

**2002 Farm Bill**

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The 2002 Farm Bill (officially titled the Farm Security and Rural Investment Act of 2002) was signed into law by President Bush on May 13, 2002. This bill replaces the 1996 Farm Bill (officially titled the Federal Agricultural Improvement and Reform (FAIR) Act), which was scheduled to expire on September 30, 2002. This new bill establishes our national farm legislation for the next six years.

**Background**

The 1996 Farm Bill was adopted when U.S. agricultural prices, exports, and net farm income were at relatively high historical levels. The 1996 Farm Bill was designed to reduce government's involvement in agriculture over a seven year period by implementing a more flexible and market-oriented agricultural policy, designed to gradually reduce taxpayer assistance to agriculture over time. Planting flexibility would allow U.S. farmers to switch crops amidst changing market conditions, while program payments, not tied to current production mix, would allow financial support as agriculture transitioned into a period of reduced government intervention. Proponents of the 1996 Farm Bill anticipated that a market-oriented U.S. agriculture would improve our price competitiveness in the world market, and thus allow the U.S. farmers to take advantage of the potential opening of new markets and an expected continued strong worldwide economy. However, sustained periods of depressed prices (in response to worldwide crop surpluses, an overvalued U.S. dollar, and economic downturns in several foreign markets) eventually caused farm income to plummet and induced Congress to approve four supplemental emergency assistance packages for farmers during the 1998-2001 period. Direct government payments averaged around \$7.5 billion annually during the mid 1990s compared to more than \$20 billion in recent years. Despite budgetary pressures facing lawmakers in designing the 2002 Farm Bill, a continued depressed farm economy coupled with election year politics resulted in what President Bush has labeled as a "generous" farm bill.

Historically direct government payments have accounted for around 20-30% of the national net farm income, but in recent years government payments have accounted for around 50% of U.S. net farm income. Traditionally Kentucky agriculture has not been very dependent on direct government payments (generally less than 10% of net farm income). However, in recent years direct government payments (which include T-LAP but not Phase II payments for tobacco) have accounted for around 1/4 of Kentucky net farm income. Furthermore, Kentucky Farm Business Analysis farm data (consisting of primarily large/commercial farms) indicated that government payments accounted for 72% of net farm income in 2000, with payments to "grain" farms totaling 86% of their net farm income, 49% for "beef" farms, 23% for "dairy" farms and 25% for "hog" farms. In both 1998 and 1999, KFBM data indicated that government payments accounted for more than 100% of net farm income.

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The 2002 Farm Bill attempts to retain some of the features of the 1996 Farm Bill, such as planting flexibility (without production controls/set asides), marketing loans, and direct/decoupled payments, while institutionalizing emergency payments. Currently, the Farm Service Agency (FSA) of USDA is working on specific regulations as it relates to the various components of the bill.

The 2002 Farm Bill is divided into 10 different titles: Commodities, Conservation, Trade, Nutrition, Credit, Rural Development, Research, Forestry, Energy, and Miscellaneous. A brief summary of various components of the commodity title of the 2002 Farm Bill follows. More details on the commodity and other titles of the Farm Bill can be accessed online at the following sites:

<http://www.usda.gov/farmbill/>

<http://agecon.okstate.edu/agpolicy/index.html>

<http://www.farmdoc.uiuc.edu/policy/index.html>

<http://agpolicy.org/>

<http://www.house.gov/agriculture/fbconfsum.pdf>

<http://www.agecon.ksu.edu/kfma/New%20Web/Farmbill.htm>

<http://fb-net.org/index.html>

## Commodity Title Highlights

- The 2002 Farm Bill is structured around a three tier safety net consisting of **marketing loans**, fixed **direct payments**, and **counter-cyclical payments**.
- **Loan Rates** for 2002-2003 were increased for most crops, with the exception of soybeans. Loan rates for most commodities are scheduled to be reduced marginally for the 2004-2007 period (see table below). Marketing loan benefits, which include loan deficiency payments and marketing loan gains are limited to \$75,000 per individual per year.
- **Direct Payments**, introduced in the 1996 Farm Bill as production flexibility contract payments, will continue and be constant over a six year period (2002-2007). New direct payments are added for soybeans and other oilseeds. Producers have the option of retaining their current base acres (and add oilseed acres) or to update their base acres according to their 1998-2001 acres planted and prevented planted acres. Payment yields for direct payments will remain unchanged, with the exception of soybeans and other oilseeds which will be dependent on the farm's 1998-2001 yields (adjusted by other factors). Producers can elect to receive up to 50% of the direct, fixed payment beginning December 1<sup>st</sup> of the year prior to the year the crop is harvested, with the remaining balance in October of the year the crop is harvested. Direct payments will be made on 85% of base acres and are limited to \$40,000 per program participant per year.
- **Counter-Cyclical Payments**, based on the relationship of market prices to specified target prices, will be reintroduced in the nation's farm policy. These payments will also be based upon program acreage levels and thus decoupled from current production levels. Specifically, the counter-cyclical payment rate is equal to the target price minus the "effective" price, where the "effective" price is equal to the sum of the higher of the market price or the loan rate and the direct payment rate. For example, using the table below for 2002-2003, a market price for corn of \$2.00/bushel will result in a counter-cyclical payment rate of 32 cents/bushel (i.e., \$2.60/bushel target price minus \$2.28 effective price (\$2.00/bushel market price + \$0.28/bushel direct payment)). The total payment amount will be equal the product of the payment rate, the payment acres and the payment yield. Similar to the direct payment, producers have the option of keeping their current program base acreage used under the 1996 Farm Bill or updating covered commodities to the average of planted and prevented planted acreage for the 1998-2001 crop years. Payment acreage will be based on 85% of base acres. Producers who update base acres may update yields for determining counter-cyclical payments only. Producers can elect to receive an advance of up to 35% of the "projected" payment in October of the year the crop is harvested, an additional 35% in the following February, and the remaining balance at the end of the 12 month marketing year. If the remaining balance is negative, producers will have to repay the difference. Counter-cyclical payments are limited to \$65,000 per individual per year.

**Table 1: Loan Rates, Direct Payments and Target Prices**

Selected Crop	Loan Rates (\$/bushel)			Direct Payments (\$/bushel)	Target Prices (\$/bushels)	
	1996 Farm Bill	2002-2003	2004-2007		2002-2003	2004-2007
Corn	\$1.89	\$1.98	\$1.95	\$0.28	\$2.60	\$2.63
Sorghum	\$1.71	\$1.98	\$1.95	\$0.35	\$2.54	\$2.57
Barley	\$1.65	\$1.88	\$1.85	\$0.24	\$2.21	\$2.24
Wheat	\$2.58	\$2.80	\$2.75	\$0.52	\$3.86	\$3.92
Soybeans	\$5.26	\$5.00	\$5.00	\$0.44	\$5.80	\$5.80

- **Dairy:** Federal milk marketing orders continue under the 2002 Farm Bill along with a \$9.90/cwt minimum support price for milk containing 3.67% butterfat. Qualifying dairy farm operators will be eligible for monthly direct payments equal to 45% of the difference between \$16.94/cwt and the Boston Class I price, subject to an annual 2.4 million pound individual production limitation.
- **Tobacco:** Tobacco is usually not a part of the Farm Bill, and the 2002 Farm Bill is no exception. Previous income supplements to tobacco farmers (Tobacco Loss Assistance Payments (T-LAP)) were not part of the farm bill and are not included in the 2002 bill. However, of interest to tobacco farmers, is the dramatic modifications to the federal peanut program. Historically, the peanut program has been structured very similar to tobacco with production quotas, price supports, loan stocks, quota transfer restrictions, and no-net-cost assessments. However the 2002 Farm Bill contains a buyout for peanut quota owners (\$0.11/lb for 5 years, based on 2001 quota), while providing marketing loans, along with direct and counter-cyclical payments to growers. While establishing a precedence of a buyout for a production control/price support program, funding for the peanut program buyout/grower payments evolves from taxpayer funds – something that is not likely be a funding source for any type of potential tobacco program buyout.

### Conservation

- The Conservation Reserve Program (CRP) is reauthorized in the 2002 Farm Bill and expands the acreage cap to 39.2 million acres, up from 36.4 million acres.
- The 2002 Farm Bill also reauthorizes the Wetland Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), and the Wildlife Habit Incentive Program (WHIP) with expanded coverage, while introducing a Grasslands Reserve Program (GRP), a Conservation Security Program (CSP) and a Water Conservation Program.
- For details on these conservation programs click on [http://www.usda.gov/farmbill/conservation\\_fb.html](http://www.usda.gov/farmbill/conservation_fb.html).

### Payment Limitations

In addition to individual annual payment limitations of \$40,000 for direct payments, \$65,000 for counter-cyclical payments, and \$75,000 for marketing loan benefits, the 2002 Farm Bill limits

payments to individual producers whose adjusted gross income is greater than \$2.5 million, unless more than 75% of their adjusted gross income is from agriculture. The current three entity rule is maintained, which allows individual farmers to receive the full limit under one entity and half the limit under two additional entities, resulting in the maximum payment limitation for an individual program participant of \$360,000.

## **Trade**

The 2002 farm bill attempts to improve U.S. agricultural exports by expanding various programs designed to promote and improve our access to various world markets. Highlights of the trade title include the following:

- Market Access Program (MAP) – designed to develop and promote ag exports (primarily value-added exports), experienced a funding boost from its current annual level of \$90 million to \$100 million in FY 2002, increasing steadily up to \$200 million by 2007.
- Export Enhancement Program (EEP) – designed to assist U.S. ag exporters to compete more effectively against unfair trade practices in specific export markets, with funds remaining at its current level of \$478 million annually.
- Dairy Export Incentive Program (DEIP) – extended to 2007, allowing USDA to subsidize exports (within GATT guidelines) and assist in developing markets for U.S. dairy products.
- Export Credit Guarantee Programs (GSM) – program and funding for providing credit guarantees to selected markets extended to 2007
- Food Assistance Programs – such as PL-480 continued with additional food aid and development programs funded
- Technical Barriers to Trade – Introduces new programs designed to remove, resolve or mitigate certain barriers to trade dealing with issues such as biotechnology, food safety/disease, and specialty crop exports
- Country of Origin – requires that meat, fish, produce, and peanuts being imported into the U.S. be labeled with the country of origin beginning in 2004, voluntary for 2002-2003.

A concern of some analysts is the affect of the 2002 farm bill on U.S. agricultural trade-distorting subsidies. As part of the latest international trade agreement (Uruguay Round) the U.S. agreed to an annual \$19.1 billion ceiling on trade-distorting domestic support programs. If the U.S. exceeds this level, the U.S. Secretary of Agriculture may adjust some of the programs outlined in the 2002 farm bill in order to meet these designated levels.

## **Benefits/Concerns**

As with any piece of legislation, participants/analysts identify potential benefits and concerns. Some of the beneficiaries of this farm bill include:

- Grain producers – continued flexibility in making planting decisions, along with price and income support amidst depressed commodity prices.
- Livestock producers – cost-share assistance related to environmental programs, startup funds for direct sales of beef, lamb, and other meats, anticipated continued relatively low-priced grain, and support among some livestock groups for county of origin labeling.
- Agribusinesses – price/income support for farmers, coupled with limited production control measures tends to benefit agribusiness sales.

- Environment – significant expansion in environmental/conservation programs and funding
- Consumers -- anticipated low commodity prices will constrain growth in food prices

Critics point out that the new farm bill:

- increases spending approximately 70% over the next six years during a period of anticipated federal budget deficits.
- raises concerns over the distribution of benefits across size of farming operations.
- provides incentives to overproduce, thus resulting in potentially lower market prices and higher government payments during a period of anticipated budget deficits.
- farm bill cost estimates may be potentially based on “optimistic” export projections.
- will continue to adversely affect producers relative to landowners by maintaining relatively high land values and farm rental payments.
- potentially violates the funding levels agreed upon by the United States as part of the Uruguay Round Agreement on Agriculture, which could reduce future U.S. agricultural safety net payments.

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