1996 Act Redesigns U.S. Farm Programs

U.S. agricultural law encompasses a wide range of issues related to agriculture, including commodities, trade, conservation, nutrition assistance, agricultural promotion, credit, rural development, and research, extension, and education.[3] This bulletin discusses major changes related to production agriculture with the analysis focused on impacts from the commodity provisions (Title I), the agricultural trade provisions (Title II), and the conservation provisions (Title III) of the 1996 Act. The most important impacts result from policy changes in four main areas covering income-supported crops, price-supported commodities, trade, and conservation (see box, "Four areas of policy change...").

Supply Management/Income Support Changed for Contract Crops

The 1996 Act fundamentally changed U.S. agricultural programs by eliminating supply management, increasing planting flexibility, and changing income supports for "*contract crops*" (wheat, corn, grain sorghum, barley, oats, rice, and upland cotton).

The 1996 Act changes income supports by replacing the target price/deficiency payment program, which had been in place since the early 1970's, with a new program of decoupled payments for 7 years that are not related to most farm-level production decisions or market prices (see box, "Production flexibility contracts..."). To receive payments and be eligible for loans on contract commodities, a producer enters into a *production flexibility contract* for 1996-2002. That contract requires the participating producer to comply with conservation, wetland, and planting flexibility provisions, as well as to keep the land in agricultural uses. Land eligible to enter into a contract includes land enrolled in acreage reduction programs for any of the crop years 1991 through 1995, land considered planted under program rules (certified acreage), or land that had been enrolled in the CRP that had a crop acreage base associated with it. Farmers receive *production flexibility contract payments* for 7 years, 1996-2002 (see box, "Calculating production flexibility contracts..."). Payments are based on enrolled contract acreage and are not related to current plantings.

Cumulative outlays for 1996 Act contract payments for fiscal 1996-2002 are capped at slightly over $36 billion (fig. 1). Total contract payments will be lower, reflecting payment limitations. Payment levels are allocated among contract commodities according to percentages specified in the 1996 Act (fig. 2). These percentages are based on commodity shares of projected total deficiency payments for 1996-2002 from an early-1995 CBO baseline.

Annual contract payments under the 1996 Act are limited to $40,000 per person, a $10,000 reduction from the previous $50,000 limit on deficiency payments. Limits on marketing loan gains and loan deficiency payments are unchanged at $75,000 per person per crop year, and the three-entity rule is retained.

Also, planting flexibility increases under the 1996 Act. Under past law, there was a 15-percent limit on planting flexibility without affecting deficiency payments. A producer's deficiency payments were reduced if more than 15 percent of the farm's base acreage for a crop were planted to other crops, with an overall limit on flexibility of 25 percent of base acreage. Additionally, farmers were often required to idle a portion of their cropland under the annual ARP as a condition for receipt of deficiency payments. Under the 1996 Act, authority for ARP's expires. Participating producers are permitted to plant 100 percent of their contract acreage plus any other cropland acreage on the farm to any crop (with limitations on fruits and vegetables) with no loss in payments, as long as the producer does not violate conservation and wetland provisions.

The 1996 Act retains nonrecourse commodity loans, in a modified form. Farmers may receive a loan from the Government at a designated rate per unit of production (loan rate) by pledging and storing a quantity of a commodity as collateral. Loan rates for most crops continue to be based on 85 percent of the preceding 5-year average of farm prices, excluding the high- and low-price years. Maximum loan rates are specified in the new law for wheat, corn, upland cotton, soybeans, and minor oilseeds (fig. 3). The rice loan rate is set at $6.50 per hundredweight, its 1995 level. Corn, wheat, and upland cotton loan rates are capped at their 1995 levels, while soybean loan rates can vary between $4.92 (its 1995 loan rate) and $5.26 per bushel. Corn and wheat loan rates also may be further reduced based on stocks-to-use ratios. Loan rates for sorghum, barley, and oats are to be set taking into account their feed values relative to corn. Marketing loan provisions, allowing repayment of loans at the lower of the loan rate plus accrued interest or market prices, are retained, thus continuing some income protection at relatively low prices for the contract commodities and helping to limit

accumulation of government-owned stocks as a result of collateral forfeited through defaulted loans.

Programs for Price-Supported Commodities Altered

The 1996 Act also makes program changes for dairy, sugar, and peanuts. Benefits for producers of these commodities historically have been through price supports rather than through income supports. Support for dairy is phased out in the 1996 Act. Authority for sugar marketing allotments is repealed and price support levels are effectively reduced. Support for peanuts is reduced.

Dairy Price Support Phased Out. Price support for dairy is provided through government purchases of butter, nonfat dry milk, and cheese to prevent farm-level milk prices from falling below the designated price support level. Producers have paid for part of the cost of the program in recent years through a marketing assessment. Marketing assessments are eliminated beginning in 1996. Under the 1996 Act, dairy price supports are phased down from $10.35 per hundredweight in 1996 (the 1995 level) to $9.90 in 1999, and the program ends on January 1, 2000. Starting in 2000, a recourse loan program, in which loans must be repaid with interest, is implemented for butter, nonfat dry milk, and cheese at loan rates equivalent to $9.90 per hundredweight for milk to assist processors in the management of dairy product inventories.

U.S. dairy policy also includes a system of Federal milk marketing orders designed to facilitate the marketing of milk by specifying conditions under which milk handlers must operate within certain geographic areas. The current 33 marketing orders must be consolidated and reformed into 10-14 orders within 3 years.

The Dairy Export Incentive Program (DEIP) is extended through 2002 and expanded to include emphasis on market development. The Secretary is directed to use DEIP to the maximum extent permitted under the Uruguay Round GATT Agreement.

Sugar Program Modified. Sugar prices are supported through loans offered to sugar processors. The raw cane sugar loan rate continues at 18 cents per pound. Under the 1996 Act, the refined beet sugar loan rate also remains fixed, at its 1995 level. Nonrecourse loans are available when the tariff-rate quota for sugar imports exceeds 1.5 million short tons. Sugar program loans are recourse in years when the tariff-rate quota is at or below 1.5 million short tons, but these loans revert to nonrecourse loans if the tariff-rate quota is increased above 1.5 million short tons. Processors must pay a 1-cent fee on each pound of raw cane sugar and 1.07 cents on each pound of refined beet sugar forfeited to the CCC under the loan program. This effectively reduces the price at which it would be more profitable to forfeit than to sell sugar. Marketing assessments are paid on all processed sugar. The assessments are increased by 25 percent under the 1996 Act. USDA authority in past legislation to implement domestic sugar marketing allotments was suspended.

Peanut Program Made "No Net Cost." The peanut program is a two-tiered price support program. The 1996 Act revises the peanut program so that USDA can adjust the quota to prevent program costs from exceeding program revenues. The minimum national poundage quota is eliminated, requiring the quota to

Production flexibility contracts change supply management/ income support programs

- Farmer signs a 7-year contract to participate
- Contract eligible acreage includes:
  - » Land enrolled in ARP's for any of the crop years 1991-95
  - » Land considered planted to program crops for any of the crop years 1991-95
  - » Land leaving the CRP that had an acreage base
- Maximum amounts available for payments fixed and declining over time
- Payments based on enrolled contract acreage not current plantings
- Payment rates determined by dividing total allocation for commodity by eligible payment production
- Total planting flexibility except for some limitations on planting fruits and vegetables and for conservation compliance

[3] Provisions of the 1996 Act are summarized and compared with previous law in Young and Shields, 1996. An extensive description of each title in the 1996 Act is provided in Nelson and Schertz (eds.), 1996.

Four areas of policy change in the 1996 Act

Supply management/income support changed for contract crops

- Decouples most production decisions from program payments
- Eliminates income-stabilizing feature by removing link between government payments and farm prices
- Fixed payment yields retained
- Most planting restrictions eliminated, with expiring ARP authority, base acreage planting constraints eliminated, and planting flexibility expanded
- Federal income support payments fixed and reduced over time
- Maximum loan rates specified for many crops
- Marketing loan provisions retained
- Authority for loan extensions discontinued
- Farmer-Owned Reserve suspended
- Crop insurance not mandatory

Programs for price-supported commodities altered

- Dairy support price phased out, assessments eliminated, and marketing orders consolidated and reformed
- Sugar marketing allotments suspended, marketing assessments increased, and loans made recourse depending on tariff-rate import quota
- Peanuts becomes a "no-net-cost" program, with elimination of minimum national poundage quota, reduced loan rate for quota peanuts, and increased assessments to offset Federal expenditures

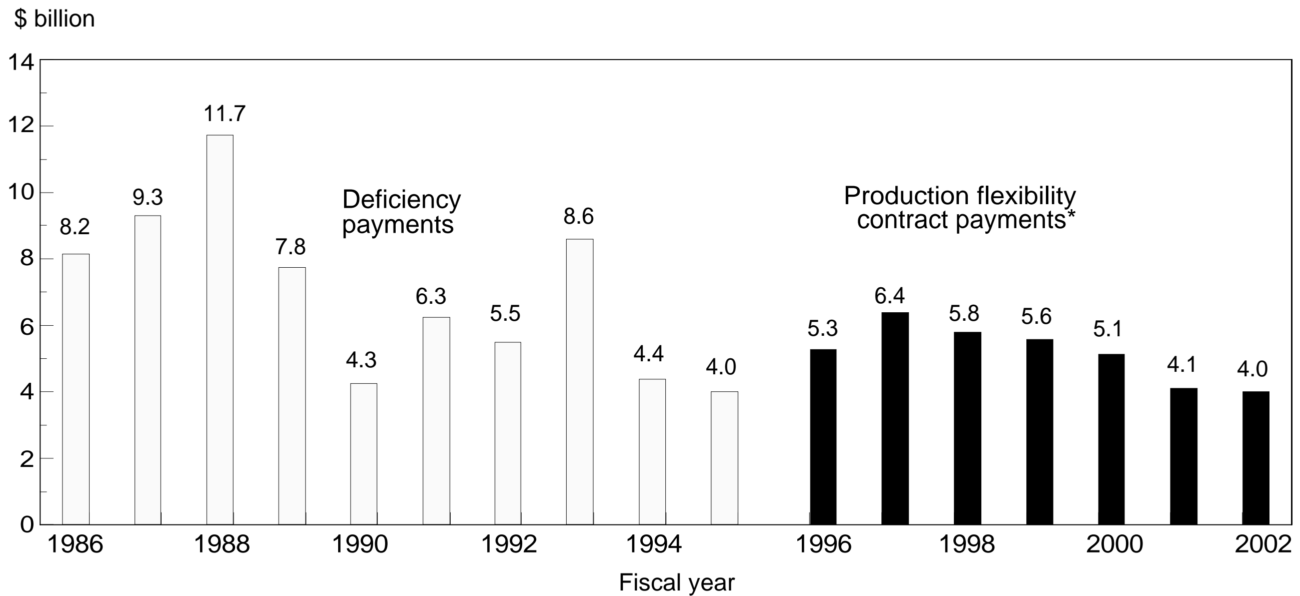
Trade provisions targeted

- Export promotion strategy to emphasize markets with greatest potential for U.S. export gains
- Emerging markets targeted
- High-value products emphasized
- CCC regulations governing stockholding and selling eased
- Market Promotion Program renamed Market Access Program and funding cut
- Food Security Commodity Reserve replaces Food Security Wheat Reserve
- EEP funding reduced in early years

Environmental programs consolidated and extended

- Environmental Quality Incentives Program consolidates cost share and technical assistance programs for crop and livestock producers
- CRP authorization extended, enrollment capped, with early termination of some contracts and authority to enroll new acreage
- Producers provided more flexibility in meeting conservation compliance and wetland provisions

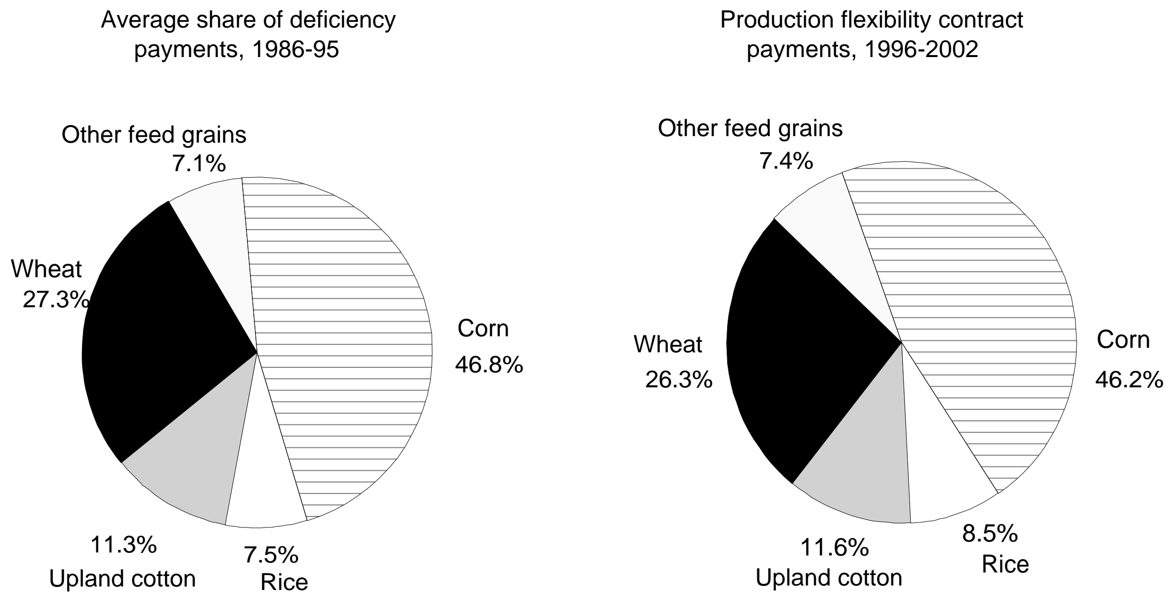
Figure 1
Production flexibility contract payments fixed over 7-year Farm Act



* Production flexibility contract payments have been adjusted for deficiency payments owed to farmers and repayments owed by farmers to the Government under the previous farm program (USDA, 1996b). Payment limitations may result in slightly reduced contract payments.

Compiled by Economic Research Service, USDA.

Figure 2
Distribution of production flexibility contract payments similar to historical shares of deficiency payments



Compiled by Economic Research Service, USDA.

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 (see table). 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 85 percent of the farm's corn contract acreage multiplied by the farm's program payment yield. Land eligible for *contract acreage* includes land enrolled in acreage reduction programs for any of the crop years 1991 through 1995, land considered planted to program crops (certified acreage) in any of those crop years, and land leaving the CRP that had an acreage base. Program payment yields are determined in the same manner as under previous legislation. Contract acreage and payment yields remain fixed throughout the contract period, adjusted for changes in CRP enrollment. An individual farmer's *production flexibility contract payment* is his or her payment quantity times the annual payment rate.

USDA (1996b) estimated that the fiscal 1998 minimum corn payment rate would be 36 cents per bushel. The actual payment rate will depend on corn acreage enrolled in production flexibility contracts and the program yields on the enrolled land. Assuming the minimum payment rate for purposes of illustration, a farmer with 100 corn contract acres under a production flexibility contract and a program yield of 105 bushels per acre would receive payments on 8,925 bushels (0.85 times 100 contract acres times 105-bushels-per-acre payment yield). Multiplying this payment quantity times the 36-cents-per-bushel payment rate gives the farmer $3,213 in fiscal 1998 corn contract payments. The farmer is free to plant any crop on the 100 acres, with some limitations on fruits and vegetables. Similarly, a farmer with 100 wheat contract acres would receive a payment of $1,934, based on an estimated 1998 payment rate of 65 cents per bushel and a 35-bushel-per-acre program payment yield.

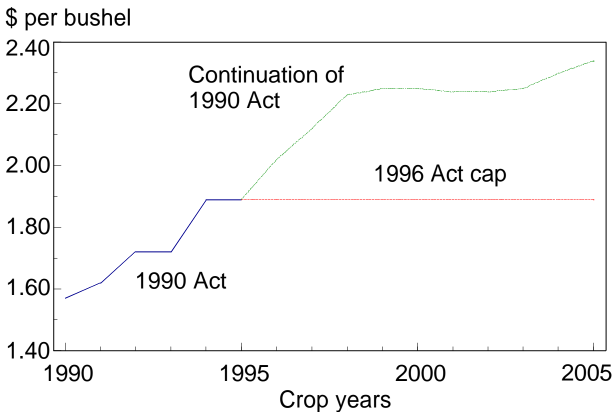
In comparison, under the 1990 Act, the farmer would have received *deficiency payments*. Deficiency payments were based on a deficiency payment rate (the difference between a target price and higher of the market price or the loan rate) multiplied by 85 percent of base acres times program yield, assuming a 0-percent ARP. USDA (1996a) projected that the 1998 deficiency payment rates would have been 15 cents per bushel for corn and 40 cents per bushel for wheat under continuation of the 1990 legislation. With no ARP, payment quantities would be the same as under the 1996 Act, so our farmer would have received corn deficiency payments of $1,339 and wheat deficiency payments of $1,190. To receive the full deficiency payment, the farmer was required to plant at least 85 percent of the acreage base to the program crop. On the remaining 15 percent of base acreage, the farmer was free to plant any program crops, soybeans, minor oilseeds, or industrial crops designated by the Secretary or could elect to put that land in a conserving use.

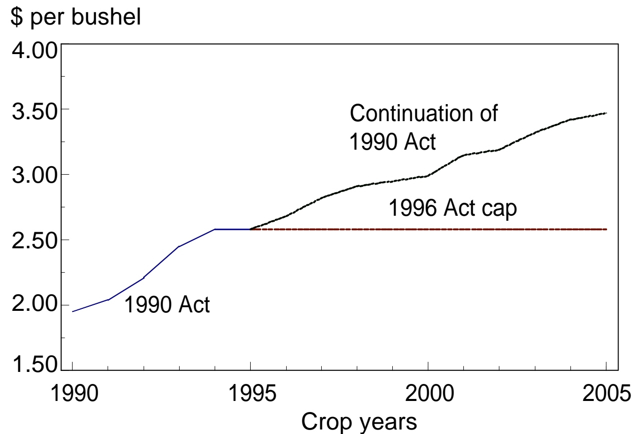
Production flexibility contract payments for corn and wheat, fiscal 1998

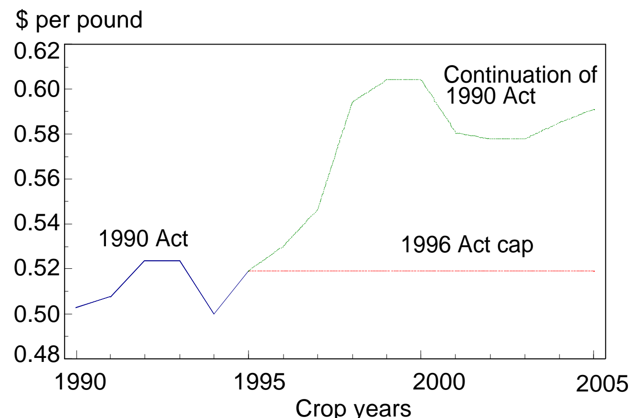
Category	Corn	Wheat
Total 1996 Act contract payments, fiscal 1998	$5.8 billion	$5.8 billion
1996 Act commodity share	46.22%	26.26%
Commodity payments	$2.68 billion	$1.52 billion
Estimated minimum payment rate[1]	$0.36 per bushel	$0.65 per bushel
Example farm (100 enrolled acres)		
Production flexibility contract acres	100 acres	100 acres
Payment yield	105 bushels per acre	35 bushels per acre
Payment quantity[2]	8,925 bushels	2,975 bushels
Estimated minimum payment rate[1]	$0.36 per bushel	$0.65 per bushel
Production flexibility contract payments	$3,213	$1,934

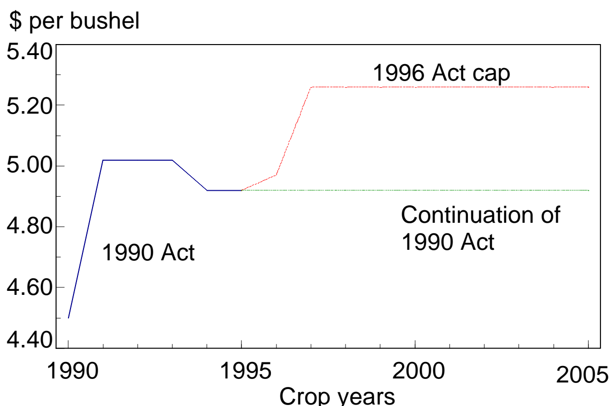
[1] Source: USDA, 1996b. Production flexibility contract payment rates may differ depending on actual program participation.
[2] Payment quantity equals 0.85 times production flexibility contract acres times payment yield.

Figure 3
Loan rates capped under 1996 Act









Continuation of 1990 Act estimates from USDA, 1996a.
Compiled by Economic Research Service, USDA..

be set equal to projected domestic edible and related uses. Carryover to subsequent years of undermarketings of quota from earlier years is eliminated. Marketing assessments for peanuts are 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. Marketing assessments must be increased to offset any program losses to the CCC.

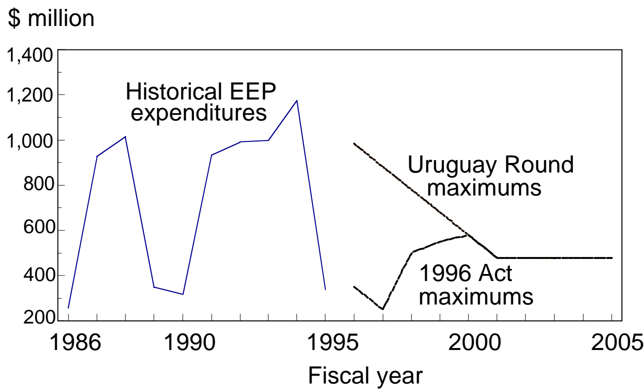
The loan rate for quota peanuts under the 1996 Act is set at $610 per short ton, down from $678 in 1995. Under previous legislation, the quota support rate was adjusted annually to reflect changes in costs of production. At the farm level, quota marketings plus a seed peanut allocation are eligible for the quota price support loan rate. Above-quota “additionals” to be used for the crush and export markets receive a lower loan rate, set by the Secretary to ensure no losses to the CCC.

Major Trade Provisions Made More Focused

Trade and food aid programs in the 1996 Act are focused more heavily on market development, including an emphasis in some programs on emerging markets with high potential for U.S. export growth. Additionally, increased emphasis is placed on expanding high-value and value-added product exports. Annual EEP expenditures are capped (fig. 4). Total EEP funding during fiscal 1996-1999

Figure 4

EEP expenditures to be below GATT maximums for several years



Compiled by Economic Research Service, USDA.

is reduced more than $1.6 billion below the maximum levels permitted under the Uruguay Round GATT Agreement. During fiscal 1996, the United States has made limited use of EEP due to high world commodity prices, with spending well below the levels allowed under the Uruguay Round Agreement. As long as prices remain high, the United States is likely to continue to make limited use of EEP.

The Market Promotion Program is renamed the Market Access Program and funding 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 changes broaden the range of commodities available for P.L. 480 programs, provide greater program flexibility, and improve the operation and administration of the program. The Food Security Commodity Reserve, formerly the Food Security Wheat Reserve, includes up to 4 million metric tons of grain to meet humanitarian food aid needs and was expanded to include rice, corn, and sorghum in addition to wheat.

Major Conservation Provisions Consolidated and Extended

The 1996 Act addresses a wide range of environmental and conservation programs. Many conservation programs were simplified to make them more consistent and workable. 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 spent.

The primary conservation program is the Conservation Reserve Program (CRP), which is reauthorized in the 1996 Act. Under the voluntary CRP, farmland owners submit bids to retire highly erodible, environmentally sensitive cropland from production for 10-15 years. Farmers receive a cost-share payment to establish permanent cover and annual rental payments on accepted contracts for retiring the land and maintaining specified conservation practices. Funding for the CRP was changed in the 1996 Act from appropriations to the CCC budget. Under the 1996 Act, maximum CRP area is set at 36.4 million acres, the 1995 level of enrollment. Farmers can remove less environmentally sensitive land from the program prior to contract expiration if it has been enrolled for at least 5 years and if the contract was entered into before 1995. Land in expiring CRP contracts or in contracts terminated prior to expiration is eligible to be enrolled in production flexibility contracts when leaving the CRP if that land had an acreage base. The 1996 Act permits the Secretary to re-enroll current land at contract expiration and to enroll new land into the CRP to replace acreage leaving the CRP through expired contracts or early termination.