002. That contract will require participating producers to

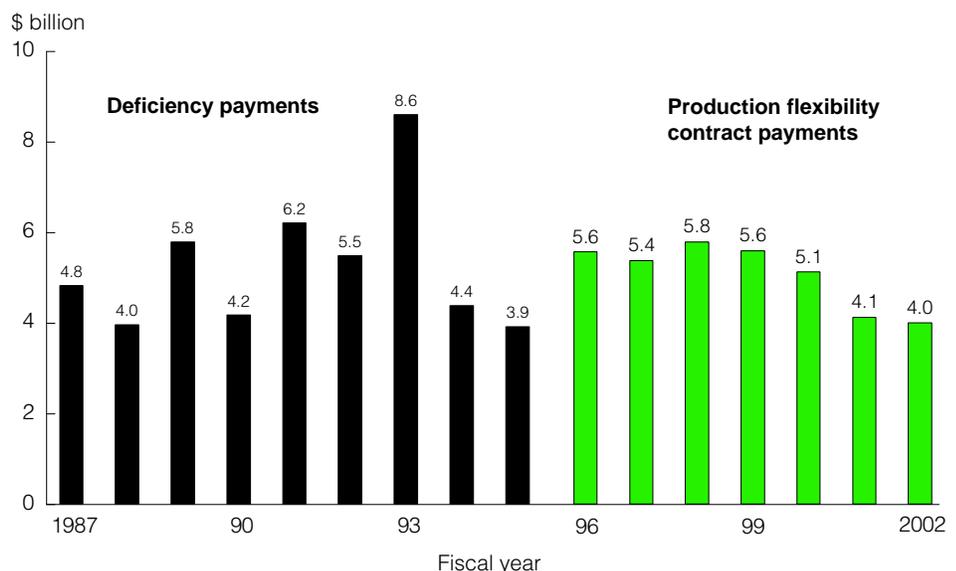
comply with existing conservation plans for the farm, wetland provisions, and planting flexibility provisions, as well as to keep the land in agricultural uses. Farmers need not obtain catastrophic crop insurance if they agree to waive eligibility for disaster assistance.

Payment levels are allocated among contract commodities according to FAIR Act-specified percentages, generally derived from each commodity’s share of projected deficiency payments for fiscal 1996-2002 in the Congressional Budget Office’s (CBO’s) February 1995 budget baseline, which assumed extension of the 1990 FACT Act.

The payment share allocated to each commodity will be apportioned to individual farms based on each contracting farm’s payment quantity of a contract commodity (program yield times 85 percent of contract acreage for participating farms). A farm’s eligibility to enter into a contract depends on whether it had at least one crop acreage base that participated in a production adjustment program for any of the crop years 1991 through 1995—or that was considered planted under program rules (certified acreage).



### Production Flexibility Contract Payments Will Decline Between 1996 and 2002



Production flexibility contract payments have not been adjusted for deficiency payment requirements nor for repayments owed to the government from the previous farm program.

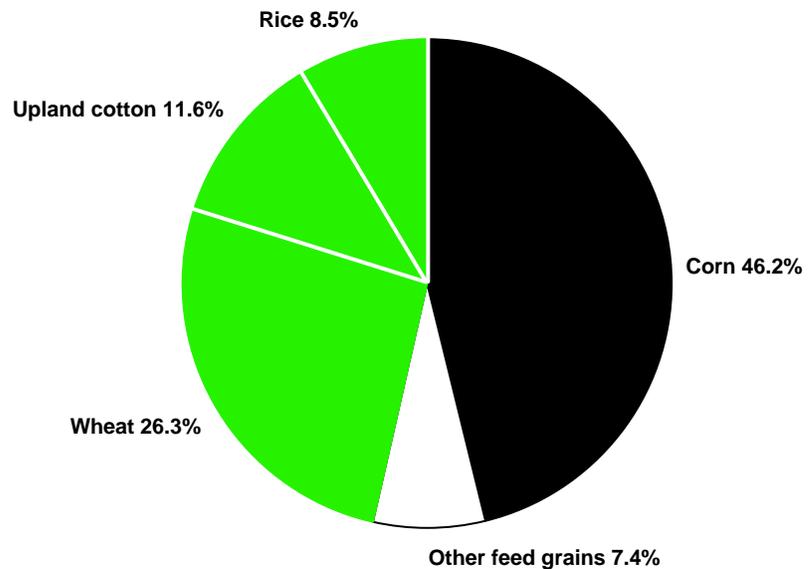
Economic Research Service, USDA

An eligible farm's payment quantity for a given contract commodity is the product of the farm's program payment yield for that commodity, times 85 percent of the contract acreage (base acres established for the crop for 1996, adjusted for base acres leaving the Conservation Reserve Program and for new base enrollment in the CRP). A per-unit payment rate (e.g., per bushel, per cwt, etc.) for each contract commodity will be determined annually by dividing the annual contract payment level for a contract commodity by the total of all contract farms' program payment production.

The annual payment rate for a contract commodity will be multiplied by each farm's payment quantity for that commodity, and the sum of such payments across contract commodities, subject to any payment limitation considerations, will be the farm's annual payment. Contract payments are limited to \$40,000 per person, a \$10,000 reduction from the current \$50,000 limit. Under the three-entity rule, an individual may receive directly from the government up to \$80,000 in contract payments on three separate entities so long as his/her stake in the second and third entities does not exceed 50 percent of each such entity. In addition, marketing loan gain and loan deficiency payments are limited to \$75,000 per farm, and \$150,000 under the three-entity rule.

Also, producers' planting flexibility increases. Under past law—the Food, Agriculture, Conservation and Trade (FACT) Act of 1990—producers' payments were reduced if more than 15 percent of their base acreage was planted to other crops or idled. Under FAIR, participating producers are permitted to plant 100 percent of their total contract acreage plus additional acreage to any crop (with limitations on fruits and vegetables) with no loss in payments. Unlimited haying and grazing and alfalfa production are also permitted without loss of benefits. Planting of fruits and vegetables is prohibited unless there is a history of double cropping with fruits and vegetables in the region, if the farm has a history of planting fruits and vegetables, or if the producer has a history of planting fruits and vegetables on con-

### Feed Grains Account for Over Half of Production Flexibility Contract Payments



Economic Research Service, USDA

tract acreage. Contract payments will be reduced acre for acre for planting non-double-cropped fruits and vegetables.

### Loan Rates Retained In Modified Form

Basic nonrecourse commodity loans are retained, in a modified form, under which farmers may receive a loan from the government at a designated rate per unit (loan rate) by pledging and storing a quantity of a commodity as collateral.

Loan rates for wheat and corn continue to be based on 85 percent of the preceding 5-year olympic average (i.e., excluding the high- and low-price years) of farm prices. As under past law, wheat and corn loan rates may be reduced by up to 10 percent depending on the projected stocks-to-use ratio. Maximum loan rates for wheat and corn are established at their 1995 levels. Loan rates for grain sorghum, barley, and oats are to be set at levels considered "fair and equitable" relative to the feed value of corn.

Loan rates for oilseeds are also based on 85 percent of the previous 5-year olympic average of farm prices. Soy-

bean loan rates are limited to a range of \$4.92 to \$5.26 per bushel. Under previous law, loan rates for oilseeds were set at a fixed per-unit rate. Minor oilseeds (sunflowerseed, canola, rapeseed, safflower, mustard seed, and flaxseed) are based on 85 percent of the 5-year olympic average of prices received by producers of sunflowerseed, with a limiting range of \$0.087 to \$0.093 per pound.

The extra long staple (ELS) cotton loan rate is also based on the previous 5-year olympic average farm price, except that the maximum rate may not exceed the 1995 level of \$0.7965 per pound. The upland cotton loan rate continues to be the lesser of 85 percent of the previous 5-year olympic average farm price, or 90 percent of the Northern Europe-based average price, but not less than \$0.50 per pound nor more than \$0.5192 per pound (the 1995 level).

Loan rates for rice are frozen at the 1995 level, \$6.50 per cwt. Marketing loan provisions are retained for feed grains, wheat, rice, upland cotton, and oilseeds. Legislation providing for the Farmer-Owned Reserve, a long-term grain storage program, is suspended through the 2002 crop.

## 1996 Farm Bill

The interest rate on Commodity Credit Corporation (CCC) loans is increased by 1 percentage point over the rate the CCC is charged for borrowing. Currently, the CCC rate reflects the cost to the CCC to borrow from the U.S. Treasury (1-year Treasury bills.) For April 1996, the CCC interest rate was 5.25 percent.

Producers are no longer required to purchase crop insurance to be eligible for farm program payments. However, producers must waive eligibility, in writing, for emergency crop loss assistance for any crop for which they declined to obtain insurance. USDA is required to implement a revenue insurance pilot program for crop years 1997-2000.

### **Sugar, Peanut, & Dairy Programs Modified**

The sugar program continues to operate as a "no net cost program" to the Federal government. USDA must use all authorities to avoid the costs associated with forfeitures of sugar by price support loan recipients. The raw cane sugar loan rate would continue to be fixed at \$0.18 a pound. Under the FAIR Act, the refined beet sugar loan rate is also frozen at the 1995 level of \$0.229 per pound. Nonrecourse loans are available only when the tariff-rate quota on sugar imports exceeds 1.5 million short tons. Cane processors are required to pay \$0.01 on each pound of sugar forfeited to the government. Beet processors are required to pay \$0.0107 per pound of sugar forfeited. The marketing assessments paid on all processed sugar are increased by 25 percent. Authority for domestic sugar marketing allotments is repealed, but the remaining authority to restrict imports (which must be at least 1.5 million tons under the Uruguay Round agreement) provides a measure of price support.

The peanut program is revised to make it a "no net cost program" to the Federal government. The minimum national poundage quota is eliminated, requiring the quota to be set equal to projected domestic food use demand. Carryover of undermarketings was eliminated, permitting greater control of program costs. The loan rate for quota peanuts is frozen at \$610 per short ton, down from \$678

### **Calculating Production Flexibility Contract Payments: An Example**

For fiscal 1998, the total allocation for corn is 46.22 percent of total annual payments of \$5.8 billion, or \$2.68 billion. The annual *payment rate* for corn equals total annual payments (\$2.68 billion) divided by the sum of all individual corn payment contract quantities for the year. For corn, as for other program commodities, an individual farm's *payment quantity* equals the farm's program payment yield multiplied by 85 percent of the farm's corn contract acreage. A farm's *contract acreage* is limited to the 1996 base acreage for the commodity, plus any returning CRP base for the commodity, less any CRP enrollments. Program yields and base acreage are determined in the same manner as under the 1990 FACT Act. An individual farmer's *production flexibility contract payment* is his or her payment quantity times the annual payment rate.

The Senate Committee on Agriculture, Nutrition and Forestry estimated that the fiscal 1998 corn payment rate would be \$0.41 per bushel, but the actual payment rate depends on the number of producers who enroll in the program as well as CRP enrollment. Assuming that the payment rate estimate is accurate, a farmer with 500 acres of corn base (425 payment acres) and a program yield of 105 bushels per acre would receive \$18,296 as a fiscal 1998 FAIR payment. The farmer is free to plant any crop, with limitations on fruits and vegetables, on the 500 acres.

in 1995. The marketing assessment for peanuts is set at 1.15 percent of the loan rate for the 1996 crop and 1.2 percent for the 1997-2002 crops, shared by producers and purchasers.

Dairy price supports are phased down for milk over 4 years from \$10.35 to \$9.90 per cwt. The price support program ends after 1999. Starting in 2000, a recourse loan program is implemented for butter, nonfat dry milk, and cheese at loan rates equivalent to \$9.90 per cwt for milk. This loan rate is intended to assist in the management of dairy product inventories. The budget assessment on producers is eliminated. Assessments collected in 1996 will be refunded to producers whose annual 1996 marketings do not exceed their marketings in 1995.

Federal milk marketing orders are to be consolidated from 33 into 10-14 orders within 3 years. California is allowed to maintain its own fluid milk standards. The Secretary may, upon the finding of a compelling public interest in the area, grant the New England region authority to enter into a dairy compact. The compact would terminate with the completion of price and order reform. The Dairy Export Incentive Program (DEIP) is extended through 2002 and the

Secretary is directed to use the maximum volume permitted under GATT, so long as the GATT funding limit is not exceeded.

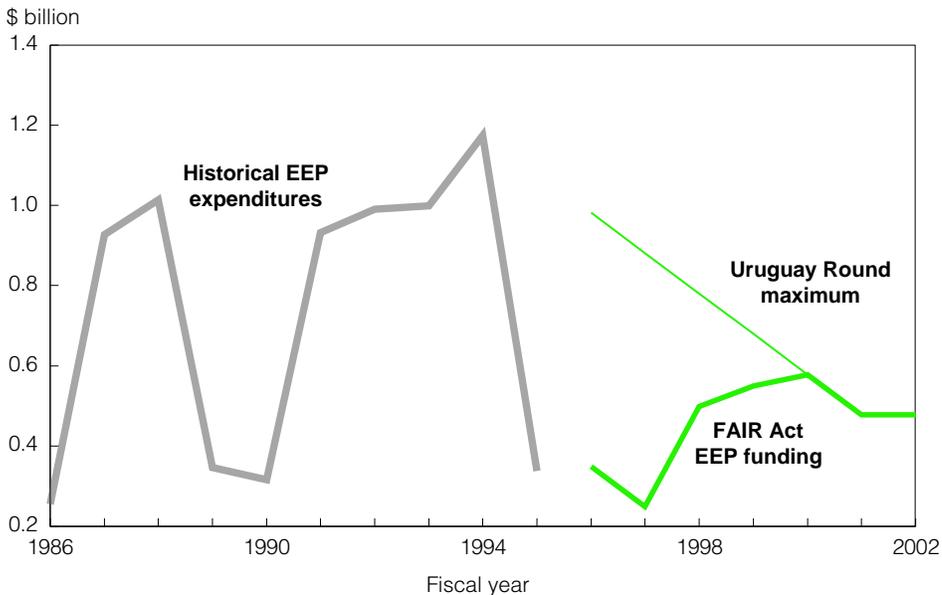
### **Trade Provisions Are Targeted**

Trade and food aid programs are reoriented towards greater market development, with increased emphasis on high-value and value-added products. Annual Export Enhancement Program (EEP) expenditures are capped. In addition, total EEP funding during fiscal 1996-2000 is more than \$1.6 billion less than the maximum levels permitted under the Uruguay Round Agreement.

The Market Promotion Program is renamed the Market Access Program. Participating organizations include non-profit trade associations, state regional trade groups, and private companies. Fund authority is capped at \$90 million annually for fiscal 1996-2002.

The bill authorizes P.L. 480 Title I agreements with private entities in addition to foreign governments. Other major changes to P.L. 480 broaden the range of commodities available for P.L. 480 programming, provide greater pro-

## EEP Expenditures To Be Below GATT Maximum For Several Years



Economic Research Service, USDA

gram flexibility, and improve the operational and administrative aspects of the program. The 4-million-metric-ton Food Security Commodity Reserve, formerly the Food Security Wheat Reserve, is expanded to include rice, corn, and sorghum in addition to wheat, which can be used to meet humanitarian food aid needs.

The legislation also provides protection for farmers against unilateral export embargoes, and places new emphasis on high-value products in the GSM-102 export credit program.

### Major Conservation Provisions

The Environmental Conservation Acreage Reserve Program was continued, to serve as an umbrella to enable the Secretary to operate conservation programs in a consistent manner. Conservation Reserve Program (CRP) enrollment can be maintained at up to 36.4 million acres. Early outs are permitted for less environmentally sensitive land that has been enrolled in the CRP for at least 5 years. New enrollment of environmentally sensitive land is permitted to replace the early outs and contracts that expire.

An Environmental Quality Incentives Program (EQIP) is authorized at \$1.3 billion over 7 years to provide technical, educational, and cost-share assistance and incentive payments to crop and livestock producers in implementing structural and management practices to protect soil and water resources. At least half of the fund is allocated to livestock practices. EQIP is to be operated to maximize the environmental benefits per dollar expended.

A \$200-million fund from the U.S. Treasury is created to restore the Everglades ecosystem under the direction of the Secretary of the Interior. An additional \$100 million of Federal support will be financed through the sale or swap of other federally owned land in Florida. Purchase of private land by the Federal government in the Everglades Agricultural Area is permitted.

### Other Major Provisions

A variety of other titles and programs is included in the new Farm Act. The Food Stamp Program is reauthorized for 2 years while Congress continues to work on comprehensive welfare reform. Farm credit programs are reauthorized, but authority to make loans for non-

agricultural purposes, such as recreational facilities and small businesses, is repealed.

A Fund for Rural America is established to augment existing resources for agricultural research and rural development. Funding will be provided from the Commodity Credit Corporation for \$50 million in fiscal 1996, \$100 million in fiscal 1997, and \$150 million in fiscal 1998. Appropriations for Federal agricultural research, extension, and education programs administered by the Agricultural Research Service and the Cooperative State Research, Education, and Extension Service are reauthorized for 2 years. Further funding is authorized subject to appropriations for fiscal years 1998-2002.

A Commission on 21st Century Production Agriculture is established to conduct a comprehensive review of changes to production agriculture in the U.S. under the 1996 Farm Act. The Commission will also study the future of production agriculture in the U.S. and the appropriate role of the Federal government. The Commission will have 11 members: (1) three members appointed by the President, (2) four appointed by the Chairman of the Agriculture Committee in the U.S. House of Representatives, and (3) four members appointed by the Chairman of the Senate Committee on Agriculture, Nutrition and Forestry. At least one member appointed under each person must be primarily involved in production agriculture. All other members of the Commission must have knowledge and experience in agricultural production, marketing, finance, or trade.

The so-called "permanent provisions" in the Agricultural Adjustment Act of 1938 and in the Agricultural Act of 1949 are continued after 2002. The provisions authorize marketing quotas, marketing certificates, acreage allotments, and parity-based price support for wheat, feed grains, cotton, and sugar. Preventing reversion to costly permanent provisions, such as parity-based prices, is among the incentives to enact new, or to extend existing, commodity program provisions under each farm act.

[Edwin Young (202) 219-0680 and Dennis A. Shields (202) 219-0393]



## 1996 Farm Bill

# Glossary of Agricultural Policy Terms

**Base or contract acreage**—A farm's average acreage eligible for contract payments of wheat, feed grains, upland cotton, or rice planted for harvest, plus any land not planted to these crops because of an acreage reduction or diversion program in effect during a specified period of time. A farmer's crop acreage base is reduced by the portion of land placed in the Conservation Reserve Program, but is increased by CRP base acreage for expiring contracts and early outs.

**Commodity Credit Corporation (CCC)**—A federally owned and operated corporation within the U.S. Department of Agriculture created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC. Under past legislation the CCC also helped maintain balanced, adequate supplies of agricultural commodities and helped in their orderly distribution.

**Commodity loan rates**—Price per unit (pound, bushel, bale, or cwt) at which the CCC provides nonrecourse loans to farmers to enable them to hold program crops for later sale. Loans can be recourse for dairy farmers and sugar processors.

**Conservation Reserve Program (CRP)**—A major provision of the Food Security Act of 1985 designed to reduce erosion and protect water quality on up to 45 million acres of farmland. Under the program, landowners who sign contracts agree to convert environmentally sensitive land to approved permanent conserving uses for 10-15 years. In exchange the land owner receives an annual rental payment and cash or payments-in-kind to share up to 50 percent of the cost of establishing permanent vegetative cover.

**Crop year**—Generally, the 12-month period from the beginning of harvest.

**Contract acreage**—Enrolled 1996 commodity base acreage under the FAIR Act, less any base enrolled in the CRP, plus any base acreage exiting the CRP.

**Contract crops**—Crops eligible for production flexibility payments: wheat, corn, sorghum, barley, oats, rice, and upland cotton.

**Deficiency payment**—A direct government payment made to farmers who participated in wheat, feed grains, rice, or cotton programs prior to 1996. The payment rate was based on the difference between the target price and the higher of the loan rate or the national average market price during a specified time. The total payment was equal to the payment rate, multiplied by a farm's eligible payment acreage and the program yield established for the particular farm. Farmers could have received up to one-half of their projected deficiency payment at planting. If actual deficiency payments, which were determined after harvest, were less than the advance deficiency payment, a farmer had to reimburse the government for the difference.

**Direct payments**—Payments in the form of cash or commodity certificates made directly to producers for such purposes as production flexibility contract payments, deficiency payments, annual land diversion, or Conservation Reserve payments.

**Export Credit Guarantee Program (GSM-102)**—The largest U.S. agricultural export promotion program, functioning since 1982; guarantees repayment of private, short-term credit for up to 3 years.

**Export Enhancement Program (EEP)**—Begun in May 1985 under the Commodity Credit Corporation Charter Act to help U.S. exporters meet competitors' prices in subsidized markets. Under the EEP exporters are awarded bonuses, enabling them to compete for sales in specified countries.

**Food, Agriculture, Conservation and Trade (FACT) Act of 1990 (P.L. 101-624)**—The omnibus food and agriculture legislation signed into law on November 28, 1990 that provided a 5-year framework for the Secretary of Agriculture to administer various agricultural and food programs.

**Food Security Act of 1985 (P.L. 99-198)**—The omnibus food and agriculture legislation signed into law on December 23, 1985, that provided a 5-year framework for the Secretary of Agriculture to administer various agricultural and food programs.

**General Agreement on Tariffs and Trade (GATT)**—An agreement originally negotiated in Geneva, Switzerland in 1947 to increase international trade by reducing tariffs and other trade barriers. The agreement provides a code of conduct for international commerce and a framework for periodic multilateral negotiations on trade liberalization and expansion. The Uruguay Round Agreement established the World Trade Organization (WTO) to replace the GATT. The WTO officially replaced the GATT on January 1, 1996.

**Intermediate Export Credit Guarantee Program (GSM-103)**—Established by the Food Security Act of 1985, this program complements GSM-102 by guaranteeing repayment of private credit for 3-10 years.

**Loan deficiency payments**—A provision begun in the Food Security Act of 1985 giving the Secretary of Agriculture the discretion to provide direct payments to producers who, although eligible to obtain price support loans for wheat, feed grains, upland cotton, rice, or oilseeds, agree not to obtain loans.

**Marketing allotments**—Provide each processor or producer of a particular commodity a specific limit on sales for the year, above which penalties would apply.

**Marketing assessments**—Require producers, processors, or first purchasers to pay a fee per unit of domestic production sold in order to share program costs with the government.

**Marketing loan program**—Allows producers to repay nonrecourse price support loans at less than the announced loan rates whenever the world market price or posted county price for the commodity is less than the commodity loan rate.

**Marketing orders**—Federal marketing orders authorize agricultural producers to promote orderly marketing by influencing such factors as supply and quality, and to pool funds for promotion and research. Marketing orders are initiated by the industry, and are approved by the Secretary of Agriculture and by a vote among producers. Once approved, a marketing order is mandatory.

**Market Promotion Program (MPP)**—Renamed the Market Access Program. Participating organizations include nonprofit trade associations, state regional trade groups, and private companies. Fund authority is capped at \$90 million annually for fiscal 1996-2002.

## 1996 Farm Bill

**Marketing year**—Generally, the 12-month period from the beginning of a new harvest.

**Nonrecourse loans**—The major government price support instrument, providing operating capital to producers of wheat, feed grains, cotton, peanuts, tobacco, rice, and oilseeds. Sugar processors are also eligible for nonrecourse loans. Farmers or processors who agree to comply with each commodity program provision may pledge a quantity of a commodity as collateral and obtain a loan from the CCC. The borrower may repay the loan with interest within a specified period and regain control of the commodity, or forfeit the commodity to the CCC with no interest penalty (the government has no *recourse* but to accept the commodity as payment). For those commodities eligible for marketing loan benefits, producers may repay the loan at the world price (rice and upland cotton) or posted county price (wheat, feed grains, and oilseeds).

**Normal flex acreage**—Provision of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) requiring a mandatory 15-percent reduction in payment acreage. Under this provision, producers were ineligible to receive deficiency payments on 15 percent of their crop acreage base (not including any acreage removed from production under any production adjustment program). Producers, however, were allowed to plant any crop on this acreage, except fruits, vegetables, and other prohibited crops. Normal flex acres no longer exist under the FAIR Act.

**Oilseeds**—Soybeans, sunflowerseed, canola, rapeseed, safflower, mustard seed, and flaxseed.

**The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508)**—Signed November 5, 1990. This law amended the Food, Agriculture, Conservation and Trade Act of 1990 to reduce agricultural payments for 1991-95. It included a mandatory reduction of 15 percent of payment acreage, and assessments on certain other crop loans and incentive payments.

**Optional flex acreage**—Under the planting flexibility provision of the 1990 FACT Act, producers could choose to plant up to 25 percent of the crop acreage base to other CCC-specified crops (except fruits and vegetables) without a reduction in crop acreage bases on the farm, but receive no deficiency payments on this acreage. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) made a 15-percent reduction in payment acreage mandatory. The remaining 10 percent was optional flex acreage. Optional flex acreage was eligible for deficiency payments when planted to the program crop. Optional flex acres no longer exist under the FAIR Act.

**Parity-based support prices**—A measurement of the purchasing power that a unit (e.g., bushel, cwt) of a farm product would have had in the 1910-14 base period. The base prices used in the calculation are the most recent 10-year average prices for commodities. Under “permanent provisions,” prices would be supported at 50 to 90 percent of parity through direct government purchases or nonrecourse loans.

**Payment rate**—The amount paid per unit of production to each participating farmer for eligible payment production under the FAIR Act.

**Payment quantity**—The quantity of production eligible for production flexibility contract payments under the FAIR Act. Payment quantity is calculated as the farm’s program yield (per acre) multiplied by 85 percent of the farm’s contract acreage, subject to payment limitations.

**Permanent legislation**—Legislation that would be in force in the absence of all temporary amendments (farm acts). The Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 serve as the basic laws authorizing the major commodity programs. Technically, each new farm act amends the permanent legislation for a specified period.

**Production flexibility contract payments**—Payments to be made to farmers for contract crops through 2002 under the FAIR Act. Payments for each crop are allocated each fiscal year based on the Congressional Budget Office’s February 1995 forecast of what deficiency payments would have been under the FACT Act.

**Program crops**—Federal support programs are available to producers of wheat, corn, barley, grain sorghum, oats, rye, extra long staple and upland cotton, rice, oilseeds, tobacco, peanuts, and sugar.

**Program or payment yield**—The farm commodity yield of record (per acre), determined by a procedure outlined in legislation. Previous law allowed USDA to update program yields at the average of the preceding 5 years’ harvested yield (dropping the high and low years). This provision has not been implemented as program yields continue to be frozen at 1985 levels.

**Public Law 480 (P.L. 480)**—Common name for the Agricultural Trade Development and Assistance Act of 1954, which seeks to expand foreign markets for U.S. agricultural products, combat hunger, and encourage economic development in developing countries. Title I of the Food for Peace Program, as it is called, makes U.S. agricultural commodities available through long-term dollar credit sales at low interest rates for up to 30 years. Donations for humanitarian food needs are provided under Title II. Title III authorizes “food for development” grants.

**Target prices**—Price levels established by past law for wheat, corn, grain sorghum, barley, oats, rice, and upland cotton. Prior to 1996, farmers participating in Federal commodity programs received deficiency payments based on the difference between the target price and the higher of the national market price during a specified time period, or the price support (nonrecourse) loan rate. Target prices were eliminated by the FAIR Act.

**Tariff-rate quota (TRQ)**—System by which a certain quantity of imports, called a quota amount, receives a low tariff, and imported quantities above that quota level are assessed a higher tariff.

**Uruguay Round**—The Uruguay Round of Multilateral Trade Negotiations (UR) under the auspices of the GATT; a trade agreement designed to open world agricultural markets. The UR agricultural agreement covers four areas; export subsidies, market access, internal supports, and sanitary and phytosanitary rules. The agreement is implemented over a 6-year period, 1995-2000.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

### TITLE I-- AGRICULTURAL MARKET TRANSITION ACT

Income support remained tied to farm prices and crop-specific planting requirements. Farmers gained planting flexibility but received support payments on fewer acres. The nonrecourse loan program continued. Marketing loans were mandated for cotton, rice, and oilseeds and were permitted for wheat, feed grains, and honey.

#### Income support for wheat, feed grains, cotton, and rice

Income support was provided through deficiency payments that were made when average farm prices fell below the target price. Deficiency payments were calculated by multiplying a payment rate times a program payment yield times the number of acres eligible for payments. The deficiency payment rate for each commodity was based on the difference between the target price and either the market price during a specified period or the price support (loan) rate, whichever was higher.

Target prices were frozen for wheat at \$4 per bushel, corn at \$2.75, oats at \$1.45, sorghum at \$2.61, barley at \$2.36, cotton at 72.9 cents per pound, and rice at \$10.71 per cwt. Producers were eligible for payments on at most 85% of base acres.

Total Federal spending on deficiency payments increased when farm prices declined and vice versa.

#### Contract acreage (acreage base) and yield

For wheat and feed grains, a farm's crop acreage base was equal to the average of acres planted and considered planted during the previous 5 years. For upland cotton and rice, bases were set using the previous 3-year average of planted and considered planted acreage, with some exceptions for 1991 and 1992. Payment yields for program crops could be frozen at 1990 levels or based on a moving average of the yields for the past 5 crop years (dropping the high- and low-yield years), subject to the Secretary's discretion.

The level of income support is no longer related to current farm prices. Support is based on the CBO's February 1995 forecast of income support assuming extension of the 1990 FACT Act. Restrictions on acreage and crops planted are substantially reduced. The nonrecourse loan program with marketing loan provisions continues, subject to maximum loan rates.

Farmers who have participated in the wheat, feed grains, cotton, and rice programs in any one of the past 5 years can enter into 7-year *production flexibility contracts* for 1996-2002. An eligible farm's payment quantity for a given contract commodity is equal to 85 percent of its contract acreage times its program yield for that commodity. Land from expiring Conservation Reserve Program (CRP) contracts can be enrolled as contracts expire. A per-unit payment rate (e.g., per bushel) for each contract commodity will be determined annually by dividing the total annual contract payment level for each commodity by the total of all contract farms' program payment production. The annual payment rate for a contract commodity would be multiplied by each farm's payment quantity for that commodity, and the sum of such payments across contract commodities on the farm would be that farm's annual payment, subject to any payment limits.

Total production flexibility contract payment levels for each fiscal year are fixed at: \$5.570 billion in 1996, \$5.385 billion in 1997, \$5.800 billion in 1998, \$5.603 billion in 1999, \$5.130 billion in 2000, \$4.130 billion in 2001, and \$4.008 billion in 2002. Spending caps for each crop, except rice, will be adjusted for prior-year crop program payments to farmers made in fiscal year 1996 and any 1995 crop repayments owed to the government. The amount allocated for rice is increased by \$8.5 million annually for fiscal years 1997 through 2002. Allocations of the above payment levels are: 26.26% for wheat, 46.22% for corn, 5.11% for sorghum, 2.16% for barley, 0.15% for oats, 11.63% for upland cotton, and 8.47% for rice.

Land eligible for contract acreage is equal to a farm's base acreage for 1996 calculated under the previous farm program, plus any returning CRP base and less any CRP enrollment. A producer may enroll less than the maximum eligible acreage. Program payment yields are frozen at 1995 levels.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

### Planting flexibility and restrictions

Planting of any crop except fruits and vegetables was permitted on up to 25 percent of any participating program crop's acreage base. This acreage was known as flex acreage and planting of other crops was credited as considered planted to the program crop for acreage base protection. The first 15 percent of flex acreage was known as normal flex acreage (NFA) and the remainder as optional flex acreage (OFA). Crops grown on NFA were not eligible for deficiency payments. Deficiency payments were paid on OFA only if the original program crop was planted.

*Acreage Reduction Programs* (ARP's) restricted the acreage that participants could plant to any single program crop. ARP levels were determined in part by the ratios of ending stocks to total use. ARP's could be set separately for each of the feed grains. A zero ARP for oats was mandated for all 5 years. Maximum ARP was set at 25% for cotton and at 35% for rice.

### 0/85/92 and 50/85/92 Programs

The voluntary 0/85/92 and 50/85/92 programs allowed producers to devote all or a portion of their permitted acres to conserving uses and receive deficiency payments on a portion of these acres. Planting of minor oilseeds was allowed for wheat and feed grains. Producers had the option of receiving deficiency payments or oilseed loans, but not both. Payment rate was at least equal to the projected deficiency payment rate. Cotton and rice producers had to plant at least 50% of a crop's maximum payment acres.

**Price support** is provided to program participants through nonrecourse loans. Marketing loans and loan deficiency payments are available to minimize potential loan forfeitures and subsequent government accumulation of stocks.

A farmer could receive a loan from the government at a designated per-unit rate (the loan rate) by pledging the commodity as loan collateral and storing it. Basic loan rates were set at 85% of a 5-year moving average of farm prices, excluding high and low years (called "Olympic average") for wheat, corn, ELS cotton, and rice. The basic loan rates could not be less than 95% of the year-earlier value and were subject to the specified minimum for rice.

### Wheat and feed grains

The minimum basic loan rate was set at \$2.44 a bushel for wheat and \$1.76 for corn, unless these exceeded 85% of the Olympic average of farm prices. The Secretary could reduce loan rates by up to 10% based on an ending stocks-to-use formula, and up to another 10% at his/her discretion to ensure that U.S. commodities were competitive in world markets. Marketing loans were permitted, which allowed producers to repay commodity loans at a rate less than the original loan rate per bushel. Repayment rates were determined by the Secretary, based on the prevailing world market price adjusted for U.S.

Participants may plant 100 percent of their total contract acreage to any crop, except with limitations on fruits and vegetables. Land must be maintained in agricultural use. Unlimited haying and grazing and planting and harvesting of alfalfa and other forage crops are permitted with no reduction in payments. Planting of fruits and vegetables (excluding mung beans, lentils, and dry peas) on contract acres is prohibited unless the producer or the farm has a history of planting fruits and vegetables, but payments are reduced acre-for-acre on such plantings. Double cropping of fruits and vegetables is permitted without loss of payments if there is a history of such double cropping in the region.

Eliminates authority for ARP's.

Eliminates 0/85/92 and 50/85/92 program provisions. However, the Agricultural Market Transition Program allows essentially a "0/100" option for farmers, who can plant any portion of their acreage and receive a full payment as long as the land is kept in agricultural uses.

Nonrecourse loans with marketing loan provisions are extended. Any production of a contract commodity by a producer who has entered into a production flexibility contract is eligible for loans. The formulas for establishing loan rates for wheat, feed grains, and upland cotton are retained, subject to specified maximums. Continues marketing loan provisions allowing repayment of loans at less than full principal plus interest when prices are below loan rates.

Loan rates are set at 85% of the 5-year olympic average of farm prices, subject to a maximum of \$2.58 per bushel for wheat and \$1.89 per bushel for corn, the same rates as in 1995. The Secretary retains authority to decrease wheat and feed grain loan rates depending on the projected stocks-to-use ratio. The loan rates may be reduced as much as 5% if the ratio is between 15 and 30% for wheat or 12.5 and 25% for corn. If the ratios are higher than these, the loan rates may be reduced up to 10%. There is no longer authority for an additional 10% discretionary adjustment. Loan rates for grain sorghum, barley, and oats are set at a level

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

quality and location (subsequently called "posted county price").

considered fair and equitable relative to the feed value of corn. Rye is no longer eligible for price support.

Cotton

The basic loan rate for upland cotton was set at the lesser of 85% of the 5-year Olympic average of spot market prices, or 90% of the Northern Europe-based average price, subject to a minimum loan rate of 50 cents per pound. Marketing loans continued to be mandatory, which allowed producers to repay loans at a rate less than the original loan rate per bushel. Repayment rates were determined by the Secretary, based on the prevailing world market price for upland cotton, adjusted for U.S. quality and location.

The loan rate for upland cotton is set at the lesser of 85% of the 5-year Olympic average of spot market prices, or 90% of the Northern Europe-based average price, subject to a maximum of \$0.5192 per pound and a minimum of \$0.50 per pound. The loan rate for extra long staple (ELS) cotton is set at 85% of the 5-year Olympic average of farm prices, subject to a maximum of \$0.7965 per pound. Certain reforms are made to the cotton loan program, including elimination of the 8-month cotton loan extension. Marketing loan provisions are continued for upland cotton.

Upland cotton user marketing certificates (Step 2)

Required that marketing certificates be issued to domestic users and exporters when the Friday through Thursday (F-Th) average of the lowest price U.S. growth as quoted in Northern Europe exceeded the F-Th average of the five cheapest Northern Europe prices by more than 1.25 cents per pound, for 4 consecutive weeks, and the prevailing world market price did not exceed 130 percent of the upland cotton loan rate.

Maintains provisions for various adjustment mechanisms and import quotas. Total expenditures for Step 2 payments cannot exceed \$701 million over the period FY 1996-2002.

Rice

The loan rate was set at the 5-year Olympic average of farm prices, subject to a minimum of \$6.50 per cwt. Mandatory marketing loans continued, which allowed producers to repay loans at a rate less than the original loan rate per bushel. Repayment rates were determined by the Secretary, based on the prevailing world market price.

The rice loan rate is \$6.50 per cwt. Marketing loan provisions are continued.

Oilseeds and soybeans

The minimum loan rate for soybeans was set at \$5.02 per bushel for the 1991-95 marketing year, and a new price support program instituted for minor oilseeds, including sunflowerseed, canola, rapeseed, safflower, flaxseed, mustard seed, and others as determined by the Secretary. The minimum loan rate for minor oilseeds was set at 8.9 cents per pound for the 1991-95 marketing years. Under the Omnibus Budget Reconciliation Act of 1990, oilseed loans required a 2% origination fee, which reduced the effective loan rate to \$4.92 per bushel. The fee was discontinued later and the loan rate was set at \$4.92.

The soybean loan rate is set at not less than 85% of the 5-year Olympic average of farm prices, but no lower than \$4.92 per bushel and no higher than \$5.26 per bushel. The loan rates for sunflower seed, canola, rapeseed, safflower, mustard seed, and flaxseed cannot be less than 85 percent of the Olympic average of farm prices for sunflower seed, subject to a minimum of \$0.087 and maximum of \$0.093 per pound.

A mandatory marketing loan program was established to allow producers to repay soybean and oilseed loans at a rate less than the original loan rate per bushel. The lower repayment rates could have been either the prevailing world market price for oilseeds (adjusted for U.S. quality and location) or a rate determined by the Secretary to minimize loan forfeitures and government stock accumulation.

Marketing loan provisions are continued.

Loan deficiency payments

To cut administrative costs, loan deficiency payments (based on the difference between the

Loan deficiency payments are available for all loan commodities except ELS cotton.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

loan rate and loan repayment rate) could be available to producers who agreed not to place their crop under a loan.

### GENERAL PROVISIONS

#### Conservation compliance

To remain eligible for specified program benefits, farmers cropping highly erodible land were required to implement an approved conservation plan by 1995 (highly erodible land conservation provisions), and they had to be in compliance with wetland conservation provisions (swampbuster).

Participants must continue to maintain conservation plans including compliance with highly erodible land conservation provisions and wetland conservation provisions (swampbuster) to receive contract payments.

#### Payment limitations

Set a \$50,000-per-person limit for deficiency and diversion payments; \$75,000 for marketing loan gains, loan deficiency, and Findley payments; and an overall limit of \$250,000. The 3-entity rule was retained, whereby an individual could receive payments for 3 separate operating units so long as his/her stakes in the second and third entities did not exceed 50% of each such entity. An individual could receive up to \$100,000 in deficiency payments under the 3-entity rule. Conservation Reserve Program, wool and mohair, and honey program payments had separate limits.

Sets payment limits at \$40,000 per person for payments on production flexibility contracts. Maintains limits at \$75,000 on marketing loan gains and loan deficiency payments for one or more crops of contract commodities or oilseeds. Under the 3-entity rule, individual farmers can receive up to \$80,000 per year in total contract payments on 3 separate farming operations, down from \$100,000. Sub-limits are \$40,000 on the first operation and \$20,000 each on 2 additional entities. Limits on marketing loan gains continue at \$75,000 on the first farm and \$37,500 each on 2 additional entities.

**Farmer-Owned Reserve (FOR)** allowed producers holding regular CCC 9-month loans for wheat or feed grains to extend their loans beyond the regular term and receive additional storage payments.

The Secretary had authority to allow entry into FOR only if (1) the projected wheat ending stocks/use ratio exceeded 37.5%, or corn's exceeded 22.5%; or (2) the market price for wheat or corn was less than 120% of the loan rate. If both conditions were met, the Secretary was *required* to permit entry into the FOR. Storage subsidies were to stop when prices were 95% of target. Interest charges were possible if prices reached 105% of target.

Suspends authority for Farmer-Owned Reserve through the 2002 crop year.

### DAIRY

**Price support** is provided through government purchases of butter, nonfat dry milk, and cheese.

Set a \$10.10 per cwt minimum support price for milk containing 3.67% milkfat. If Commodity Credit Corporation (CCC) purchases were projected to exceed 5 billion pounds (total milk solids basis), the Secretary was required to reduce support 25-50 cents per year but not below \$10.10 per cwt; if below 3.5 billion pounds, support had to increase by 25 cents. Under the 1990 Budget Act, producer assessments were set at 5 cents per cwt in 1991 and 11.25 cents for 1992-95. Producers who did not increase milk production from a year earlier received a refund of the assessment.

The minimum support price for milk declines from \$10.35 per cwt in 1996 to \$9.90 in 1999 (\$0.15 per year) and is maintained through government purchases of butter, nonfat dry milk, and cheese. Price support is eliminated after December 31, 1999. As under previous law, the Secretary may allocate the rate of price support between the purchase prices for nonfat dry milk and butter in a manner that minimizes CCC expenditures. Budget assessment on dairy producers is immediately eliminated. Assessments collected in 1996 will be refunded to producers whose annual 1996 marketings do not exceed their marketings in 1995. Starting in 2000, a recourse loan program is implemented for butter, nonfat dry milk, and cheese at loan rates equivalent to \$9.90 per cwt for milk. The loan program is intended to assist in the management of dairy product inventories.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

### Import quotas

Imports remained subject to quotas under Section 22 of the Agricultural Adjustment Act of 1933. Under commitments from the Uruguay Round agreement of the General Agreement on Tariffs and Trade (UR-GATT), import quotas were converted to tariff-rate quotas, which will be reduced over time.

No change.

**Federal milk marketing orders** classify and fix minimum prices according to the products in which milk is used.

Required hearings to consider replacing the Minnesota-Wisconsin price series, which provided the basis for minimum-class prices under the Federal milk marketing orders. The Secretary was required to consider alternative pricing formulas, including a series based on prices paid by milk processors for Grade A milk, and for manufacturing grade milk that is used to manufacture dairy products. The Fluid Milk Promotion Program was authorized and subsequently enacted to promote domestic milk consumption.

Federal milk marketing orders are consolidated into 10-14 orders, down from 33. Multiple basing points for the pricing of milk are authorized. California may maintain its own fluid milk standards. The Fluid Milk Promotion Program is extended through 2002.

The Secretary may, upon the finding of a compelling public interest in the area, grant the New England region the authority to enter into a dairy compact. The compact would terminate with the implementation of Federal order reforms.

**Dairy Export Incentive Program (DEIP)** subsidizes exports of U.S. dairy products. Under the DEIP the CCC was required to make payments, on a bid basis, to an entity that sells U.S. dairy products for export.

Reauthorized DEIP.

DEIP is extended to 2002. The Secretary must authorize subsidies sufficient to export the maximum volume of dairy products allowable under the UR-GATT (net of exports under the dairy sales program), subject to UR-GATT funding limits. DEIP is to be used for market development purposes.

## PEANUTS

### Price support

The price support for "quota" peanuts (primarily sold for domestic eligible use) was based on the previous year's loan rate, adjusted upward no more than 5% for higher production costs. The considerably lower rate for "additional" peanuts (mostly sold for export) was established by the Secretary. An assessment fee of 1% of the loan rate was established.

The peanut program is revised to make it a "no net cost program." The quota support rate is frozen at \$610 per ton, reduced from \$678 in 1995. Loans for "additional" peanuts remain available. The marketing assessment is 1.15% of the loan rate for the 1996 crop and 1.2% for the 1997-2002 crops, shared by growers and purchasers.

### Quota

Each year's national peanut poundage quota was set equal to estimated domestic use of peanuts for food products and seed, subject to a minimum of 1.35 million short tons. The quota appropriated to each state was equal to the percent allocated for 1990. Quota could be sold, leased, and transferred only within a county in major producing states.

The minimum national quota and provisions for carryover of under-marketings are eliminated. Quota is redefined to exclude seed. Government entities and out-of-state nonfarmers cannot hold quotas. Sale, lease, and transfer of quota is now permitted across county lines within a state up to specified amounts of quota annually.

## SUGAR

### Price support

To support sugarcane and sugar beet prices, a nonrecourse loan program continued to support prices of processed cane and beet sugar. The

No-net-cost provisions and the associated tariff-rate quota for imports are retained. USDA must use all authorities to avoid the costs associated

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

loan rates remained the same as under 1985 and 1990 farm legislation at 18 cents per pound for raw cane sugar, with refined beet sugar rates set annually relative to the raw cane sugar rate. The no-net-cost provisions continued, relying principally on import quotas. Assessments of 1% of the loan rate (1.07% for sugar beets) were placed on the amount starting in fiscal 1992, and raised by 10% beginning with fiscal 1995.

with forfeitures of sugar by price support loan recipients. The raw cane sugar loan rate continues to be fixed at 18 cents per pound. The refined beet sugar loan rate is also frozen at the 1995 level of 22.9 cents per pound (instead of varying each year). Loans are recourse when the level of the TRQ is at or below 1.5 million short tons (raw value); if the quota is raised above that level, loans become nonrecourse. Cane processors must pay a penalty of \$0.01 on each pound of sugar forfeited to the government; beet processors pay a penalty of \$0.0107 per pound. The marketing assessments paid on all processed sugar increase from 1.1 to 1.375% of the raw sugar loan rate for sugarcane processors, and from 1.1794 to 1.47425% of the raw sugar loan rate for beet sugar refiners.

### Marketing allotments

Mandatory marketing allotments (supply control) for domestically produced sugar were triggered if USDA projected import requirements below 1.25 million short tons in a fiscal year. A 200,000-ton sugar-equivalent limit on marketings was set for crystalline fructose whenever marketing allotments were in effect for sugar.

Eliminates authority for domestic sugar and crystalline fructose marketing allotments.

**Tariff-rate quota (TRQ)** is part of the Harmonized Tariff Schedule of the U.S., as amended in the UR-GATT.

A TRQ limited imports and helped maintain U.S. prices at levels to prevent forfeiture of CCC loans. Under the UR-GATT, the TRQ cannot be less than 1.23 million short tons for raw cane sugar and not less than 24,250 short tons for refined sugar. The tariff on imports above the TRQ is 17.17 cents a pound for raw cane sugar in 1996, and is scheduled to decline to 15.36 cents in the year 2000.

No change.

### HONEY

The loan rate was set at 53.8 cents per pound. The Secretary could implement a marketing loan. Loan deficiency payments were available.

Eliminates authority for the honey program.

### MISCELLANEOUS

#### CCC interest rate

The interest rate on Commodity Credit Corporation loans reflected the cost to the CCC to borrow from the U.S. Treasury (1-year Treasury Bills).

The interest rate on CCC loans is increased by 1 percentage point over the rate that the CCC is charged for borrowing.

#### Permanent law

Maintained permanent law and temporarily suspended provisions of the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949.

Permanent law is maintained, but temporarily suspended. Some unused and outdated provisions are repealed.

#### Commission on 21st Century Production Agriculture

No provisions.

Establishes a Commission to conduct a comprehensive review of changes to production agriculture in the U.S. under the 1996 FAIR Act. The Commission will also study the future of

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

### Pilot programs for futures and options

Mandated an Options Pilot Program to help producers purchase put option contracts for their 1993, 1994, and 1995 wheat and corn crops. Contracts were offered to eligible producers in specified counties.

production agriculture in the U.S. and the appropriate role of the Federal government in it.

The Secretary is authorized to conduct research through pilot programs to determine if futures and options contracts can provide producers with reasonable protection from the financial risks of fluctuations in price, yield, and income inherent in the production and marketing of agricultural commodities.

**Crop insurance** is available for a wide variety of crops, but not always in each locality where a crop is grown. The premiums are federally subsidized.

The Federal Crop Insurance Reform Act of 1994 supplemented the crop insurance program with a new catastrophic (CAT) coverage level available to farmers for a processing fee of \$50 per crop. To be eligible for commodity program benefits, for certain Farm Service Agency loan programs, or for renegotiated CRP contracts, a farmer had to have at least CAT coverage on crops of economic significance. CAT coverage can be purchased through private insurance companies or Farm Service Agency offices. Farmers may purchase additional insurance coverage, providing higher yield and/or price protection, for a fee and subsidized premium. Additional coverage is available only through private companies. A Noninsured Assistance Program, which requires both an area and an individual trigger for payments to be made, is in place for noninsurable crops. Reform has been in effect for 1995 crops.

Beginning with 1996 spring-planted crops (and 1996 fall-planted crops at the option of the Secretary), purchase of crop insurance is no longer required to be eligible for farm program benefits if producers waive all emergency crop loss assistance.

Beginning with the 1997 crop year, dual delivery of crop insurance by the Farm Service Agency and private insurance agents is eliminated in states (or portions of states) that have adequate access to private crop insurance providers.

### Revenue Insurance Pilot Program

The Federal Crop Insurance Reform Act of 1994 mandated a pilot cost of production risk protection plan that would indemnify the producer if his or her gross income is less than a predetermined amount. The Federal Crop Insurance Corporation's (FCIC) response is an income protection pilot program offered for selected spring-planted crops in 1996 in selected areas. A private company has introduced a crop revenue coverage policy in spring 1996, which also provides revenue insurance protection.

Requires a revenue insurance pilot program for crop years 1997-2000 under which a producer of feed grains, wheat, soybeans, or other such crop may elect to receive insurance against loss of revenue.

## TITLE II-- AGRICULTURAL TRADE

The U.S. Government provides overseas food aid primarily through the **P.L. 480 Program**, also known as "Food for Peace," which includes concessional sales through Title I, and donations and grants through Titles II and III.

The FACT Act gave the Secretary of Agriculture sole responsibility for Title I credit sales and gave the U.S. Agency for International Development authority to execute Titles II and III programs. Title I loans were shortened from 40 to 30 years and the grace period for repayment from 10 to 7 years. Priorities for allocations of Title I assistance were revised to promote broad-based development and to promote food security and agricultural development. The role of the private sector was emphasized through the establishment of a Food

Extends the authority to enter into new P.L. 480 agreements through 2002. Authorizes Title I agreements with private entities in addition to foreign governments. Modifies the repayment terms for Title I credit, including the elimination of the minimum repayment period of 10 years and reduction of the maximum grace period from 7 to 5 years. Increases the maximum level of funding that can be provided as overseas administrative support for eligible organizations under Title II from \$13.5 million to \$28.0 million; adds intergovernmental

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

Aid Consultative Group. The minimum levels of assistance under Title II were increased annually to 2,025,000 metric tons for overall Title II food donations and 1,550,000 metric tons for nonemergency food assistance in 1995. The Title III program retained its name, "Food for Development," but was completely revised to provide an all-grant program for least-developed countries based on explicit poverty and malnutrition standards.

**Food for Progress** was originally authorized under Section 416b of the Agricultural Act of 1949.

Food for Progress Program (FFP) was authorized through 1995 in the 1985 farm bill to provide commodities to the governments of developing countries and emerging democracies or to private voluntary organizations to introduce elements of free enterprise into the countries' agricultural economies through changes in commodity pricing, marketing, input availability, and private sector involvement. Commodities provided under the program may be funded through P.L. 480 or under Section 416(b).

**Food Security Commodity Reserve** provides for a reserve to meet emergency humanitarian food needs in developing countries.

The Food Security Wheat Reserve authorized by the Agricultural Act of 1980 is a reserve of up to 4 million metric tons of wheat to meet extraordinary needs in developing countries. The President had authority to tap the Reserve when domestic wheat supplies were so limited that wheat cannot be made available for programming under P.L. 480 and in the case of urgent humanitarian need. Withdrawn stocks had to be replenished within 18 months of release to the extent that undesignated CCC inventories were available or funds were specifically appropriated.

Under the **Export Credit Guarantee Programs**, USDA facilitates commercial sales of U.S. agricultural products. The Export Credit Guarantee Program (GSM-102) covers private credit extended for up to 3 years. The Intermediate Export Credit Guarantee

Credit guarantee programs were authorized through 1995. CCC was prohibited from offering credit guarantees for loans to countries that the Secretary determined could not adequately service the debt associated with the sale. Credit guarantees could not cover financing for the foreign content of an exported product under the programs.

organizations such as the World Food Program to the list of organizations eligible to receive these funds; and extends the authority for the Food Aid Consultative Group through the year 2002. Increases the minimum amount of commodities that are to be sold for local currencies under the nonemergency programs under Title II from 10 to 15%. Extends the minimum levels of assistance under Title II through 2002 at the 1995 levels. Amends P.L. 480 Title IV (Administrative Provisions) to broaden the range of commodities available for programming under the P.L. 480 program, provide greater programming flexibility, and improve the operational and administrative aspects of the program. Allows up to 15% of the funds available for any title of P.L. 480 to be used to carry out any other P.L. 480 title. Up to 50% of Title III funds may be used for Title II.

Extends the authority for FFP agreements and authority to provide assistance in the administration, sale, and monitoring of food assistance programs to strengthen private sector agriculture in recipient countries through 2002. Includes intergovernmental organizations in FFP programming. Expands the authority to make sales on credit terms under the Act to all eligible countries in addition to the newly independent states of the former Soviet Union.

Amends the Agricultural Act of 1980 to establish a Food Security Commodity Reserve. Commodities authorized for the 4-million-ton reserve are expanded to include corn, grain sorghum, and rice in addition to wheat. Raises the existing 300,000-ton release authority for urgent humanitarian relief in disasters to 500,000 tons in the case of unanticipated need and allows for the release of an additional 500,000 metric tons of eligible commodities that could have been released but were not released in previous years. To replenish the Reserve, commodities may be acquired from eligible CCC stocks, purchased from producers, or purchased on the market. Authorizes the reimbursement of the CCC for the release of eligible commodities from the Reserve from funds appropriated in subsequent fiscal years.

Authorizes short-term supplier credit guarantees. Lists criteria to be used by the Secretary in deciding whether a country is creditworthy for GSM-103 intermediate-term credit guarantees. Mandates annual program levels for GSM-102 and GSM-103 at \$5.5 billion through 2002, but allows flexibility in how much is made available for each program. Allows credit guarantees for high-value products with at least 90% U.S. content (by weight). Minimum amounts of credit guarantees will be required to be available for processed and

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

Program (GSM-103) covers private credit extended for more than 3 to 7 years.

### **Emerging Markets Program**

Authorized \$1 billion in credits or credit guarantees to be made available to emerging democracies annually for fiscal 1991-95. Funds could be used to establish or provide facilities, services, or U.S. products to improve handling, marketing, processing, storage, or distribution of imported agricultural products. Up to \$10 million annually was authorized for technical assistance for fiscal 1990-95.

The **Market Access Program** is designed to develop, maintain, and expand markets for agricultural products.

Renamed the Targeted Export Assistance Program the Market Promotion Program (MPP). Authorized funding at \$200 million annually. Gave priority for MPP funding to organizations that could demonstrate they had been harmed by another country's unfair trade practices. The 1993 Omnibus Budget Reconciliation Act reauthorized the MPP through 1997 and reduced MPP funding to \$110 million annually. Required that priority be given to small firms for branded promotions.

The **Export Enhancement Program (EEP)** is used to help U.S. exporters compete against subsidized prices in specific export markets.

The EEP, set up primarily to counter unfair trade practices, was reauthorized through 1995. Established a minimum funding level of \$500 million annually for the EEP. The 1994 Uruguay Round Agreements Act extended the authorization for the EEP through 2001, required that the program be operated consistent with U.S. export subsidy volume and value commitments under the Uruguay Round, and widened the program's focus to market development.

The **Cottonseed and Sunflowerseed Oil Assistance Programs (COAP and SOAP)** are used to facilitate export sales in specified world markets.

The Secretary was authorized to use \$50 million annually to encourage additional sales of cottonseed and sunflowerseed exports. Funds for this program were made available under Section 32 of the Agricultural Adjustment Act of 1935.

**Embargo compensation** is provided under Section 411 of the Agricultural Trade Act of 1978, which requires the Secretary to make specified payments to producers when exports to a country are restricted for reasons of national security or foreign policy. Section

No new provisions.

high-value products: 25% in 1996 and 1997; 30% in 1998 and 1999; and 35% thereafter. Minimum requirements are not applicable if they cause a reduction in total commodity sales under the programs.

Authorized through 2002 and retargeted to "emerging markets" which offer growth potential for U.S. agricultural exports. Requires that CCC make available not less than \$1 billion of direct credit or credit guarantees to emerging markets during fiscal 1996-2002. Authorizes up to \$10 million annually for technical assistance.

Changes the name of the MPP to Market Access Program (MAP). Authorizes funding for the program at \$90 million annually for fiscal 1996-2002. Participating organizations include nonprofit agricultural trade organizations, regional trade groups, and private companies.

EEP expenditures are capped at \$350 million in fiscal 1996, \$250 million in 1997, \$500 million in 1998, \$550 million in 1999, \$579 million in 2000, and \$478 million for 2001 and 2002. The 1996-99 values total about \$1.6 billion less than UR-GATT commitments. Allows the Secretary to make available up to \$100 million annually for the sale of intermediate-value products to attain the volume of intermediate agricultural products exported by the U.S. during the Uruguay Round base period years of 1986 through 1990.

COAP and SOAP are not reauthorized.

If a future export embargo is imposed on any country for national security or foreign policy reasons, and, if no other country with an agricultural economic interest joins the U.S. sanctions within 90 days of the imposition of the embargo, USDA must compensate producers of the affected commodity or commodities by either making payments to producers, by making available funds for export promotion, or by providing commodities to developing countries. Payments to producers will be based on the

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

412 requires the Secretary to develop a contingency plan to assess the impact of the embargo and the implementation of producer payments under Section 411.

### **Agricultural export promotion strategy**

The Secretary was required to prepare a long-term agricultural trade strategy report for initial submission to Congress prior to October 1, 1991, with annual updates.

Secretary's estimate of the loss suffered by producers due to a decrease in commodity prices resulting from the embargo. The amount of funds provided for export promotion or for food assistance to developing countries would be equal to 90% of the average annual value of U.S. exports to the embargoed country for the most recent 3 years prior to the embargo.

Authorizes a new trade strategy that establishes export goals for USDA. The Secretary is required to identify markets with the greatest potential for export increases with the assistance of Federal export programs, and supporting offices that provide assistance to exporters in the priority markets.

## **TITLE III- CONSERVATION**

**Highly erodible land conservation** provisions protect highly erodible land by denying program benefits to producers not using conservation practices.

Updated conservation compliance provisions. The list of program benefits lost for sodbuster violations was expanded. Graduated sanctions of \$500-\$5,000 were possible for inadvertent violations of a compliance plan or planting without a plan if no more than one violation occurred in the last 5 years. Failure to comply meant the loss of eligibility for program benefits.

Conservation compliance provisions are retained. Under conservation compliance provisions, producers are allowed to modify conservation practices in their plan if they can demonstrate that the modifications will provide greater erosion control. Producers are encouraged to obtain and maintain records of residue management to be used when appropriate in determining the level of annual erosion. Allows county committees to provide appropriate relief in legitimate cases where application of a conservation system would, after consideration of variances and exceptions, as allowed by law, impose an undue economic hardship on the producer. Requires public notice of future changes in technical standards and guidelines.

**Swampbuster** provisions promote wetland conservation.

The list of program benefits lost for swampbuster violations was expanded. Violations occurred when a wetland was drained. On-site reviews were required before imposing penalties.

USDA's Natural Resources Conservation Service is designated the lead agency in wetlands delineation and regulation on grazing lands. Current wetland delineations remain valid unless a producer requests a review.

**Environmental Conservation Acreage Reserve Program (ECARP)** enables the Secretary to operate the various conservation programs in a consistent manner to provide long-term protection of environmentally sensitive land. Contracts and easements are used to assist owners and operators

The Agricultural Resources Conservation Program (ARC) was formed, which contained ECARP, a new Water Quality Incentives Program (WQIP), and a new Environmental Easement Program.

ECARP included CRP and Wetlands Reserve Program (WRP). Enrollment was set at not less than 40 million acres or more than 45 million acres by 1995. Environmentally sensitive lands, shelter belts, windbreaks, and marginal pasture land on which trees had been planted were eligible. However, USDA did not make pasture eligible in program rulemaking.

ECARP continues the CRP and WRP and creates the Environmental Quality Incentives Program (EQIP). EQIP will provide technical, educational, and cost-share assistance programs aimed at reducing soil, water, and related natural resource problems--replacing conservation programs such as the Water Quality Incentives Program, the Great Plains Conservation Program, and the Environmental Easement Program.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

of farms and ranches to conserve and enhance soil, water, and related natural resources, including grazing land, wetland, and wildlife habitat.

### **Conservation Reserve Program**

Under the voluntary CRP, producers could enroll up to 38 million acres under 10-15-year paid contracts. Producers submitted bids to enroll land and received annual rental payments for taking enrolled land out of crop production and maintaining specified conservation practices.

Maximum CRP area is capped at 36.4 million acres. Base acres in expiring contracts or in contracts terminated prior to expiration may be enrolled in production flexibility contracts and receive production flexibility contract payments. The Secretary can enroll new land in CRP to replace acreage in expired contracts or early termination. However, new acreage will have to meet higher criteria regarding environment and conservation to be accepted, and provide significant soil erosion, water quality, or wildlife benefits. With 60 days' notice, farmers can remove land from the program prior to contract expiration if it has been enrolled for 5 years. Wetlands, highly erodible land, and other environmentally sensitive areas are not eligible for early release.

### **Wetlands Reserve Program**

Under the voluntary WRP, producers were able to restore up to 975,000 acres of wetlands and enroll the acreage into paid easements of 30 years or longer. Priority was given to restoring wetlands to enhance wildlife habitat.

Maximum WRP area is maintained at 975,000 acres. Beginning in fiscal 1997, area will be split into three equal portions: permanent easements, 30-year easements, and restoration cost-share agreements.

### **Environmental Quality Incentives Program**

Under the Water Quality Incentives Program (WQIP), producers could enroll up to 10 million acres. Farmers who work with USDA to develop and implement plans to reduce water pollution could receive incentive payments of \$3,500 a year and up to \$1,500 in cost sharing. Producers who improved wildlife habitat were eligible for up to \$1,500 more in cost sharing.

The Environmental Easement Program ensured long-term protection of environmentally sensitive lands through easement agreements. The program shared up to 100% of the costs to carry out conservation measures.

EQIP is authorized at \$1.3 billion over 7 years to assist crop and livestock producers with environmental and conservation improvements on the farm. The program is to be operated to maximize environmental benefits per dollar expended. At least half of the funding is for environmental concerns associated with livestock production. The program awards 5- to 10-year cost-share or incentive payment contracts for certain land management and structural practices based on a competitive application and evaluation process. The farmer must implement an approved plan stating intended practices. Producer payment limits are \$10,000 per fiscal year or \$50,000 for any multiyear contract. Large operators, as defined by the Secretary, will be ineligible for cost-sharing assistance to construct animal waste management facilities. However, they are eligible for technical assistance, educational assistance, and incentive payments for animal waste facilities, as well as cost sharing for other approved practices.

### **Conservation farm option contract**

No provisions.

Producers who are eligible to receive production flexibility payments may enter a conservation farm option contract to consolidate payments from CRP, WRP, and EQIP in exchange for implementing practices to protect soil, water, and wildlife. Production flexibility contract payments may also be included at the Secretary's discretion.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

### Conservation priority areas

Three priority areas were established for CRP-- Great Lakes Region, Long Island Sound Region, and the Chesapeake Bay Region.

The Secretary may designate watersheds or regions of special environmental sensitivity as conservation priority areas eligible for enhanced assistance.

### Integrated Farm Management Program (IFMP)

The IFMP was designed to assist producers in adopting resource-conserving crop rotations by protecting participants' base acreage, payment yields, and program payments. The program's goal was to enroll 3 to 5 million acres over 5 years.

Provisions not extended, but replaced by production flexibility contracts and conservation farm option contracts.

### National Natural Resources Conservation Foundation (NNRCF)

No provisions.

The NNRCF is established to conduct research, undertake educational activities, support demonstration projects, and make grants to state and local governments and nonprofit organizations. Appropriations are authorized at \$1 million per year for 1997-99.

### Grazing Lands Conservation Initiative (GLCI)

No provisions.

The GLCI authorizes increased technical and educational assistance for the conservation and enhancement of private grazing lands. Annual funding is authorized at \$20-60 million.

### Flood risk reduction

No provisions.

On "frequently flooded" land eligible for production flexibility contract payments, producers can receive up to 95% of projected contract payments and other payments--subject to appropriation of funds--by complying with certain conservation requirements. A producer must agree to terminate any contract acreage, forego commodity loans, not apply for crop insurance, comply with conservation requirements, and not apply for any conservation program payment or disaster program benefits. Flood risk reduction provisions are separate from the conservation farm option.

### Interim moratorium on by-pass-flows

No provisions.

A water rights task force will be appointed to study the issue of by-pass-flows and related water rights issues on national forest land. In the interim, there will be an 18-month moratorium on issuance of Forest Service permits for by-pass-flows.

### Everglades Agricultural Area

No provisions.

Provides \$200 million from the U.S. Treasury (not CCC funds) to the Secretary of Interior to conduct restoration activities, which may include land acquisition, in the Everglades ecosystem. An additional \$100 million worth of Federal land in Florida may be sold or swapped for land in the Everglades.

### Wildlife Habitat Incentives Program

No provisions.

A Wildlife Habitat Incentives Program will promote the voluntary implementation of various on-farm management practices to improve wildlife habitat. Cost-sharing will be available with funding

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

### **Farmland Protection Program**

No provisions.

authorized at \$50 million for fiscal 1996-2002 from CRP funds.

The Farmland Protection Program funds the purchase of conservation easements of 170,000 - 340,000 acres of land threatened by urban development. Eligibility depends on having a pending offer from a state or local government for protecting topsoil by limiting nonagricultural use. The Secretary shall not use more than \$35 million of funds from the CCC.

## **TITLE IV--NUTRITION ASSISTANCE**

The **Food Stamp Program** aids qualified low-income households with food purchases.

Reauthorized the Food Stamp Program with simplified rules. Additional penalties for fraud and misuse of food coupons were imposed. Electronic benefit transfer program was encouraged. Authority to use food stamps in soup kitchens and restaurants was extended.

Reauthorizes for 2 years, with additional criteria for disqualification of food stores and wholesale food concerns for program violations.

**Commodity distribution programs** provide needy persons with access to a more nutritious diet.

Reauthorized the Commodity Supplemental Food Program (CSFP) and other food distribution programs.

Reauthorizes food distribution programs, including CSFP and the Soup Kitchen and Food Bank Program.

**Temporary Emergency Food Assistance Program (TEFAP)** provides for the purchase and distribution of commodities to the needy.

Reauthorized TEFAP.

Reauthorizes TEFAP.

## **TITLE V-- AGRICULTURAL PROMOTIONS**

Assessment-funded research and promotion programs were authorized for soybeans, pecans, mushrooms, and limes. Assessments were extended to imports (except soybeans). Authorized referendum on funding generic fluid milk promotion that was later approved by dairy farmers.

Authorizes producer-funded research and promotion programs for canola and rapeseed, kiwifruit, and popcorn. Extends existing promotion program for fluid milk. Periodic independent evaluations of all promotion programs are now required.

## **TITLE VI-- CREDIT**

**Farm loan programs** are administered by USDA's Farm Service Agency, and previously by the **Farmers Home Administration (FmHA)**. The Secretary can make or guarantee real

The amount of time FmHA could hold farm property in inventory before offering it for sale was shortened from 3 years to 1. Beginning farmers were extended the right of first refusal and were included among those receiving sale preference. Lease-back/buy-back privileges were eliminated on acquired nonfarm properties.

Farm lending programs are reauthorized, placing new restrictions on the purposes for which loans can be used and the length of time borrowers are eligible for new credit assistance. Authority to make loans for most nonagricultural purposes is repealed, and new restrictions on emergency loans are invoked. Borrowers with delinquent accounts face tighter restructuring rules. Forfeited property

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

estate loans, operating, and emergency loans to individuals whose primary business is farming and ranching. Loans are targeted to family-sized farmers who are unable to obtain sufficient credit elsewhere on reasonable terms.

**Farm Credit System (FCS)** is a combination of cooperatively owned financial institutions that finance farm and farm-related mortgages and operating loans. FCS institutions specialize in providing farmland loans and operating credit, or loans to farmer-owned supply, marketing, and processing cooperatives. The bond market is their source of funds.

### TITLE VII--RURAL DEVELOPMENT

The Secretary of Agriculture is responsible for coordinating most **rural development programs**.

### Alternative Agricultural Research and Commercialization Corp.

### Water and Waste Facility Funding

A lifetime cap of \$300,000 was imposed on write-downs and write-offs. Borrowers were limited to a single write-down on loans made after Jan. 6, 1988.

The interest rate subsidy was increased on certain guaranteed loans to 4%. Direct loan funds were shifted to guaranteed loans.

FCS was allowed to extend credit to farmers who use any portion of their on-farm production in processing or marketing an agricultural product. This type of loan was limited to 15% of a district bank's outstanding loans. Farmer Mac was allowed to pool FmHA-guaranteed loans.

A new Rural Development Agency (RDA) was set up to consolidate USDA's rural development efforts. FmHA's divisions that handled water, sewer, other community facilities, and business and industrial loan or grant programs were moved under the RDA.

An Applied Agricultural Research Commercialization Center was established to assist research, development, and commercialization of new nonfood products from agricultural commodities through grants, loans, and interest subsidy payments.

Authorized funds for water and waste facility grants at \$500 million. Authorized the FCS Banks for Cooperatives and rural electric cooperatives (REC) to finance rural water and sewer loans.

will be sold more rapidly. The Secretary is given authority to use collection agencies to recover delinquent loans. A portion of loan funding is reserved for new and beginning farmers.

The Farm Credit System Reform Act of 1996, which became law in February 1996, streamlines the regulation of the Farm Credit System and reforms the Federal Agricultural Mortgage Corporation.

Under the FAIR Act, the Secretary is required to conduct a study for Congress on the demand for and availability of credit in rural areas for agriculture, housing, and rural development. The study will analyze how well the FCS, commercial banks, and other Federal agencies satisfy rural demand for credit.

Existing programs are streamlined and consolidated to provide a more focused Federal effort and encourage additional decision making at the state level. Under a new Rural Community Advancement Program (RCAP), the Secretary is authorized to provide grants, direct and guaranteed loans, and other assistance to meet rural development needs across the country. Funding under RCAP will be allocated to three areas: 1) Rural Community Facilities, 2) Rural Utilities, and 3) Rural Business and Cooperative Development. A simplified, uniform application process is required for all Federal rural development programs.

The renamed Alternative Agricultural Research and Commercialization Corporation has enhanced abilities to finance new industrial uses for agricultural products.

The funding authorization for water and waste facility grants is increased to \$590 million.

## Provisions

## 1990 FACT ACT, As Amended

## 1996 FAIR ACT

**Telecommunications** Rural schools, hospitals, and clinics were linked to urban institutes to receive state-of-the-art instruction by TV.

Programs for telemedicine and distance learning services are reauthorized and streamlined. Under these programs, the Secretary can make grants and loans to assist rural communities with construction of facilities and services to provide distance learning and telemedicine services. Funding is authorized at \$100 million annually.

**Fund for Rural America** No provisions.

Establishes the Fund for Rural America to augment existing resources for agricultural research and rural development. Funding is authorized from the Commodity Credit Corporation for \$100 million in fiscal 1996, \$100 million in fiscal 1997, and \$100 million in fiscal 1998.

## TITLE VIII--RESEARCH, EXTENSION, AND EDUCATION

**Existing programs** Reauthorized programs administered by the Agricultural Research Service, Cooperative State Research Service, the Extension Service, and other general research programs.

Provides specific authorizations in fiscal 1996 and 1997 for Federal agricultural research, extension, and education programs. Broad authorization for all programs is provided subject to appropriations for fiscal years 1998-2002.

**National Agricultural Research, Extension, Education, and Economics Advisory Board** New responsibilities of the existing Users Advisory Board included providing recommendations to the Secretary on the allocation of research funds and evaluating the results and effectiveness of agricultural research programs.

Establishes the National Agricultural Research, Extension, Education, and Economics Advisory Board to advise USDA on national research priorities and policies. The Board replaces 3 separate advisory committees.

**Strategic Plan for Review of Agricultural Research Facilities** The FACT Act required the Secretary to establish an Agricultural Research Facilities Planning and Closure Study Commission to review all operating and planned agricultural research facilities that use Federal funding or are under the jurisdiction of the Secretary.

Authorizes a task force to develop a comprehensive plan for the development and consolidation of federally supported agricultural research facilities. Proposals for constructing new agricultural research facilities will come under more objective review to better meet national research priorities.

## TITLE IX--MISC.

**Agricultural quarantine and inspection** The Secretary could set and collect fees to cover the cost of providing agricultural quarantine and inspection services in connection with animals and plants arriving in U.S. territories.

The Secretary may collect in excess of \$100 million to cover the cost of providing quarantine and inspection services for imports, without further appropriations.

**Safe Meat and Poultry Inspection Panel** No provisions.

Amends the Federal Meat Inspection Act to authorize a panel of scientists to review and evaluate inspection policies and procedures and any proposed changes to them.