

The Food, Conservation, and Energy Act of 2008 (a.k.a. The Farm Bill):

Major Provisions, with an emphasis on Dairy Programs

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What is the “Farm Bill”

Amends permanent legislation of the Agricultural Act of 1949

- This act makes up the major part of permanent commodity legislation (along with the Agricultural Adjustment Act of 1938) and is still effective in an amended form. The 1949 Act originally designated mandatory support for nonbasic commodities: wool and mohair, tung nuts, honey, Irish potatoes and milk, butterfat, and their products.

Amends other permanent legislation as needed

Continues other legislation, as desired

“Omnibus” legislation

Was commonly a 4-year proposition until 1996 FAIR Act

- Lengthened because it’s painful

Agricultural Policy 1996: Let's Not Support Prices

1996 - "Freedom to Farm"

Concept:

- Markets are strong
- We have a high baseline (planned spending without change in policy) for ag budget, let's use it to:
- phase out subsidies and supports over the life of the bill and be blissfully free market by 2000

Agricultural Policy 2002: Let's Support Prices

2002 - "Freedom to Spend"

Concept:

- Markets are weak
 - ↳ Market Transition payments, now called Direct Payments, contribute to strong production and weak prices
- Budgets are strong
 - ↳ Enough money available to restore costly programs
- Farmers don't want free markets when prices are low, so bring back the subsidies and supports

Agricultural Policy 2007: Let's Support Farmers -- Incomes, Prices, Demand -- and worry about other problems later

2008 - "Freedom to Pay Later"

Concept:

- Markets are strong, output prices are high, but so are input prices
 - ↳ Weak dollar, short energy, very strong international demand
- Budgets are weak
 - ↳ Have to get creative on coming up with "new" money
- Lot's of loose policy threads (environment, energy, trade, food aid) but let's worry about that later. Pass a bill that will help Democrats win elections
 - ↳ Change only what absolutely must be changed
- Keep most old programs going but find some new ways to help farmers

The US Farm Bill - Process

1. HR 2419 passed on 27 July 2007
2. SA 3500 (the Senate's "amendment" to HR 2419) passed on 14 December 2007
 - a) Insufficient time to form Conference Cte and complete process; so 2002 Bill extended to 15 March
3. Conference Committee, 110th Congress, Second Session
 - a) President threatens veto of any bill that requires new taxes and that fails to meet his ag policy goals for reducing support
 - b) Stymied committee get 2nd extension, to 18 April
 - c) 3rd extension comes when Congressional leaders decide they have enough votes to override President's lingering objections
4. House and Senate pass amended HR 2419, The Food, Conservation, and Energy Act on 14 and 15 May
5. Final Bill to President by third week of February

The US Farm Bill - Process

5. President vetoes Bill
6. House and Senate override the veto with comfortable margins on 21 and 22 May
7. Clerk discovers Title III was not included in the bill sent to the President, sending the whole process into question
8. Determined that all other Titles are in effect, but Congress re-passes the whole Bill as HR 6124 (22 May in House, 5 June in Senate)
9. HR 6124 is also “veto-proof”
10. USDA is beginning to act on the 14 titles that were already passed, announcing payment rates contained in **the Bill.**

The FCEA of 2008 - Major Titles

TITLE I--COMMODITY PROGRAMS

- ✓ Subtitle A--Direct Payments and Counter-Cyclical Payments
- ✓ Subtitle B--Marketing Assistance Loans and Loan Deficiency Payments
- ✓ Subtitle C--Peanuts
- ✓ Subtitle D--Sugar
- ✓ Subtitle D--Dairy
- ✓ Subtitle E--Administration

TITLE II--CONSERVATION

- ✓ Subtitle A--Definitions and Highly Erodible Land Conservation
- ✓ Subtitle B--Conservation Reserve Programs
- ✓ Subtitle C--Wetlands Reserve Program
- ✓ Subtitle D--Conservation Stewardship Program
- ✓ Subtitle E--Farmland Protection and Grassland Reserve
- ✓ Subtitle F--Environmental Quality Incentive Program
- ✓ Subtitle G--Other Conservation Programs of the Food Security Act of 1985
- ✓ Subtitle H--Funding and Administration of Conservation Programs
- ✓ Subtitle I--Conservation Programs Under Other Laws
- ✓ Subtitle J--Miscellaneous Conservation Provisions

TITLE III--TRADE

- ✓ *Subtitle A--Food for Peace Act*
- ✓ *Subtitle B--Agricultural Trade Act of 1978 and Related Statutes*
- ✓ *Subtitle C--Miscellaneous*
- ✓ *Subtitle D--Softwood Lumber*

TITLE IV--NUTRITION PROGRAMS

- ✓ Subtitle A--Food and Nutrition Program
- ✓ Subtitle B--Food Distribution Programs
- ✓ Subtitle C--Child Nutrition and Related Programs
- ✓ Subtitle D--Miscellaneous

TITLE V--CREDIT

- ✓ Subtitle A--Farm Ownership Loans
- ✓ Subtitle B--Operating Loans
- ✓ Subtitle B--Emergency Loans
- ✓ Subtitle C--Administrative Provisions
- ✓ Subtitle D--Farm Credit
- ✓ Subtitle E--Miscellaneous

TITLE VI--RURAL DEVELOPMENT AND INVESTMENT

- ✓ Subtitle A--Consolidated Farm and Rural Development Act
- ✓ Subtitle B--Rural Electrification Act of 1936
- ✓ Subtitle C--Miscellaneous
- ✓ Subtitle D--Housing Assistance Council

The FCEA of 2008 - Major Titles

TITLE VII--RESEARCH AND RELATED MATTERS

- ✓ Subtitle A--National Agricultural Research, Extension, and Teaching Policy Act of 1977
- ✓ Subtitle B--Food, Agriculture, Conservation, and Trade Act of 1990
- ✓ Subtitle C--Agricultural Research, Extension, and Education Reform Act of 1998
- ✓ Subtitle D--Other Laws
- ✓ Subtitle E--National Institute of Food and Agriculture
- ✓ Subtitle F--Miscellaneous

TITLE VIII--FORESTRY

- ✓ Subtitle A--Cooperative Forestry Assistance Act of 1978
- ✓ Subtitle B--Cultural and Heritage Cooperation Authority
- ✓ Subtitle C--Amendments to Other Forestry-Related Laws
- ✓ Subtitle D--Boundary Adjustments and Land Conveyance Provisions
- ✓ Subtitle E--Miscellaneous Provisions

TITLE IX--ENERGY

TITLE VIII--FORESTRY

- ✓ Subtitle A--Cooperative Forestry Assistance Act of 1978
- ✓ Subtitle B--Tribal-Forest Service Cooperative Relations
- ✓ Subtitle C--Amendments to Other Laws

TITLE XIII--COMMODITY FUTURES

- ✓ Subtitle A--General Provisions
- ✓ Subtitle B--Significant Price Discovery Contracts on Exempt Commercial Markets

TITLE XIV--MISCELLANEOUS PROVISIONS

- ✓ Subtitle A---Socially Disadvantaged Producers and Limited Resource Producers
- ✓ Subtitle B--Agricultural Security
- ✓ Subtitle C--Other Miscellaneous Provisions

TITLE XV--TRADE AND TAX PROVISIONS

- ✓ Subtitle A---Supplemental Agricultural Disaster Assistance from the Agricultural Disaster Relief Trust Fund
- ✓ Subtitle B--Revenue Provisions for Agriculture Programs
- ✓ Subtitle C--Tax Provisions
- ✓ Subtitle D--Trade Provisions

The Food, Conservation & Energy Act of 2008 (“The 2008 Farm Bill”)

Projected 5-year cost of >\$285 billion.

Increases spending by almost \$20 billion above budget baseline, including

- \$4.5 billion via budget gimmicks that just change timing of certain payments to get them out of the next 5 years’ budget cost projection.
- \$4 billion by sun-setting popular programs which will never really be terminated.
- \$1.4 billion in new tax provisions

The FCEA of 2008 - Some Highlights

Commodity (Major Crops) Programs

- ↳ Target Prices and Loan Rates
 - ✓ Continued
 - ✓ Expanded to include additional pulses (beans and lentils)
 - ✓ Some increased, some reduced by trivial amounts
- ↳ Direct Payment rates reduced somewhat
- ↳ Tightens AGI eligibility test
 - ✓ No DP if AGI > \$750,000
 - ✓ No benefits if non-farm income exceeds \$500,000
- ↳ Payment Cap
 - ✓ \$40K on DP, \$60K on CCP
- ↳ Three-entity rule repealed
 - ✓ Question will be enforceability, either in fact or in principle
 - ✓ Payments tracked to individuals (natural persons), cannot gain payments by incorporation, partnership, or splitting farms
- ↳ Creates ACRE - Average Crop Revenue Election - Program
 - ✓ Compares “actual” state average revenue against benchmark, makes supplemental payment to target
 - ✓ Uses individual’s base acres to determine payment
 - ✓ Payment trigger based on State average yield times national average price
 - 5 year Olympic average on yield
 - Last 2 years on price (this could get us into trouble)
 - ✓ Substitute for CCP => 20% cut in DP, 30% cut in CCP payment limits

The FCEA of 2008 - Some Highlights

Crop Insurance

- ↳ Reduces reimbursement rates (surprise)

Permanent Fund for Disaster Assistance (\$3.7 billion)

- ↳ Intended to “complement” crop insurance, more crop insurance means proportionately large assistance
- ↳ Covers lost revenue from crops, livestock or trees

The FCEA of 2008 - Biofuels

No more money for expansion of corn-based ethanol industry

\$900 m for cellulosic ethanol: pilot plants, research, & feedstock grower incentives

Reduce corn-based ethanol blenders credit by 12% to 45 cents per gallon, but create a new cellulosic ethanol blenders credit of \$1.01/gal. (twice what we had for corn)

Extend ethanol import tariff 2 years beyond current expiration in Dec. 2010 and no reduction in the tariff rate.

The FCEA of 2008 - Country of Origin Labeling (COOL)

- (Finally) became effective Sept. 30
- require labeling for
 - ✓ muscle cut and ground beef (including veal), pork, lamb, goat, chicken,
 - ✓ fresh and frozen fruits and vegetables,
 - ✓ peanuts, pecans, macadamia nuts and ginseng
 - ✓ sold by designated retailers.
- labeling origin and method of production have been required for fish and shellfish covered commodities sold at retail since April 2005
- Hillary tried to get dairy added

The FCEA of 2008 - Some Dairy Highlights

Calendar year purchase prices

- ↳ Cheddar blocks = \$1.13
- ↳ Cheddar barrels = \$1.10
- ↳ Butter = \$1.05
- ↳ Nonfat dry milk = \$0.80

Temporary price adjustments may be triggered if net removals exceed certain triggers, e.g.,

- ↳ If rolling 12-month cheese net removals exceeds 200 M (but < 400 M), drop price 10¢ the next month, following month goes back up, but subject to trigger again
- ↳ If rolling 12-month equal or exceed 400 M, drop price 20¢

- ↳ If rolling 12-month butter net removals exceeds 450 M (but < 650 M), drop price 10¢ the next month, following month goes back up, but subject to trigger again
- ↳ If rolling 12-month equal or exceed 650 M, drop price 20¢

- ↳ If rolling 12-month nonfat dry milk net removals exceeds 600 M (but < 800 M), drop price 10¢ the next month, following month goes back up, but subject to trigger again
- ↳ If rolling 12-month equal or exceed 800 M, drop price 20¢

Sell back set at no less than 110% of (statutory) purchase prices

- ↳ Sale of product for unrestricted use (anyone can buy, do with it as they will)
 - ✓ Harder to move surplus product into foreign or domestic donations now (partly WTO, partly political)
- ↳ not new authority but can be tricky and controversial
- ↳ implies a ceiling on upward price movements until government net removals decline.

The FCEA of 2008 - Some Highlights

Dairy

Dairy Market Loss (MILC)

Payment rate trigger = \$16.94

Payment rate adjustment for Feed Costs

- ↳ Uses “national average dairy feed ration cost
- ↳ If actual > \$7.35, trigger price is increased by 45% of the relative difference
 - ✓ E.g., if dairy ration cost is estimated to be 10% above \$7.35, the milk payment trigger rises 4.5% (or \$16.94 times 1.045 = \$17.70)

Payment amount adjustment and cap

FY2007-08 = 34% & 2.4 M lbs

FY2008-12 = 45% & 2.985 M lbs

FY2012-xx = 34% & 2.4 M lbs

MILC Payment Estimates

Month	Trigger	Class I	Payment
Jan-09	\$17.45	\$18.99	NA
Feb-09	\$16.94	\$13.97	\$1.34
Mar-09	\$16.94	\$13.35	\$1.61
Apr-09	\$17.24	\$13.33	\$1.76
May-09	\$17.33	\$13.84	\$1.57
Jun-09	\$17.40	\$14.27	\$1.41
Jul-09	\$17.46	\$15.11	\$1.06
Aug-09	\$17.45	\$16.16	\$0.58
Sep-09	\$17.58	\$17.20	\$0.17
Oct-09	\$17.55	\$17.70	NA
Nov-09	\$17.54	\$17.71	NA
Dec-09	\$17.79	\$17.90	NA

The FCEA of 2008 - Some Dairy Highlights

Allows forward contracting on any federally regulated milk that is not Class I

Extends Dairy Export Incentive Program

Extends Dairy Indemnity Program

Extends National Dairy Board authority & expands promotion assessment to HI, AK, PR, DC

Modifies administrative rule requirements and establishes timetable for steps in a Federal Order Hearing

Requires report on NDM price reporting

Requires FMMO Review Commission and report (not going to happen)

The FCEA of 2008 - Some Highlights

Conservation

- ➔ Extends Conservation Reserve Program (authorizes 32 million acres)
- ➔ Expands CSP (renamed Conservation Stewardship Program) “working lands” conservation program (\$1.1 billion/year)
 - ✓ Tiered payments based on conservation practices
 - ✓ Cost share environmental practices
- ➔ Extends & expands Wetlands & Grasslands Reserve Programs & other programs.
- ➔ Increases EQIP funding by \$3.4 billion
- ➔ Establishes payment limitations on conservation programs

Nutrition Programs the Big Winner

\$10.361 billion of increases:

- ➔ \$7.845 billion – ease food stamp eligibility criteria & increase minimum benefit; index both to inflation.
- ➔ \$1.26 b – commodity purchase for food banks-TEFAP
- ➔ \$1.02 b – fruit & vegetable school snacks
- ➔ Others, e.g. seniors' farmers markets, community food projects, nutrition promotion, & Dole-McGovern international school feeding

program

The FCEA of 2008 - Some

Highlights

Trade & Food Aid

- Repeals Export Enhancement Program
- Eliminates long-term export credit program & reforms export credit guarantee program.
- Authorizes small amount of local purchase of food aid near destination
- Reauthorizes monetization of food aid
- Reduces funding for international school lunch program
- Reauthorizes Market Access Programs & Foreign Market Development program.

Trade Related Issues

Resumption of Doha Round Talks

- ↳ Background talks are continuing
- ↳ Progress is not yet within grasp, but....
 - ✓ Market access vs end of production subsidies

WTO Challenges to US Programs

- ↳ WTO Dispute Resolution Court recently upheld Brazil Cotton decision, paving way for significant damage claims if US does not change law
 - ✓ Brazil wants to start charging compensating penalties but
 - ✓ WTO is allowing US more time to comply
- ↳ Additional complaints pending

WTO Problems with Farm Bill

Raise loan rates and target prices (shift dollars from green to amber box) while reducing direct payments

ACRE creates additional large upside potential in amber box support if market prices drop

No repeal of fruit & vegetable exclusion

Extends authority for dairy export subsidies and monetization of food aid

Fails to change cotton program as required by WTO Brazil Cotton Case & reauthorizes equivalent to “step 2” subsidy

Increases sugar support & protectionism

Mandatory Country-of-Origin Labeling (“COOL”).

Closing Observations

An unprecedented number & diversity of groups participated in 2007 Farm Bill debate and demanded reform, but the traditional ag/commodity organizations dominated.

USDA's farm bill proposal and the U.S. negotiating position in WTO trade negotiations were largely ignored by the Congress.

Nutrition, specialty crop, and conservation lobbies have a bigger stake in 2008 Farm Bill than the 2002.

Sufficiently loaded with something for everyone to pass House and Senate with veto-proof majority, but

- ➔ Players change a bit in 2009
- ➔ Budget will almost assuredly require a revisit

Does it matter who is in the White House or Whitten Building?

Sure, well maybe

1. President and Secretary have some ability to shape implementation of existing law
2. President has
 - A short honeymoon period
 - A good excuse to revisit spending issues

Congress still gets to pass the laws

1. WTO may yet force changes
2. New Congress is likely to be more protectionist
3. High food prices created huge backlash
4. Budget is scary

Vilsack's Priorities

- Advancing renewable energy sources
- Progress on major environmental challenges
- Providing a safety net for farmer and ranchers
- Modernizing the food safety system
- Quickly implementing the 2008 farm bill
- Combating childhood obesity
- Programs that alleviate hunger and suffering overseas
- Restoring the mission of the Forest Service
- Modernizing USDA's computer systems
- Cleaning up USDA's civil rights record.