The Emerging Farm Bill and California Agriculture: How is it Shaping Up?*

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Every five years or so the United States reconsiders its major food, farm and rural policies in a new "Farm Bill." The administration provided a detailed outline of its suggestions for a new Farm Bill in the winter of 2007 and hundreds of interest groups have weighed into the process. The House of Representatives completed action on the bill in July 2007 and the Senate Agriculture Committee reported out there version of the Farm Bill on October 24 2007. The Senate as a whole is scheduled to consider the bill in early November and then the two versions must move to a Congressional conference committee to attempt to iron out differences and find a compromise that can pass both the House and Senate. Since many provisions of the currently operative law, the *Farm Security and Rural Investment Act of 2002*, expired On September 30 2007, there is some urgency in completing legislative action. The President has signaled his disapproval of several features of current legislation and a veto may result unless the conference committee moves the bill more in line with Administration suggestions.

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* This brief summary is based on two publications by Sumner that provided background on the Farm Bill and its significance for California agriculture. The first is "The Farm Bill and California Food and Agriculture." AIC Farm Bill Brief #1. University of California Agricultural Issues Center available at http://www.aic.ucdavis.edu/research/farmbill07/farmbill.htm

The second is "The New Farm Bill: Implications for California Agriculture." ARE Update, Vol. 10, No. 5, May/June, 2007. Giannini Foundation. Available at http://www.agecon.ucdavis.edu/extension/update/

What Does the Farm Bill Include?
The 2002 Act had 10 separate titles: Commodity Programs, Conservation, Agricultural Trade and Aid, Nutrition Programs; Farm Credit, Rural Development; Research; Forestry, Energy and Miscellaneous Provisions. The 2007 Act is likely to follow a similar plan with the addition of a title on "Specialty Crops." All of the titles are of vital interest to some constituency. Some of the most vigorous discussions have surrounded the commodity title, where most farm subsidy programs are authorized; the Conservation title, which is of increasing interest among environmental groups and farmers; the Nutrition title, which includes such large programs as food stamps and school lunch subsidies; and the energy title, which has been on everyone's policy agenda this year. Of the $124 billion in USDA outlays 2005, about 41 percent (about $51 billion) were for food and nutrition programs and about 29 percent for farm programs, including some environmental payments to farmers and landlords.

The Farm Bill is *authorizing* legislation. It creates and modifies government programs that set the framework for government outlays or for regulating producers and consumers. The Farm Bill authorizes budget outlays for two categories of programs. The "mandatory" programs set program rules and triggers and then whatever outlays occur under the program provisions are automatically paid out. The standard farm subsidy programs are mandatory programs. The cost of these programs depends on the rules set by the Farm Bill and by economic conditions in the relevant commodity markets. For example, the Congress set a loan rate for cotton of 52 cents per pound and whenever the relevant market price (which is the loan repayment rate) falls below 52 cents per pound the USDA makes payments to cotton producers. The amount of the payments and the cost of the program vary inversely with the market price of cotton. The food stamp program also sets mandatory spending parameters. Once the eligibility rules and subsidy rates are set, the outlays will rise or fall with the number of low-income individuals who participate in the programs.

Traditional farm commodity programs are limited to a handful of crops. Table 1 shows how the distribution of payments diverges from the distribution of the value of commodity production. Livestock products, horticultural crops and others receive almost none of the commodity program payments while major grains, oilseeds and cotton receive payments farm in excess of their share of farm output.

Major Issues for 2007
Advocates for change in 2007 argue for reallocating funds and policy attention away from commodity programs and towards more environmental payments, more attention to nutrition information and assistance, more protection from invasive species, more effort to promote bioenergy and more research and development, among other subjects. Others, including many economists, argue that time is ripe for reducing the reliance on traditional commodity support programs. Some suggest simply removing the existing programs, while others have proposed replacing the existing complex array of programs for the grains oilseeds and cotton with a new form of revenue insurance that would also replace standard crop insurance programs for these commodities.

Trade negotiations and litigation add further issues in 2007. A new World Trade Organization agreement would provide further limits on farm support in the 2007 Farm Bill. But, even without a new agreement, the existing rules as interpreted in the recent WTO ruling concerning the U.S. upland cotton program suggest that U.S. commodity programs may be constrained to limit their impact on international markets. Indeed Canada and Brazil have already brought such challenges formally to the WTO based on programs under the 2002 farm bill

An alliance of specialty crops producer organizations (including fruits, vegetables tree nuts and others) has been engaged in an effort to shape legislation that does more for their industries. This alliance has pointedly not advocated new payment schemes for producers of specialty crops. Instead they have advocated programs related to demand expansion through promotion and nutrition education and support for consumers, and expansion of government activities that enhance long run productivity, such as research and protection from invasive species. A small amount of such funding, perhaps $0.3 billion per year has been included in the preliminary legislation in both the House and the Senate.

Figure 1 shows the geographic distribution of farm program payments under the current farm programs. Note that California, the number one farm state in the country is in the bottom quarter of recipients of commodity payments relative farm receipts. This map shows graphically why many Californians advocate for a reallocation of funds in 2007.

Budgets and Market Conditions in 2007

Prices of program crops are projected to remain high for the next five years and this means that the price-contingent payments are projected to be very low for the life of the new Farm Bill. Therefore the budget allocated to cover the projected costs of these mandatory programs for the period of the new Farm Bill is also low relative to the program costs in the recent past. For example the corn program cost about $10 billion for crop year 2005, but is projected to cost no more than $2 billion in crop year 2008, if the program remains unchanged. Because market prices are projected to be high, even eliminating traditional farm programs would be credited with saving relatively little over the next Farm Bill. This means that reduction of program crop support would release relatively few budget dollars that could be reallocated to the many competing demand that have been advocated for the 2007 Farm Bill.

Overview

Congress has yet to craft a new Farm Bill that will govern food, farm and rural policy in the United States for the next five years or so. The process of writing a Farm Bill is almost as complicated as the final legislation. So far the calls for substantial change in commodity programs have been largely unheeded and the basic programs have changed little. The House and Senate versions of the Farm Bill include additional support for several crops, such as sugar, wheat and soybeans as well as some new spending for nutrition, environmental programs, pest protection and R&D, with some of that directed towards issues of importance to fruit, vegetable and tree nut industries.

Table 1. Shares of U.S. Cash Receipts and Program Payments[a] for Selected Agricultural Commodities, Crop Year 2002–05 Average (percent)

	Share of total value of production	Share of individual commodity payments in total outlays
Upland cotton	1.9	22.3
Rice	0.6	7.3
Wheat	3.0	9.5
Corn	8.7	43.5
Soybeans	7.2	5.5
Other grains/oilseeds[b]	1.3	4.2
Horticultural crops[c]	21.3	~0.0[e]
Meat animals[d]	37.8	~0.0[e]
Dairy	10.8	5.1[f]
Other commodities[g]	7.4	2.5
Total	100.0	100.0

Source: USDA

U.S. cash receipt data are available from the USDA Economic Research Service, Farm Income Data, accessible at: http://www.ers.usda.gov/Data/FarmIncome/finfidmu.htm. The commodity payment data are available from the USDA's Farm Service Agency, Budget Division, "Commodity Estimates Book for FY 2007 President's Budget" (for crop year 2002 and 2003 data) and available at http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/estimatesbook_PresBud.htm), and the "Commodity Estimates Book Material for FY 2007 Mid-Session Review" (for crop years 2004 and 2005) and available at http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/estimatesbook_MSR.htm.

a. Included in the total are production flexibility contract payments, direct payments, countercyclical payments, loan deficiency payments, marketing loan gains, and certificate exchange gains. For the dairy sector, the figure consists of payments under the Milk Income Loss Contract (MILC) Program.
b. Includes barley, oats, sorghum, millet, flaxseed, peanuts, sunflowers, safflower, and miscellaneous oil seeds.
c. Includes fruits, tree nuts, vegetables, melons, and greenhouse/nursery.
d. Includes cattle/calves, hogs, sheep, lambs, and poultry/eggs.
e. Program payments for the meat animal and dairy sector are very small and given here as approximately zero.
f. The data for the Milk Income Loss Contract Payment are available only by fiscal year. The share given is based on the average payment budgeted during fiscal years 2003–06.
g. Includes figures for tobacco, sugar, honey, wool, and mohair.

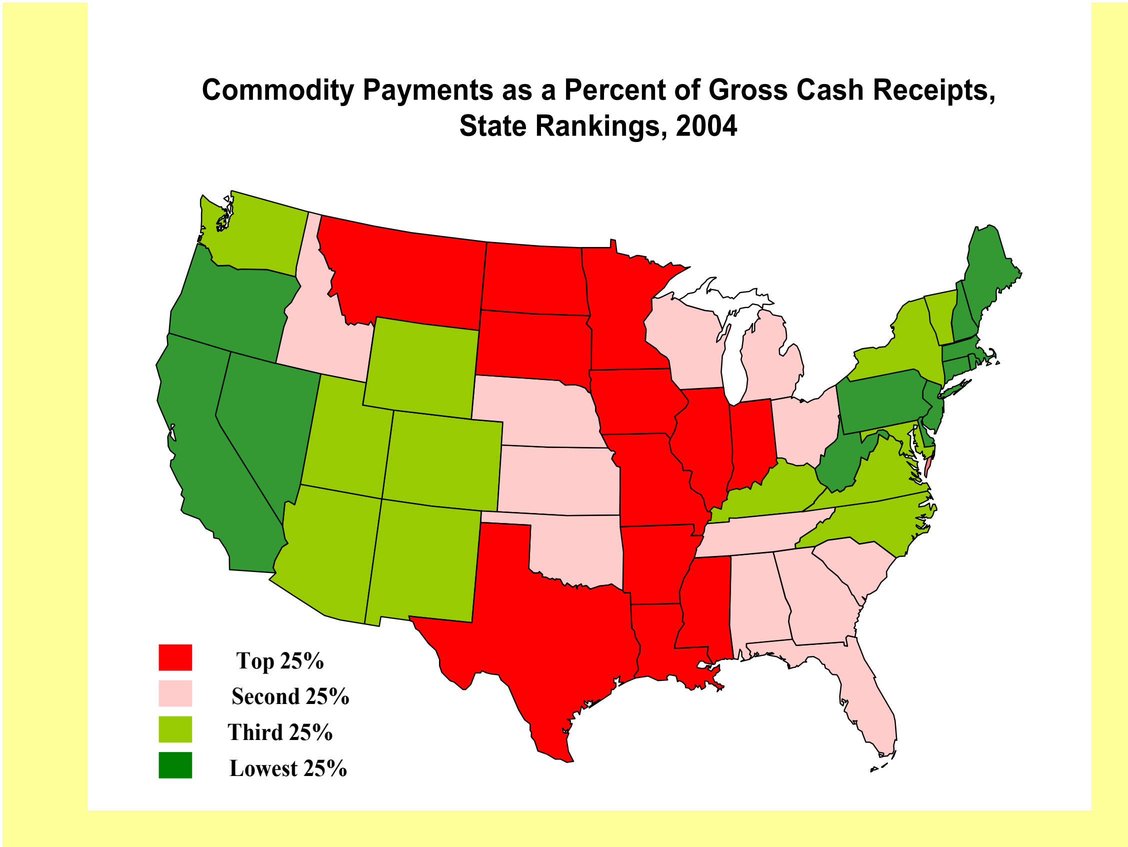

Figure 1:
Source: USDA, Economic Research Service. www.ers.usda.gov