
24 July 2007

Farm Bill Moves through Agriculture Committee

The Issue at Hand

On 19 July 2007 the House Agriculture Committee completed its review of the draft Farm Bill legislation prepared earlier by its constituent sub-committees. The Committee has now compiled a version of the Farm Bill that will next be tabled before the House of Representatives proper. This is another step in the process which is looking to finalise a 2007 version of the Farm Bill before the current legislation enacted in 2002 expires on 30 September 2007. The text will now be considered by the full House by the end of the month. The House Bill then has to be merged with the draft prepared by the Senate. The Senate version has not yet been compiled (or 'marked up') and the House process is thus somewhat ahead of the Senate at this stage of the proceedings. The House of Representatives is now expected to vote on the Farm Bill before the end of July.

The Essential Elements of the Draft

The House Agriculture Committee dealt with the Bill rather rapidly during the week ending 20 July 2007. The Bill consists of two parts. The first covers Sudan's major programs and the second covers more discretionary funding on social programs. The core elements that are contained in their work are reported to be as follows¹:

- A new addition provides for more than \$1.6 billion to support the fruit and vegetable industry. A new section for 'Horticulture and Organic Agriculture' includes nutrition, research, pest management and trade promotion programs. This provision is to assuage these farmers who may have opposed funding at their expense to more traditional recipients, like cotton.

- The introduction of a provision for farmers participating in commodity programs with a choice between traditional price protection and new revenue coverage payments (the so-called countercyclical payments).
- A strengthening of payment limits to ensure that ‘farmers’ making more than \$1 million a year (adjusted gross income) cannot collect conservation and farm program payments. It closes loopholes that allow recipients to avoid payment limits by receiving money through multiple business units.
- Rebalancing loan rates and target prices among commodities, achieving greater regional equity.
- Cutting federal payment rates to crop insurance companies that are making record profits due to higher crop prices.
- A new investment spend on conservation programs, including the Conservation Reserve Program, Wetlands Reserve Program, Environmental Quality Incentive Program, Farm and Ranchland Protection Program, among others.
- An expanded USDA Snack Program, which helps schools provide healthy snacks to students during after-school activities to all 50 states and continuing the Fresh Fruit and Vegetable Program, which provides a variety of fresh produce to schools.
- Strengthened and enhanced food stamp program by reforming benefit rules to improve coverage of food costs and expand access to the program with additional funding support.
- The inclusion of provisions that invest in rural communities, including economic development programs and access to broadband telecommunication services.
- The establishment of a new National Agriculture Research Program Office to coordinate the programs and activities of USDA’s research agencies to minimize duplication and maximize coordination at all levels and creates a competitive grants program.
- Payments to protect and sustain forest resources.
- New investments in renewable energy research, development and production.

¹ For readers wanting to analyse these elements in detail, the full text of this Farm Bill (H.R. 2419) can be accessed at: <http://agriculture.house.gov/inside/2007FarmBill.html>.

Provisions Affecting Cotton

The 20 July 2007 House draft is still a very good text for US cotton farmers. The following elements are of particular interest to the cotton sector:

Countercyclical Payments

The main highlight is perhaps the inclusion in the draft of an option for farmers to participate in either the traditional countercyclical payments scheme (price based) or a new, revenue based, countercyclical payment scheme. This would be administered by having farmers make a once off upfront election as to which support to adopt. The text retains the existing requirement which sets out conditions on the payment of direct and countercyclical payments and then provides producers with the choice between participating in current countercyclical programs or the new revenue based countercyclical program. It authorizes an option for revenue countercyclical payments for 2008-2012 crop years to producers for which base acres and payment yields are established. Revenue payments will be made when national actual revenue per acre is less than the national target revenue per acre.

The program establishes national target revenue per acre and national payment yields per acre for each commodity as described in the Administration's draft proposal, which was largely ignored up to this point. It sets a national payment rate for revenue conter-cyclical payments equal the difference between national target revenue per acre and national actual revenue per acre divided by the national payment yield. When triggered, revenue countercyclical payments will equal the combination of the national payment rate, the payment acres, and the payment yield for current countercyclical payments. The Secretary of Agriculture has indicated that the USDA expects most farmers to opt for the new revenue based option.

Price Supports

As regards fixed prices, the following target price supports were tabled:

- Wheat, \$4.15 per bushel (23 cents above the 2002 level).
- Corn, \$2.63 per bushel (same as 2002 farm bill price).
- Sorghum, \$2.57 per bushel (same as 2002 farm bill price).

- Barley, \$2.73 per bushel (49 cents above 2002 farm bill price).
- Oats, \$1.50 per bushel (6 cents above 2002 farm bill price).
- **Cotton**, \$0.70 per pound (**2.4 cents below** 2002 farm bill price).
- Peanuts, \$495 per ton, (Same as 2002 farm bill price).
- Rice, \$10.50 per hundredweight (Same as 2002 farm bill price).
- Soya bean, \$6.10 per bushel (20 cents above 2002 farm bill price).
- Oilseed, \$0.1150 per pound (1.4 cents above 2002 farm bill price).

Note that cotton is very slightly lower than at present. It has been suggested that this reduction will be 'corrected' on a later revision of the text.

International Price

The text gives the Secretary of Agriculture the responsibility to issue regulations containing formulas to determine the prevailing world market prices for cotton and requires mechanisms for adjustment and periodic announcements of such prices. For cotton it is specified that price quotes from Far East market are to be used to determine the world market price for cotton. The "Far East Price" means the three lowest price quotes on the sale of upland cotton in Far East markets based on delivered cost and freight. The term "Far East Price" comes from a publication by Cotlook, an independent firm that reports cotton market information. Recall that the current basis of using Northern Europe, as the international comparative is also a Cotlook index, but will be discontinued by Cotlook. The USDA will also be able to make quality and location advantage adjustments to the Cotlook values.

Quotas

The generic import quota for upland cotton, as it is under the current Farm Bill is retained. This quota is operational when US domestic cotton prices exceed the previous 36 month average. When this happens, a quantity equal to 21 days of domestic textile mill consumption will be imported without the out of quota tariff.

In addition, the text authorises the President to issue special import quota for upland cotton if for a continuous four week period the price of US cotton exceeds the price of cotton based on the Far East market index. This, again, differs from the practice which is also based on the Northern Europe index. Under current

system there is an alternative trigger for this special import quota, based on a decline in the US stock to use ratio to a level below 16%. This alternate trigger is removed under this draft of the Bill. However, the overall amount of cotton that can come into the US market under the special import quota during any marketing year is limited to the equivalent of 10 weeks consumption of upland cotton by domestic textile mills. This is an increase in relation to the current practice of using 5 weeks of consumption.

Processor Payments

The text authorizes the Secretary of Agriculture to issue marketing certificates or cash payments to domestic users of upland cotton for uses of all cotton regardless of origin. The payments or certificates are to be set at 4 cents per pound. The payments can be used for acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities or machinery. This is a return of the so-called 'Step 2' programme which was ruled illegal in the Upland Cotton WTO dispute.

Direct Payments

The ceiling for direct payments is increased for eligible entities and is raised from the present \$40 000, per annum to a new level of \$60 000 per annum.

The Response

Bob Stallman, the president of the American Farm Bureau Federation, represents the generally satisfied voice of organized agriculture in response to the latest Farm Bill text. The AFB commended the House Agriculture Committee on the passing of the latest proposal. The AFB sees the bill as a balanced proposal that addresses the needs of what they call 'a broader core' of US farmers. This 'core' no doubt refers to the new spending to appease the fruit and vegetable sector. Recall that the new text provides for \$1.6 billion in funding to fruit and vegetable and horticultural crop producers, which the AFB sees as an improved balancing of support programs between all types of crops. The AFB is also encouraged that there is a strong energy title, with \$2.5 billion in additional funding for bio-fuels.

For their part, the National Cotton Council expressed minor reservations, particularly as regards the reductions in payment limits, but in the main pledged to 'protect the legislation on the floor'.

Concluding Comment

The House Agriculture Committee draft text is being discussed by the House of Representatives this week. The House Bill will then need to be augmented with the text from the Senate Agriculture Committee, which is not yet well advanced. The Senate Agriculture Chair, Tom Harkin has expressed some doubt on whether the Senate Agriculture Committee would be able to compile its draft Farm Bill prior to August 2007, and he is facing some challenges in trying to secure additional funding for the Farm Bill. At present the budget to pay for the Farm Bill is precariously held together and may still face a real constraint on spending limits. It is worth recalling that under the US Constitution, the Senate has an equal say together with the House on this and all legislation. The cosponsor of the reformist alternative 'FARM 21' Ron Kind has promised that 'the battle is just beginning'.

The Farm Bill thus still has some way to go, and is certainly not yet in its final form.

"I want to do a good bill, a reform bill, and we'll see what happens in September. "

[Senator Tom Harkin – Chair of the Senate Agriculture Committee 21 June 2007]

IDEAS Centre offers policy advice services to developing and transition country governments in the areas of international trade, development and economic governance. In relation to the World Trade Organization (WTO), IDEAS Centre helps low-income countries defend their trade interests and thus use their WTO membership in a way that supports their development.

Our previous newsletters are posted on our website: www.ideascentre.ch

IDEAS Centre, 10, rue de l'Arquebuse, 1204 Geneva, Switzerland
T +41 22 807 17 40, F +41 22 807 17 41