U. S. Senate
Republican Policy
Committee

Larry E. Craig, Chairman Jade West, Staff Director

Legislative Notice

No. 32 December 5, 2001

S. 1731 – Agriculture, Conservation and Rural Enhancement Act of 2001

Calendar No. 237

Reported from the Committee on Agriculture, Nutrition and Forestry on November 27, 2001, by voice vote. No written report.

NOTEWORTHY

- The Majority Leader filed a cloture petition on the motion to proceed to S. 1731 on Friday, November 30. By unanimous consent, a roll call vote on cloture will occur today.
- The current farm bill does not expire until September of 2002. S. 1731, as the new farm authorization, would authorize farm and nutrition programs through 2006, perpetuating a cycle of low prices and overproduction that is then reinforced by further emergency subsidies.
- Senators Lugar, Cochran, and Gregg are expected to offer substantive amendments to this bill [see Possible Amendments section of this Notice].
- The House passed its version of the farm bill reauthorization, H.R. 2646, on October 5 by a vote of 291-120. The Administration did not support that bill and urged its consideration be deferred.
- The Administration in its Statement of Administration Policy issued today stated its strong opposition to S. 1731 and urged support of the Cochran-Roberts amendment.
- S. 1731 establishes a new "national" dairy income support program, effectively imposing a new tax on milk. Expect Senators Crapo and Bingaman to offer an amendment to strike this provision. The bill also contains a commodity title providing about $44 billion in subsidies for overproduced commodity crops such as wheat, cotton and corn.
- The bill, according to CBO, spends $40.86 billion in mandatory new funding above the baseline over the next five years, and $73.44 billion over the next ten years.

HIGHLIGHTS

S. 1731 as reported continues Depression-era commodity programs that are proven to encourage over-production of traditional program crop commodities which will continuously lead to lower prices for producers.

- The bill does not allow 60 percent of farmers to benefit from federal farm programs.
- The bill's commodity title provides about $44 billion on subsidies for overproduced commodity crops such as wheat, cotton and corn.
- In addition to the support for commodities, the bill provides greater incentives for land conservation and energy production, and includes assistance for economic development in rural areas.
- The bill does not adequately support welfare reform or adequately fund nutrition programs for poor people.
- The bill establishes a new "national" dairy income support program, imposing what is in effect a new tax on milk. The University of Missouri's Food and Agricultural Policy Research Institute estimates the program would raise milk prices by a average of 26 cents a gallon, costing consumers about $1.8 billion a year. The cost of the dairy provisions has been taken off-budget.
- The bill, according to CBO, spends $40.86 billion in mandatory new funding above the baseline over the next five years, and $73.44 billion over the next ten years.

BILL PROVISIONS

Note: The bill was reported without a committee report. This summary has been provided by the Agriculture Committee Republican staff.

Commodity Title.

1. Direct Payments and Counter-Cyclical Payments.

The bill authorizes the Secretary to enter into contracts with producers that will entitle producers to receive both direct payments and counter-cyclical payments on eligible cropland for the 2002 through 2006 crop years. Producers will have the option of having these payments based on (1) updated acreage and yield history (average of the 1998-2001 crop years) for all covered commodities (corn, grain sorghum, barley, oats, wheat, soybeans, minor oilseeds, upland cotton, and rice) on the farm or (2) existing AMTA (market loss assistance) base acres and program yields and adding oilseeds acres.

Analysis: Existing AMTA program yields, which have been frozen for many years, are generally based on actual yields from the early 1980s. As a result, most producers are expected to update acreage and yields as they seek to maximize government-provided direct and counter-cyclical payments.

- **Direct Payments:** Producers would receive direct payments equal to the product of the base acres times the program yield times the direct payment rate as specified below. Direct payments shall be paid not later than September 30 of each of the fiscal years 2002 through 2006. At the option of the producer, 50 percent of the direct payment would be paid on or after December 1 of the fiscal year.

- **Counter-Cyclical Payments:** The payment rate for counter-cyclical payments would equal the difference between the "Safety net price" (written in the bill — see table below) minus the direct payment minus the higher of the five-month average price or the loan rate for the crop. Producers would receive counter-cyclical payments equal to the product of the base acres times the program yield times the counter-cyclical payment rate. The counter-cyclical payment would be made after the five-month price is established, but no later than 190 days after the beginning of the marketing year.

Crop	Unit	Safety net price	Loan rate	Direct payment rate		
				2002/03	***2004/05***	***2006***
Corn	***bu***	$2.35	$2.08	$0.270	$0.135	$0.068
Sorghum	***bu***	$2.35	$2.08	$0.31/0.27	$0.135	$0.068
Barley	***bu***	$2.20	$2.00	$0.200	$0.100	$0.050
Oats	***bu***	$1.55	$1.50	$0.050	$0.025	$0.013
Wheat	***bu***	$3.45	$3.00	$0.450	$0.225	$0.113
Soybeans	***bu***	$5.75	$5.20	$0.550	$0.275	$0.138
Minor oilseeds	***lb***	$0.105	$0.095	$0.010	$0.005	$0.0025
Upland cotton	***lb***	$0.68	$0.55	$0.13	$0.065	$0.0325
Rice	***cwt***	$9.30	$6.85	$2.45	$1.225	$0.6125

Analysis: The Committee bill's direct payments for both 2002 and 2003 crops for wheat, corn, cotton, and rice are significantly higher than would occur under current law for the 2002 crop year because the Committee bill's direct payment rates are generally higher compared to current law and are paid on a larger volume of eligible production due to the acreage and yield update producers are permitted. In addition, unlike the current law's direct AMTA payments, the Committee bill makes direct payments available to soybean and minor oilseed producers for the first time. Counter-cyclical payments are generally not expected to trigger until the 2004 crop year when the Committee bill would begin to phase down direct payments.

Many analysts believe that although the Committee bill's direct and counter-cyclical payments are based on historical production, the provision that allows producers to receive these payments based on updated acreage and yields effectively rewards producers who have chosen to increase production of program commodities in recent years. This will tend to encourage producers to continue to produce these crops in the years ahead, regardless of market signals.

- **Contract Requirements:** As under current law, conservation compliance, wetland protection, and restrictions on the planting of fruits and vegetables are requisite for direct and counter-cyclical payments.

- **Payment Limitations:** The maximum amount a producer can receive for direct and counter-cyclical payments combined in one year is $100,000. The three-entity rule still applies so that a producer could receive as much as $200,000 in annual payments ($100,000 on the first entity and $50,000 each on the second and third).

2. Marketing Loans and Loan Deficiency Payments.

- The Committee bill continues the current marketing loan program for each of the 2002 through 2006 crops, providing nine-month nonrecourse loans for producers of wheat, corn, grain sorghum, barley, oats, rice, soybeans, minor oilseeds, upland cotton, wool, mohair, honey, dry peas, lentils, and chickpeas. Current conservation compliance and wetland protection would apply. Loan rates would be increased for all crops except for soybeans, which is lowered from $5.26 to $5.20 per bushel.

MARKETING ASSISTANCE LOANS (in $/bu.*)		
Crop	**2001 Rate**	**Committee Bill**
Wheat	2.58	3.00
Corn	1.89	2.08
Grain sorghum	1.71	2.08
Barley	1.65	2.00
Oats	1.21	1.50
Rice	6.50	6.85
Soybeans	5.26	5.20
Minor oilseeds	0.093	0.0935
Upland cotton	0.5192	0.055
Graded wool	unsupported	1.00
Nongraded wool	unsupported	0.40
Mohair	unsupported	2.00

Honey	unsupported	0.60
Dry Peas	unsupported	6.78
Lentils	unsupported	12.79
Chickpeas, Lg	unsupported	17.44
Chickpeas, Sm	unsupported	8.10

* Except rice, dry peas, lentils and chickpeas in $/cwt.; cotton, wool, mohair & honey in $/pound

- **Annual payment limitations** are increased from $75,000 to $150,000. The Committee proposal also ends authority for generic commodity certificates that have been widely used by large producers in recent years to evade the marketing loan program's payment limitation.

Analysis: Virtually all agricultural economists agree that increasing marketing assistance loan rates, whose benefits are based on the production of the supported commodity, will encourage greater production of these commodities.

3. Dairy, Sugar, and Peanuts.

- **Dairy**. **Continues the price support program at $9.90 per hundredweight through 2006. Establishes a national counter-cyclical income support program for dairy producers. The bill, as it was originally marked up by the Committee a few weeks ago, included the Sanders/Leahy proposal for a national counter-cyclical income support program for dairy producers. That program featured higher minimum prices ($14.25/cwt) for Class I fluid milk, a deficiency payment system for manufacturing milk used to make cheese, butter, etc., and regional boards authorized to give dairy producers within their respective regions incentives to lower production. In S. 1731, the program has been restructured and, instead of newly constituted boards in each federal marketing order region administering the program, it will be administered by the Secretary through the existing federal milk marketing orders and the four classifications of milk (Classes I-IV). This change reportedly was made in order to avoid potential budgetary problems.**

  Because this program is administered through the existing federal marketing order structure, not all states are eligible as they would have been in the program's previous form. California, for example, is not a part of the federal structure and so that state's producers would not be able to participate.

- **Sugar**. Eliminates the marketing assessment on sugar, reduces the CCC interest rate on price support loans, authorizes a Payment-in-Kind program, reestablishes the no net cost feature of the program and provides the Secretary with authority to implement allotments on domestic sugar production. The loan forfeiture penalty on sugar also is eliminated.

Analysis: The Senate Committee bill maintains many of current law's sugar program provisions. The taxpayer cost of this is expected to be about $530 million in mandatory new spending above baseline over the next ten years.

- **Peanuts.** The quota-based peanut program is modified by establishing a new peanut program that tracks other commodities by paying benefits on 100 percent of base acres. The program provides direct payments of $100 per ton for 2002 and 2003, $50 per ton for 2004 and 2005, and $25 per ton for 2006. It establishes a safety net price for peanuts of $500 per ton and a loan rate of $400 per ton. The payment rate for counter-cyclical payments would equal the difference between the safety net price minus the direct payment minus the higher of the season average price or the loan rate for the crop. The bill terminates the marketing quota program and compensates quota holders for the loss of the quota asset value at 10 cents per pound per year for five years.

Analysis: The taxpayer cost of this is expected to be about $4.2 billion in mandatory new spending above baseline over ten years, nearly $0.7 billion more than the House-passed peanut provisions. Peanut processors and manufacturers are expected to benefit substantially from lower farm prices for peanuts that will occur as a result of this taxpayer-financed buyout, but peanut users are not asked to share its cost.

4. Miscellaneous Commodity Provisions

- **Specialty Crop Purchases.** Requires the Secretary to purchase $130 million of commodities items annually for 2002 and increases gradually to $200 million by 2006. Not less than $100 million of the commodities must be specialty crops in 2002 ($170 million in 2006), and not less than $50 million must be used to supplement funds already provided by USDA to the Department of Defense for the purchase of fresh fruits and vegetables for the National School Lunch Program. Not less than $40 million is to be provided to the Emergency Food Assistance Program.

- **Hard White Wheat.** Designates $40 million of CCC funds to provide a per bushel incentive payment for production of Hard White Wheat (HWW). The proposal says the incentive "will assure sufficient production of HWW to enable the United States to establish domestic and overseas markets for this specialty wheat."

Conservation Title

This title would increase funds for conservation on land in production while expanding land retirement programs.

- **The** major new item in the Committee-approved conservation title is the **creation of a new Conservation Security Program** that provides incentive payments to all farmers to maintain and adopt conservation practices.

- Funding for the **Environmental Quality Incentives Program (EQIP)** is increased to $1.25 billion by FY 2006.

- The bill also **increases acreage for the Conservation Reserve Program (CRP)** to 40 million acres from the current 36.4 million acre limit.

A listing of the major programs is as follows:

Program	Committee Levels
Conservation Reserve Program	40 million acres
Wetlands Reserve Program	250,000 acres/yr
Farmland Protection Program	Ramp to $250 million/year
Wildlife Habitat Incentives Program	Ramp to $125 million/year
Env. Quality Incentives Program	Ramp to $1.25 billion/year
Grasslands Reserve Program	2 million acres
Conservation Security Program	New – covers working lands

Analysis: Overall, the Conservation title makes great strides in achieving a better balance between land retirement programs (such as the Conservation Reserve Program) and working lands programs (such as the Environmental Quality Incentives Program). Currently, some 85 cents out of every conservation financial assistance dollar goes toward land retirement programs; 15 cents goes toward conserving land that remains in production. This imbalance is significant, and, under the Committee-passed bill, it is estimated that the amount of funding going toward land retirement would drop to 55 cents on the dollar and the amount going toward working lands would jump to 45 cents. The Committee bill contains a new Conservation Security Program, and it not clear at this time how the program will work at the field level.

Trade Title

- **Food Aid**. S. 1731 establishes the International Food for Education and Nutrition program (effectively an international school lunch program), which began as a pilot in 2000, as a function within the Food for Progress statute and funds the program at a maximum of $200 million a year in mandatory spending for five years. The Secretary has the discretion to fund the program at the level she sees fit out of the Food for Progress program. The bill alters the programs with the primary goal of making the food aid approval process less onerous for the **Private Voluntary Organizations (PVOs)** and giving them greater flexibility in administering the programs on the ground.

- **Market Promotion Programs**. The bill increases funding for the Market Access Program (MAP) and includes certain reforms in order to make more creative use of the market promotion programs and to try to target the programs toward new and emerging markets.

- **Export Credits**. The bill reauthorizes the Export Enhancement Program (EEP) at the current maximum WTO-allowable levels. However, it defines exchange rate manipulation by competing exporters and questionable pricing practices by state trading enterprises as unfair trade practices. This provision may promote greater use of EEP by encouraging its use to offset such practices.

- **Export Credit Guarantees**. S. 1731 reauthorizes the export credit guarantee programs, providing for a minor change in the Supplier Credit Guarantee program to facilitate its usefulness.

- **New Initiatives**. The Committee-passed bill provides several new initiatives designed to facilitate U.S. agriculture exports, including a biotechnology education and outreach initiative (mandatory funding of $15 million annually for 2002-06).

- **Other Provisions**. The bill strikes restrictions on private financing of sales of food and medicine to Cuba, which were established in the FY01 Agriculture Appropriations bill.

  Additionally, a Sense of Congress resolution is included which establishes Congressional priorities and concerns for bilateral and multilateral agricultural trade negotiations.

Nutrition Title

- **Food Stamp Program Changes**. Key provisions to simplify the program include allowing the states to conform Food Stamp income rules with those of Temporary Aid to Needy Families (TANF) cash assistance or Medicaid and resource rules with those of TANF. Other simplification proposals address procedures for calculating household utility allowances and shelter deductions, as well as benefit amounts for residents of certain group living arrangements.

- **Food Stamp Program Capacity**. Work support proposals focus on reduced household reporting burdens to make it easier to combine work with Food Stamp program participation. The title also increases the length of time that a household can receive transitional Food Stamp benefits after leaving the cash assistance program (TANF) from three to six months, and provides a more generous transition benefit to more persons.

- **Quality Control System**. This title is similar to the House proposal which substantially raises the error-rate threshold resulting in automatic state sanctions and which reduces the dollar amount of sanctions states pay out. It differs from the House provisions by eliminating bonus payments to states with error rates below 6 percent and by introducing authority for the Secretary to investigate state administrative practices when error rates indicate serious negligence.

- **State Flexibility**. The bill establishes new criteria for rewarding states for good performance with bonus payments. It calls for choosing performance measures in consultation with USDA and state organizations for which six states will share $30 million each year.

  The Committee bill offers new initiatives to promote state projects in the areas of Food Stamp outreach, community food security and agriculture issues, as well as fruit and vegetable consumption.

- **Emergency Food Assistance**. With respect to immigrant policy, the Committee bill restores eligibility and eliminates sponsor-income deeming for all immigrant children. It also restores eligibility for some disabled persons, and eliminates the seven-year eligibility limit on refugees. It reduces the Food Stamp time limits previously set up for able-bodied adults without dependents.

The Committee bill moves from the current three-plus-three months in 36 months to a time limit of six months in every 24-month period. It also adds job search as a new category of qualifying work activity.

The bill links the standard income deduction to the poverty line which results in indexing by household size and adjusting annually for inflation.

- **Food Choices and Better Nutritional Status**. The bill makes vitamins and minerals eligible Food Stamp items, creates an electronic repository for nutrition education materials, and requires two pilot tests to be conducted which promote consumption of fresh fruits and vegetables in schools and the larger community.

- **Commodity Assistance Programs**. S. 1731 reauthorizes the pertinent commodity assistance programs and adds additional funds to the Emergency Food Assistance Program (EFAP). In addition, the bill targets some funds in the EFAP and Commodity Supplemental Food Program to cover the costs of food storage and distribution. The Committee title reauthorizes the Community Food Project grant initiative and increases the federal match rate for these projects, as well as authorizing the Senior Farmers' Market Nutrition Program.

<u>Analysis:</u> The nutrition title adopted by the Senate Agriculture Committee incorporates many of the Food Stamp provisions in Senator Lugar's farm bill, S. 1571. Collectively, the Committee nutrition package represents a positive step toward a simpler and more streamlined Food Stamp program. It does not go far enough, however, toward supporting welfare reform.

Credit Title

- The main emphasis of this title is to reauthorize USDA's direct and guaranteed loan programs and to make credit more accessible to beginning farmers and ranchers, including improving the terms for the Beginning Farmer Down-Payment Program, the Interest Rate Reduction Program and the Participation Loan Program.

- It authorizes USDA to refinance bridge loans to beginning farmers when federal funds have temporarily been expended, reserves a portion of funding authorizations for beginning farmers, and grants the Secretary the tools to dispose of inventory lands to beginning farmers.

- This title includes provisions to simplify and streamline federal credit programs.

- It reauthorizes all USDA farm direct and guaranteed loan programs and increases the loan authorization levels: $3.75 billion for each fiscal year, with $750 million for direct loans annually ($200 million for farm ownership loans, and $550 million for farm operating loans), and $3 billion for guaranteed loans ($1 billion for farm ownership loans, and $2 billion for ownership loans).

Rural Development

The rural development title includes the major policy initiative of providing approximately $472 million in mandatory funding in FY 2002 to eliminate the backlog for water and waste grants and direct loans, community facility grants and direct loans, rural water or wastewater technical assistance and training grants, solid waste management grants, and B&I guaranteed loans.

- **Broadband access**. The bill authorizes a loan and grant program to expand rural broadband access to communities of 20,000 or less, providing $100 million annually in FY 03-06 in mandatory money. Initial allocations to states are to be made based on the number of communities in a state with populations of less than 2,500.

- **Value-added Product Market Development Grants**. This program was created and funded in FY 2001 in the Agricultural Risk Protection Act. The Committee bill expands the definition of a value-added agricultural product and extends the program, but proposes to do so with $75 million annually in mandatory money, with a priority for grant proposals for less than $200,000 and a 5-percent set-aside for organic products. The provision also provides additional funding for the Agricultural Marketing Resource Center created in the original Ag Risk Protection Act authorization.

- **The Rural Endowment Pilot Program**. This program would provide initial grants of $100,000 to rural areas of populations less than 75,000 for the purpose of developing long-term comprehensive community development strategies and endowments for economic growth. These initial grants would then be followed by grants averaging $6 million each to communities to fund an endowment to support the comprehensive community development strategy. The bill provides for technical assistance grants and a 50-percent match (except for small, poor rural areas determined by the Secretary where the match will be 20 percent). The program is funded for FY 2002 and 2003 with $82 million in mandatory spending: $5 million for planning grants, $2 million for technical assistance, and $75 million for endowment grants.

- **Grants for Rural Firefighters and Microenterprises**. The Committee bill would provide $10 million in mandatory funds in FY02 and $30 million per year in FYs 2003-06 for grants to State and regional training centers, and local organizations, for training of firefighters and first responders, and $10 million in mandatory funds per year for grants to nonprofit organizations to provide low- and modest-income rural entrepreneurs with training and microloans of up to $35,000.

- **Business and Industry Loan Modifications.** The Committee bill makes several modifications to the B& I program sought by cooperatives, including: authorizing B&I loans to a farmer to buy stock in existing cooperatives provided cooperative membership is necessary for the farmer to sell his agricultural product; allowing a cooperative in an urban area to receive B&I funding as long as the funding were devoted to a project in a rural area; limiting upfront B&I fees to no more than 2 percent; allowing USDA to use specialized appraisers instead of general appraisers when that is the private sector standard; and allowing cooperative borrowers to refinance with either an existing or new lender.

- **Venture Capital**. The Committee bill includes two venture capital mechanisms, only one of which will receive mandatory funding.

  The first is the National Rural Cooperative and Business Equity Fund based on the similar Harkin/Craig proposal in the last Congress. As revised, private investors could create the fund and manage it with a board of 14 members, 3 of whom would be appointed by the Secretary and the rest of whom would represent private investors. The first $150 million of investments in the Fund would be matched by USDA; USDA would guarantee 50 percent of the private investments up to a total guarantee of $300 million, and the Fund could raise additional capital by issuing debentures that USDA could guarantee the principal of up to a maximum of $500 million. This program is funded with discretionary funds in such sums as are necessary.

  The second venture capital proposal is to fund Rural Business Investment Corporations (RBIC) based on the SBA Small Business Investment Corporation model. Again, USDA would be required to have SBA manage the program. USDA would guarantee the debentures of an RBIC equal to 300 percent of its private capital for a period of five years and a 1-percent fee. Mandatory funding for this program (preliminary CBO estimate at $120 million) will cover the subsidy costs for a program level of a maximum of $350 worth of guarantees.

- **Other Provisions.** The Committee bill also includes an authorization for a rural telework grant program; an authorization for grants to nonprofit entities to capitalize revolving funds to finance pre-development and replacement capital equipment replacement costs for water and waste disposal projects; an express authorization of appropriations for grants for statewide nonprofit public television broadcasting systems; a requirement for an expedited application process for water or waste disposal grants and loans for less than $300,000; an increase in the community facilities population threshold from 20,000 to 50,000; an authorization for grants to nonprofits which are willing to provide technical assistance at no or low cost to rural entities; authorization for the Rural Utilities Service (RUS) to provide assistance for projects backed by tax-exempt bonds (requiring a tax code revision as a separate measure); an authorization for a historic barns preservation program; and an authorization for the Northern Great Plains Regional Authority.

Research Title

- The Committee-passed research title would spend $145 million per year in mandatory spending for the Initiative for Future Agriculture and Food Systems. The Committee-passed bill also provides mandatory spending for two new programs: rural policy research ($15 million per year) and a beginning farmer and rancher development program ($15 million per year).

- The Committee bill includes the Agriculture Infrastructure Security Fund, an investment fund for ensuring the security and research capability of USDA labs requested by Secretary Veneman, but only with an authorization for discretionary funding. If funds are appropriated, this fund could be tapped for modernizing research facilities, equipment, and technology to safeguard against animal and plant diseases and pests and to protect food safety. Formation of a Commission also is authorized to advise the Secretary about modernization and closures of USDA labs.

- Finally, an amendment offered at Committee markup of the miscellaneous title which authorizes a grant program for land-grant institutions for construction of research facilities for agrisecurity and bioterrorism research was included in the research title.

Forestry Title

- The Forestry title includes $48 million per year in mandatory funding for a new Sustainable Forestry Assistance Program that allows states broad discretion in allocating cost-share funds to private forest landowners for sustainable forest management and for permanent easements to prevent deforestation.

- There is also a new $2 million per year program (also with mandatory funding) to promote sustainable forestry business cooperatives.

The Forestry title also:

- Adds authorization for a Sustainable Forestry Outreach Initiative (similar to the House provision) that provides educational assistance to forest landowners;
- Increases the authorized level for the Renewable Resources Extension Act from $15 million to $30 million;
- Adds an Enhanced Community Fire Protection provision (similar to the House) to increase the efficiency and coordination of fire-control efforts; and
- Adds a Watershed Forestry Initiative (authorized at $20 million annually) to provide cost-share and technical assistance to increase and protect forests in watersheds.
- Includes authorization for two Forest Fire Research Centers in western states. The Centers are to conduct research into ecologically sound fire control methods and then to transfer the findings to fire and land managers. Additionally, the Wildfire Prevention and Hazardous Fuel Purchase Program was added. This provision provides grants to entities that use forest biomass to generate electricity in or near communities with high risk of fires.
- Authorizes long-term Forest Stewardship Contracts to remove hazardous fuels from forests and haul them to generating facilities. This title reauthorizes the international forestry programs, the Forestry Incentives Program, and expresses support for the permanently authorized McIntire Stennis cooperative forestry research programs. The Stewardship Incentives Program (SIP) is continued using appropriated funds, which currently amount to about $8 million per year.

Energy Title

- **Biobased Product Purchasing Requirement**. The bill requires the federal government to purchase biobased products whenever they are comparable in price, performance and availability to nonbiobased products and provided that they are also environmentally preferable. It dedicates $2 million per year in mandatory funding to implement it.

- **Biomass Research and Development Act**. The Committee bill provides mandatory funding of $15 million per year for five years.

- **Carbon Sequestration Demonstration Project**. The Committee bill provides grants to producers to assist in paying costs incurred measuring, estimating, monitoring, and testing methodologies involved in reducing greenhouse gas emissions and allowing for the trading of greenhouse credits.

- **Biorefinery Development Grants**. The Committee bill creates a new program to help cost-share with industry, universities and national labs on testing the commercial viability of emerging technologies for converting cellulosic biomass into petroleum substitutes. Mandatory funding of $15 million per year is provided.

- **Renewable Energy**. This title includes new programs to help farmers and ranchers and farmer- and rancher-owned cooperatives and business ventures to pursue renewable energy projects through loans and grants ($245 million over five years), to assist rural electric cooperatives in renewable energy projects, ($45 million over five years), to provide farmers and ranchers with energy efficiency audits and renewable energy audits ($75 million over five years), and to fund hydrogen and fuel cell technology research ($25 million over five years).

Miscellaneous Title

- **Crop Insurance.** The Committee provision makes permanent current law's temporary prohibition on so-called "continuous coverage" in plans of insurance offered through the federal crop insurance program effective with the 2006 crop year. Under continuous coverage, producers may select yield coverage in 1 percent increments. Without continuous coverage, they are limited to 5-percent increments (50, 55, 60, 65 ,70 ,75, 80, and 85 percent of expected yields). Farmers prefer the flexibility of continuous coverage because it gives them greater ability to purchase the level of insurance coverage most appropriate for their needs.

<u>Analysis</u>: This provision, originally included in the Committee bill's commodity title, was included to reduce the commodity title's overall budget score. It has the effect of reducing crop insurance program budget authority costs by about $300 million annually effective with fiscal year 2006. This provision is expected to score $1.5 billion in budget authority savings over the 10-fiscal year 2002-2011 period with all of the savings back loaded in the last five years.

- **Public Disclosure Requirements for County Committee Elections**. This provision mandates certain procedures for county committee elections, and requires the Secretary to promulgate additional procedures based on statistics reported to her on county committee elections, to ensure openness and transparency in order to improve representation of socially disadvantaged farmers.

- **Country of Origin Labeling**. This section from the rejected Harkin competition title was adopted as a stand-alone amendment during markup. This section requires retailers of beef, pork, and lamb, ground beef, ground lamb, and ground pork, fresh and frozen fruits and vegetables, and whole farm-raised fish, to inform consumers, at the final point of sale, of the country of origin of the covered commodity. A retailer may identify the commodity of United States origin only if the meat is from an animal that is exclusively born, raised, and slaughtered in the United States and, in the case of perishable agricultural commodities, is exclusively produced in the United States.

Analysis: Despite claims that this is a food safety issue, this provision could undermine efforts to eliminate non-tariff barriers and increase foreign market access for U.S. agricultural exports.

- **Nonambulatory livestock.** Amends the Packers and Stockyards Act to prohibit any stockyard owner, market agency, or dealer to buy or move nonambulatory livestock unless the livestock has been humanely euthanized.

- **Cockfighting**. Amends the Animal Welfare Act to prohibit the movement of animals in interstate or foreign commerce for the purpose of fighting, and increases civil and criminal penalties for violation of the Act.

- **Humane Slaughter**. Expresses sense of Congress that Humane Methods of Slaughter Act should be fully enforced.

- **Tree Assistance Program.** Amends the FAIR Act of 1996 to authorize disaster assistance, subject to appropriations, for eligible orchardists retroactive to 2000.

- **National Organic Cost-Share Program.** Provides $3.5 million in mandatory funding for FY 2002 for the Secretary to establish a national organic certification cost-share program to assist producers and handlers to obtain certification under the national organic production program with payments of up to $500 and no more than 75 percent of the cost of certification.

- **Food Safety Commission**. Authorizes establishment of a Food Safety Commission appointed by the leadership of the House and Senate to make recommendations for implementing the National Academy of Sciences report, entitled "Ensuring Safe Food from Production to Consumption."

- **Nutrition Information and Awareness Pilot Program.** Authorizes a pilot program in not more than 15 states to increase the domestic consumption of fresh fruits and vegetables.

- **Socially Disadvantaged Farmers.** S. 1731 reauthorizes and slightly modifies the Section 2501 outreach program for socially disadvantaged farmers.

ADMINISTRATION POSITION

The four-page Statement of Administration Policy issued today said this (in part):

The President has urged Congress to adopt farm policy that embraces the Administration's principles. Because new legislation will shape the future of U.S. agriculture in an unusually critical time, the Administration believes that the Senate should resist retreating to policies, such as those contained in S. 1731, that will ultimately harm our farmers and ranchers. Consequently, the Administration strongly opposes S. 1731, urges the Senate to defeat it, and supports the Cochran-Roberts Amendment ... which is consistent with the President's principles for sound farm policy. It provides for a strong safety net for farmers in times of low prices by continuing the current marketing loan program for traditional program crops, while better balancing loan rates. . . . The Administration would like to reiterate that higher loan rates are a stimulus for overproduction, which lowers prices.

COST

Official CBO Cost Estimates for S. 1731, Agriculture, Conservation and Rural Enhancement Act of 2001

Title	**5 Years (2002-06)**	**10 Years (2002-11)**
	Billion Dollars	
Commodity	$27.123	$43.993
Conservation	$8.446	$20.452
Trade	$0.787	$2.026
Nutrition	$1.600	$5.604
Credit	$0.066	$0.066
Rural Development	$1.711	$1.711

Research	$0.610	$0.610
Forestry	$0.259	$0.326
Energy	$0.550	$0.550
Miscellaneous	($0.288)	($1.897)
TOTAL	**$40.863**	**$73.438**

POSSIBLE AMENDMENTS

Senator Lugar:

Senator Lugar offers his perspective on the shortcomings of current farm policy:

1) Virtually all agricultural subsidies go to producers of just five program crops: corn, wheat, soybeans, cotton, and rice. As a result, 60 percent of farms are excluded from Federal farm benefits.

2) Agricultural subsidies have been distributed according to acreage. This has resulted in the bulk of payments being distributed to large farming enterprises. In fact, 47 percent of payments went to just 8 percent of farmers.

3) The cost of U.S. agriculture policy to taxpayers has been large and unpredictable, even as it has failed to alleviate the farm crisis. Despite the record overall net cash farm income for this year of $61 billion, many producers, particularly small family farms, struggle to survive.

4) The current policy of Federal supports defies all economic logic. It perpetuates a cycle of low prices and overproduction that is then reinforced by further emergency subsidies.

The contradictions of U.S. agriculture policy were described in the USDA's 2001 "Food and Agricultural Policy" book:

> *"History has shown that supporting prices is self-defeating. Government attempts to hold prices above those determined by commercial markets have simply made*

> *matters worse time after time. Artificially higher prices encouraged even more unneeded output from the most efficient producers at the same time they discouraged utilization pushing surpluses higher and prices lower.*
>
> *"Supply controls proved unworkable too. . . the remaining land was farmed more intensively, and supply was rarely cut enough to boost prices to politically satisfactory levels. The programs were costly to taxpayers and consumers and the unused resources were a drag on overall economic performance . . . limiting our acreage was a signal to our competitors in other countries to expand theirs, and we lost market share that is always difficult to recapture. . ."*

S. 1731 unfortunately encourages continued overproduction of traditional program crop commodities which time and again will lead to lower prices for producers. The bill does not allow 60 percent of farmers to benefit from federal farm programs.

Commodities

Senator Lugar plans to offer a commodity title amendment under which any farmer or rancher with more than $20,000 of average annual gross farm income, regardless of the agricultural products he produces, would qualify for a voucher to buy crop insurance or other risk management tools (guaranteeing up to 80 percent of the farm's average market income over the previous five years) or to match deposits in an income stabilization account.

The Lugar commodity title has been scored by CBO at $5.6 billion over five years (2002-06) and $25 billion over 10 years (2002-11) in mandatory new spending above the baseline.

Nutrition

Senator Lugar believes that more needs to be done in the area of nutrition. His amendment includes an increased spending level for nutrition compared to what is provided in the Committee-reported bill. As background, it's important to note that for the years 1996 through 2001, the Congressional Budget Office (CBO) estimated that welfare reform would reduce Food Stamp spending by over $21 billion. Over that same time frame, CBO estimated that farm program spending would be reduced by about $2 billion due to enactment of the 1996 farm bill. Thus, over 90 percent of the cuts in 1995 and 1996 occurred in the Food Stamp program.

In fact, CBO underestimated the effects of welfare reform on the Food Stamp program. For the years 1996 through 2001, Food Stamp spending declined by about $50 billion, not the $21 billion CBO originally estimated. About half of that reduction was due to the changes in law made by welfare reform and an economy that was stronger than CBO anticipated. But the other half of the decline in Food Stamp participation among elderly families was due largely to the outdated, prescriptive nature of the current Food Stamp program.

Thus, Food Stamps provided the vast bulk of the savings needed in 1995 and 1996 and history has shown that the actual reductions were far bigger than expected. Some of those reductions were reinstated in later bills. Specifically, about $2 billion has been restored to the Food Stamp program. (An additional $30 billion has been added in commodity supports over the same time period). Given that such a large proportion of budget savings came from the Food Stamp program, it seems equitable that with substantial new agricultural resources, a significant share of the new money go to Food Stamps. The spending Senator Lugar is proposing goes to support the goals of welfare reform. Collectively, Lugar's proposed nutrition policies serve to replace complex Food Stamp rules with simpler ones, integrate the Food Stamp, Medicaid and cash assistance programs, offer many programs for state flexibility, and make the program more compatible with the goals of welfare reform.

Eight out of ten of the Republicans on the Senate Agriculture Committee voted in favor of this nutrition amendment.

Research Competitive Grants Amendment

This amendment increases funding for the Initiative for Future Agriculture and Food Systems from the current $120 million per year to $360 million per year beginning in Fiscal Year 2003 and continuing through Fiscal Year 2006.

This amendment will also rectify a significant and disappointing funding shortfall created in the Fiscal Year 2002 agricultural appropriations bill when funding for this program was prohibited, except for funds necessary to administer and conduct oversight of previously awarded grants.

This is not a new program: This competitively awarded agricultural research program began with the 1998 agricultural research bill. This amendment simply continues this important existing program and would increase the funding level.

Dairy Support Program Amendment

Senator Lugar's amendment effectively phases out the subsidies provided under the existing federal dairy program. This amendment eliminates the milk price support program and the recourse loan program for processors, effective January 1, 2003. It also would streamline the current milk class structure from four classes to two (a class I for fluid milk and a class II for all other uses of milk). These two classes would be used to determine milk component pricing.

The Senate Committee bill maintains many of the current dairy program provisions, but goes even further and establishes a new national counter-cyclical income support program for dairy producers. It continues the price support program at $9.90 per hundredweight through 2006. CBO has scored this provision as costing taxpayers $3.0 billion.

Senator Gregg:

Peanut Program Amendment

This amendment effectively phases out the subsidies provided under the existing federal peanut program. Specifically, this amendment phases out the peanut loan rate for quota and additional peanuts to $0 for the 2006 crop. The marketing quotas and allotments will be progressively increased for the 2003, 2004 and 2005 crops in anticipation of the complete elimination of the marketing quota for the 2006 crop.

The Senate Committee bill creates a new target price and marketing loan support program for peanut producers. The taxpayer cost of this is expected to be about $4.2 billion in mandatory new spending above baseline over ten years, nearly $0.7 billion more than the House-passed peanut provisions. Peanut processors and manufacturers are expected to benefit substantially from lower farm prices for peanuts that will occur as a result of this taxpayer-financed buyout, but peanut users are not asked to share its cost.

Sugar Program Amendment

Senator Gregg's amendment effectively phases out the subsidies provided under the existing federal sugar program. It proposes that the current price support program for sugar beets and sugarcane be converted into a system solely of recourse loans. This amendment would phase out the loan rate for sugar beets and sugarcane to $0 for the 2006 crop. Marketing allotments and quotas for both sugar beets and sugarcane would be eliminated beginning with the 2003 crop.

The Senate Committee bill maintains many of the current sugar program provisions. It eliminates the marketing assessment on sugar; reduces the CCC interest rate on price support loans; authorizes a Payment-in-Kind program; reestablishes the no-net-cost feature of the program and provides the Secretary with authority to implement allotments on domestic sugar production. The loan forfeiture penalty on sugar also is eliminated. The taxpayer cost of this is expected to be about $530 million in mandatory new spending above baseline over the next ten years.

Senators Cochran and Roberts:

The Cochran/Roberts alternative provides a substitute for Titles I and II of the bill, providing a constant fixed payment. The conservation title of this farm bill proposal provides adequate funding and continues the successful programs of the 1996 FAIR Act.

Title I — Commodity Programs

Agriculture producers enter into contracts and receive direct payments on eligible cropland for the 2002-2006 crop years. Direct payment rates are constant throughout the five-year life of the legislation. Producers would receive direct payments equal to the product of the base acres times the program yield times the direct payment rate. Payments would be paid no later than September 30th of each fiscal year. In the case of the 2002 crop, payments may begin on or after December 1, 2001. Legislation continues the restriction on planting fruits, vegetables, and wild rice.

Direct payment rates are as follows:

Wheat	$0.7292/bu
Corn	$0.4128/bu
Grain Sorghum	$0.4953/bu
Barley	$0.344/bu
Oats	$0.0344/bu
Cotton	$0.1418/lb
Rice	$3.23/cwt
Soybeans	$0.5779/bu
Other Oilseeds	$0.0102/lb

Producers are allowed three options regarding base acres: Maintain current base; Four-year average of acreage planted to a covered commodity in crop years 1998, 1999, 2000, 2001; or Current base acres plus oilseeds.

Non-recourse loans and loan deficiency payments will be made available for producers of wheat, corn, grain sorghum, cotton, rice, soybeans, wool, mohair, honey, dry peas, lentils and chickpeas. Legislation continues the cotton competitiveness program. Loan rates are set as follows:

Wheat	$2.58/bu
Corn	$1.89/bu
Grain Sorghum	$1.89/bu
Barley	$1.65/bu
Oats	$1.21/bu
Cotton	$0.5192/lb
Rice	$6.50/cwt
Soybeans	$4.92/bu
Honey	$0.60/lb
Dry Peas	$5.83/cwt
Lentils	$11.00/cwt
Large Chickpeas	$15.00/cwt

Small Chickpeas $7.00/cwt

Dairy — Continuation of the 9.90 per hundredweight for milk containing 3.67 percent butterfat. The Dairy Export Incentive and Dairy Indemnity Programs are extended through 2006.

Sugar — This legislation eliminates the marketing assessment on sugar, reduces the Commodity Credit Corporation interest rate on price support loans, and continues the no-net cost provisions of the program. Provides the Secretary with authority to implement allotments on domestic sugar production.

Peanuts — Improves the quota based peanut program by establishing a new program. The peanut program establishes payment yields, peanut acres, and payment acres for farms. Provides a payment of $0.18/lb. Establishes a support price for peanuts at $520 per ton and a loan rate of $400 per ton.

Farm Savings Accounts will be available to producers of covered commodities, livestock, and fruit and vegetable growers. The Secretary shall provide a matching contribution that is equal to the amount deposited by the producers, up to a maximum of $10,000. Producers may withdraw funds from the account if the adjusted gross revenue of the producer falls below 90 percent of the producer’s five-year average for adjusted gross revenue

TITLE II — Conservation Programs

Environmental Quality Incentives Program — Funding is ramped up over five years: FY02 $750,000,000; FY03 $1,000,000,000; FY04 $1,350,000,000; FY05 $1,450,000,000; FY06 $1,650,000,000. Flexibility is increased by eliminating priority areas, waiving the prohibition on payments in the first year of a contract, and allowing contracts of three to ten years. The program is made more equitable by eliminating the bidding down of contracts, providing additional cost-share for limited resources farmers and beginning farmers, and bringing payment limits in line with commodities: $50,000 annually/$150,000 aggregate. The animal unit cap is removed with the following conditions: no contract stacking (one animal waste contract for life of farm bill), no reorganizing operations (one animal waste contract per producer). The bill establishes a Working Land Environmental Improvement Option to provide bonus payments for producers engaging in new and more environmentally beneficial conservation practices on working lands. Includes an annual payment limit of $25,000 for producers. Program is funded through existing EQIP funding, with an increasing limit up to FY02 $100,000,000; FY03 $150,000,000; FY04 $200,000,000; FY05 $200,000,000; and, FY06 $300,000,000. The legislation also allows up to $100,000,000 annually for conservation innovation grants to encourage innovate practices to leveraging federal investment in environmental enhancement and protection. It waives the Section 11 cap on CCC funds for technical assistance.

Conservation Reserve Program — The authorized acreage cap is increased to 40 million acres. The legislation provides for a 15-year contract extension (with a 50 percent rate reduction) for land planted to hardwood trees and increase maintenance provisions from 4 to 5 years. Allows for 30 year contracts for Hardwood trees. It expands the Wetlands Pilot Program to all states. The bill gives the state FSA committee authority to make final determination on emergency haying and grazing. It also allows haying and grazing on continuous sign-up acreage and land in CREP to maintain buffer functions, with a reduction in rental rates. For small fields enrolled under the continuous sign-up or CREP, it provides that the entire field may be enrolled if the remaining portion is not feasible to farm. The legislation requires a study on the economic effects on rural communities resulting from the CRP program.

Wetlands Reserve Program — Increases the acreage cap by 1,250,000 acres. Allows up to 250,000 acres to be enrolled annually.

Farmland Protection Program — Funding is increased over five years to FY02 $65,000,000; FY03 $90,000,000; FY04 $90,000,000; FY05 $90,000,000; FY06 $100,000,000. It clarifies ranchlands are included in the program and allows non-profit participation. The bill requires conservation plans for lands under easement. Allows in-kind contributions to count toward the 50 percent match.

Wildlife Habitat Incentive Program — Reauthorized and funding is increased as follows FY02 $50,000,000; FY03 $60,000,000; FY04 $65,000,000; FY05 $75,000,000; FY06 $100,000,000.

Grasslands Reserve Program — Establishes a new program to preserve native grasslands through enrollment in 30-year and permanent easements. Enrollment is capped at 2 million acres. The program also allows for technical assistance and cost-share for restoration.

Resource Conservation and Development Program — The program is permanently authorized. Permits the Secretary to provide technical and financial assistance to approved RC&D run programs.

Conservation of Private Grazing Land — The program is made mandatory at $40,000,000 annually.

Watershed Risk Reduction — Program is authorized at $15,000,000 annually through FY06 to provide technical assistance and purchase flood plain easements to safeguard lives and property from natural occurrences, including floods and drought.

Confidentiality — Statutorily protect confidentiality of producer information. Allows disclosure of statistical information generated by the Department that is not proprietary.

Administrative Requirements — Requires the Secretary to provide relief to good faith actors who were mislead by employees of the Secretary. Requires the Secretary coordinate administration of the conservation programs to carry out education, outreach, monitoring and evaluation under all conservation programs. Requires the Secretary to provide special assistance for socially disadvantaged and limited resource owners and operators. Requires the Secretary to maintain data to facilitate program administration. Allows operators and owners to request mediation services or informal hearing in the case of adverse decision relating to an agriculture conservation program. Requires the Secretary to ensure that conservation programs are fully accessible to limited resource and beginning farmers and ranchers and Indian tribes.

Reform and Assessment of Conservation Programs — Requires the Secretary to review all conservation programs and report to Congress with a proposal to consolidate and reform current conservation programs; develop a universal classification system and a conservation plan format that can be applied across conservation programs and shared with other USDA agencies; and reduce and consolidate paperwork requirements applicable to conservation programs.

Certification of Private Providers of Technical Assistance — Establishes criteria for third party certification and allows the Secretary to contract with eligible third parties to provide education, outreach, monitoring and evaluation and technical assistance. Requires certification and authorizes training centers.

Use of Symbols, Slogans, and Logos — Allows the use of Department symbols, slogans, and logos by the National Natural Resources Conservation Foundation.

Senators Crapo and Bingaman:

To strike the new dairy program in the bill as reported.

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