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The Food, Conservation, and Energy Act of 2008 Summary and Possible Consequences

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Wes Harris, Brad Lubben, James Novak, Larry Sanders[1]

FCEA Introduction

The primary purpose of this article is to provide a summary and briefly comment on key provisions of the Food, Conservation and Energy Act of 2008 (PL 110-246) and discuss possible consequences of the selected provisions. As passed by the House and Senate, the act contains 15 titles (the pdf version covering 683 pages). While most provisions will be at least briefly discussed, more attention will be devoted to the production-related provisions, especially substantive changes from the 2002 act. The general title of any new farm bill is telling in both what is significant in the bill and in what the authors want you to think is significant. The Conference report was titled as the Food, Conservation and Energy Act. "Food" refers to the importance of the consumers; "Conservation" calls attention to the importance of the environment and "Energy" calls attention to concerns over current high gas and food prices. As well as building coalitions for passage of the bill, concentration on these three issues also signify that farm prices and the farm safety net are not accorded as high a priority as in past farm bills. It is our opinion that opposition to commodity provisions had much to do with the focus of the bill.

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Overview and History

Six months past due, the Food, Conservation and Energy Act of 2008 (HR 6124; PL 110-246) is now law. History was made when the President vetoed the farm bill (twice) requiring an override of the veto by Congress (twice). This was the first Farm Bill since 1956 to be vetoed.

A House vote on May 14, 2008 passed the first farm bill, H.R. 2419, by a margin of 318 to 106. The Senate vote on the bill passed the following day by a margin of 81 to 19. President Bush vetoed the bill on May 21. By the next day, both the Senate and House overrode the President's veto and the bill became Public Law No: 110-234. However, a glitch in the submission of 2419 left the Trade Title (III) out of the first document the President vetoed, thereby rendering only 14 of the farm bill's 15 titles law. A second version of the same bill, same title, was introduced and passed as HR 6124 on June 18, 2008 thereby repealing HR 2419 and making 15 of the 15 farm bill titles law.

Reform was central to the debate that ultimately resulted in this new farm bill. Whether this bill will ultimately succeed in providing a farm and food safety net for all regions of the country and whether it is a "good" or "bad" bill depends largely upon future events and will likely continue to be debated long after its expiration.

Delays in passage of a new farm bill led to extensions of the 2002 Farm Security and Rural Investment Act (2002 farm bill) through May 23 2008. Delays in passage of a new farm bill were variously attributed to wrangling over scarce budget dollars with multi-jurisdictional committee issues; disagreements between the Administration and Congress over the degree of reform of the 2002 farm bill desired and sources of funding for the new bill; World Trade Organization (WTO) compliance concerns; lack of coordination among commodity organizations and a concerted campaign in the media aimed at commodity provisions of a new bill.

Cost of the bill has been widely debated. The official CBO estimate scores the bill at $307 billion for the 5 year period 2008-2012. Of the 5-year spending, 68% goes to nutrition, 11% for commodity programs, and 8% for conservation programs. Other titles of the bill receive the remaining 13% of authorized funds.

Highlights of the FCEA

1. As passed the bill is a 5-year bill that runs from 2008 thru 2012 and reauthorizes most programs of the 2002 farm bill although with modifications to some.
2. New Titles added to the bill include Horticulture and Organic Agriculture; Livestock; Commodity Futures, Crop Insurance, Tax and Trade.
3. The bill is scored by the Congressional Budget Office (CBO) at $641 billion for 10 yrs, and about $307 for 5 yrs using 2008 budget baseline figures.
4. More than two–thirds of the act's funds go to nutrition programs, with more funding for food stamps, food banks, locally–produced food, and school and seniors food programs.
5. Commodity programs were reauthorized but with reductions in payment limits, some commodity program payment rate changes, inclusion of a new revenue program, crop insurance reform, and a new permanent disaster assistance program.
6. Target prices, direct payments, and loan rates are adjusted for some commodities and add pulse crops in 2009. The Average Crop Revenue Election (ACRE)

Program will be an option to the Direct and Counter-Cyclical Program (DCP) beginning in 2009.

7. Adjusted Gross Income (AGI) limits per individual (“entity”) are imposed on direct and conservation payments but not on counter-cyclical payments or marketing loan gain.
8. More funds will go to conservation programs with substantial growth in the renamed Conservation Security Program (CSP), Environmental Quality Incentives Program (EQIP), Farm and Ranch Protection Program (FRPP), Grasslands Reserve Program (GRP), and Wetlands Reserve Program (WRP).
9. COOL (Country of Origin Labeling) will be fully implemented on September 30, 2008 with some commodities added and with revised labeling, recordkeeping, and compliance rules.
10. Energy provisions include increased funding for biofuel plants and cellulosic ethanol; a reduction of the existing ethanol tax credit from $0.51 to $0.45 per gallon, and an extension of the ethanol import tariff.

Summary of Title Provisions

Key related provisions and significant differences between the 2002 and 2008 farm bills are discussed below. Most are familiar with provisions of the 2002 law and so those will not be rehashed except where required to illuminate provisions of the current bill.

In general, a pro-bill view of the new act is that it provides a safety net to producers; maintaining a domestic safe, varied, affordable food and fiber supply. It is also said to attract surplus capital from abroad stimulating investment in both agriculture and other U.S. economic sectors. The current bill is also said to bring reform by reducing the distribution of tax dollars to wealthy producers and landowners, and providing additional food security to consumers and assistance to socially disadvantaged and beginning producers.

An anti-farm bill view is that it maintains the status quo of supporting wealthy farmers while giving political legitimacy for domestic food price increases. Anti-farm bill advocates say the bill contains little reform; provides no budgetary savings. Lack of responsiveness to WTO compliance concerns has been characterized as "thumbing the nose" of Congress at trade partners. Continued incentives are said to be provided to concentrate resources in the hands of fewer producers and agribusinesses, exacerbating the problems of distributional inequity in farm programs and farm resource ownership.

Commodities

Provisions contained in the FCEA Commodity Title are similar to those of the 2002 law with the exception of a new Average Crop Revenue Election (ACRE) program authorized for 2009-2012. Direct payments, counter-cyclical payments, and the optional ACRE program are all authorized in the new bill for eligible commodities including peanuts. Pulse crops are added to program crops eligible for ACRE and DCP programs starting in 2009.

ACRE provides a voluntary (but irrevocable for the length of this farm bill) adjunct to the program payments created in 2002. Upon election of ACRE, price-based Counter-Cyclical program payments are replaced with revenue-based ACRE payments. Direct Payments and marketing loan rates are reduced for those electing participation in ACRE.

Payments for each crop under ACRE are triggered by the combination of individual farm and state farm revenue losses. Individual farm and average state farm losses must fall below individual and state "benchmark" revenue levels before payments are triggered Yield benchmarks are based on five-year Olympic average yields per planted acre while price benchmarks are based on two-year moving average national prices. Individual farm benchmark revenue levels include crop insurance premiums paid to avoid penalizing individual producer decisions who purchase higher levels of crop insurance coverage.

ACRE payments are triggered when

1. Actual state revenue falls below an ACRE Program Guaranteed revenue

   and

2. Actual farm revenue falls below individual farm revenue for the crop year for the covered commodity.

Individual farm and average state farm losses must fall below 100% of individual average farm revenue and 90% of state average revenue levels respectively before payments are triggered. In each year, the actual state revenue is calculated as actual state yield per planted acre times the national average price. Actual farm revenue is calculated as actual farm yield per planted acre times the national average price.

If both farm and state revenues fall below their respective triggers, an ACRE payment is calculated as:

a. The lesser of (ACRE Program Guarantee (minus) Actual State Revenue) or (25% of the ACRE Program Guarantee)

b. Times 83.3% of planted acres in 2009–2011 for eligible commodities OR 85% of planted acres in 2012 for all eligible commodities

c. Times the ratio of the farm's 5–year Olympic average yield per planted acre divided by the state's 5–year Olympic average yield per planted acre.[2]

The "ACRE Program Guarantee" is defined as 90% of the benchmark state (past 5 year Olympic average) yield per acre for the crop year times the "ACRE Program Guaranteed Price" (past 2 year average) for the current crop year. Actual state revenue is the actual state yield for the year times the national average market price for the crop year for a commodity. Actual farm revenue is actual farm yield times the national average market price.

Direct payments are based on 83.3% of base acres for 2009–2011 for all covered commodities and peanuts and 85% of base acres for all eligible commodities including peanuts in 2008 and 2012. CCP payments remain based on 85% of established eligible acres for those not electing ACRE participation. Those electing participation in ACRE will receive a reduction of 20% in Direct Payments and 30% in marketing loan rates. Unreduced commodity program payment rates are shown in Table 1.

Marketing loan program provisions are authorized to be the same as in the 2002 Farm Bill but with modifications to levels of payment and methods of calculating posted county prices and payment limits. The posted county price (PCP) upon which a loan

[2] As noted in the calculation, ACRE payments are calculated on planted acres, not base or harvested acres. The total number of planted acres of all crops on a farm covered by ACRE cannot exceed the farm's total base acres.

deficiency payment or loan repayment is made will most likely be a 30–day moving average of locally–adjusted terminal prices instead of simply the previous day's price. However, the exact mechanics of the change in calculating the PCP are still uncertain and subject to interpretation by USDA. The benefits from loan deficiency payments or marketing loan gains under the loan program will no longer be subject to payment limits, precluding the need for commodity certificate ("Certs") to liquidate commodity loans during low–price years and for use to avoid program payment limits.

The new act provides some changes in target prices and marketing loan rates for some commodities starting in 2010. For sugar, the price support loan rate for raw sugar cane is maintained at the current 18 cents/lb for 2008 and rises to 18.75 cents/lb by 2011. Sugar beet and "in process sugar" loan rates are set in relation to sugar cane loan rates. Wheat, grain sorghum, barley, oats, soybeans, other oilseeds, and pulse crops target prices are increased while that for upland cotton is reduced slightly. Program rates for selected commodities are included in Table 1.

Table 1. Commodity Program Rates for Selected Commodities

Commodity	Target Price			Direct Payment Rate	Loan Rate		
	2007	2008-09	2010-12	2007 and 2008-12	2007	2008-09	2010-12
Corn (bu)	$2.63	$2.63	$2.63	$0.28	$1.95	$1.95	$1.95
Cotton (lb)	$0.724	$0.7125	$0.7125	$0.0667	$0.52	$0.52	$0.52
Peanuts (ton)	$495.00	$495.00	$495.00	$36.00	$355.00	$355.00	$355.00
Rice (cwt)	$10.50	$10.50	$10.50	$2.35	$6.50	$6.50	$6.50
Soybeans (bu)	$5.80	$5.80	$6.00	$0.44	$5.00	$5.00	$5.00
Wheat (bu)	$3.92	$3.92	$4.17	$0.52	$2.75	$2.75	$2.94

Possible Consequences of Commodity Provisions

- Direct and Counter-Cyclical Payment (DCP) programs remain an alternative for eligible commodity program participants who do not participate in ACRE. A decision to participate in ACRE will depend on state and individual farm yield and national price volatility versus individual commodity state and farm averages. Individual farm benefits must be estimated on a commodity by commodity basis. A potential benefit of ACRE is that it may more effectively protect a producer’s income risk by focusing on revenue instead of price (as in CCP) and by covering planted acres instead of base acres. By using past 2 years average price, the guaranteed price evens out price volatility, creating less downside price risk in the current market environment, but it also levels out upswings in the market. Using Olympic average yields will reduce yield. However, as was found with the crop insurance program back to back to back bad years may have the effect of reducing the safety net. Although limits are inherent in the legislation to reduce the swing of revenue (Section 1105; by plus or minus 10%), a failure to integrate county or region level minimum protection levels result in producers calling for amendment to the ACRE program in future years as was done with crop insurance.

- ACRE participation must also be weighed against the certain 20-percent reduction in the direct payment and the 30-percent reduction in the marketing loan rate. While the potential ACRE payments currently exceed the maximum potential CC payments, they are both subject to payment limitations, further complicating the calculations and selection of one or the other.
- Beyond the calculation of expected payments under participation choices, there is the interaction of programs with various existing risk management tools and the new disaster assistance program. The existing DCP and marketing loan provide a national- and area-level price safety net. ACRE provides a state-level revenue safety net. The new disaster assistance program provides a farm-level revenue safety net. Add these to the mix of

existing insurance and market tools and a producer's risk management decision becomes much more complex.

- Current commodity prices are generally above the target prices for program commodities requiring little immediate expenditure on the commodity title. However there are concerns over what happens if prices were to trend downward. ACRE payments could become very large very fast and counter-cyclical payment could return to the government cost column as well. If this were to happen, there would be significant concerns about the farm bill and the impact of potential WTO violations. In reality, this farm bill was written in spite of the WTO and not in light of the WTO. The bill increases target prices for counter-cyclical payments and also marketing loan rates, both of which increase the potential trade violation exposure from growing Amber Box payments. The new ACRE program and the permanent disaster program also will increase Amber Box spending as will the increase in the sugar loan rate and the Milk Income Loss Contract payments.
- The bill does not address the existing WTO conflict over fruit and vegetable planting restrictions, except to allow for a limited pilot program in certain states (the Big 10 fruit and vegetable conference to be exact). Again this creates ammunition for those countries who would like an excuse to bring suit over planting restriction violations.

Program Payment Limits

A controversial and hard fought issue in the 2008 farm bill is that of commodity program payment limits. These limits are considered controversial because some do not think limits have been set low enough to constitute reform and hard fought in that others think reform has gone too far. Limits imposed under the new law state that farm program payments cannot be received if non-farm income exceeds $500,000 or if farm income exceeds $750,000 average adjusted gross income (based on IRS reported 3 year average income). What counts as farm income is listed in the bill.

Direct and Counter-Cyclical Program limits remain as they were in 2002 with the exception that limits are imposed per individual or entity. The 2002 farm bill imposed payment limits of $40,000 of DPs, $65,000 for CCPs, and $75,000 for marketing loan gain and loan deficiency payments (LDP) per entity. Direct and Counter–Cyclical payments were made on 85% of eligible base acres. Payments for up to one–half of two additional entities were also allowed, effectively doubling the program payment limit per entity. The current law eliminates this so called 3–entity rule and tracks and limits payments to $40,000 for DPs and $65,000 for CCPs per individual or legal entity.

For ACRE payments, a limit of $65,000 per individual is imposed on the total amount of payments from one or more crops which results from ACRE or CCP, plus the amount by which the DP is reduced (the 20% cut in DP under ACRE).

Benefits from loan deficiency payments or marketing loan gains under the loan program will not be subject to payment limits. State and local governments are not eligible for commodity program payments with exceptions of payments to maintain a public school (limited to $500,000). To be eligible for program payments an individual must pretty much meet the IRS requirement for being actively engaged in the farming operation, contributing substantially capital, land or machinery or providing labor or management to the operation.

Possible Consequences of Payment Limit Provisions

A 2003 Commission report looked at the consequences of payment limit reductions ("Report of the Commission on the Application of Payment Limitations for Agriculture," Office of the Chief Economist, USDA, August 2003). Although addressing the 2002 FSRIA provisions, some generalizations can be made based on their conclusions. A question is whether payment limits have been truly reformed and or reduced by FCEA. Changes introduced by FCEA are likely to be of minimal impact. The generalizations of the Commission on reduced limits were:

- Land values and rental rates are increased by commodity program payments. Reductions in payments and limitations on payments affect both. Advantage goes to those who have to rent land to farm.
- Commodity program payments increase the wealth of land owners, reductions in payment limitations or elimination of program payments will reduce that wealth. Large, medium and small land owners are likely disadvantaged.
- Borrowing (credit) depends on collateral, if the value of land is reduced, borrowing capacity of large land owning producers could be reduced.
- Effects of reductions are regional and dependent on the non-ag demand for land. Non-ag ownership of land for recreation and development will likely continue and effects will vary.

- Unless an absentee land-lord becomes actively engaged in farming, under the new rules, they will not be eligible for farm program payments.

Dairy Support

Dairy is treated favorably in FCEA. Most provisions of the 2002 farm bill are reauthorized and increased in the 2008 bill. Support prices are established for cheddar cheese, butter, and nonfat dry milk. MILC is reauthorized with adjustments to avoid the accumulation of excess CCC stocks. Dairy Export Enhancement, Dairy Indemnity, Dairy Promotion and Research and MILC programs are reauthorized. MILC payment percentages are increased based on National Average Dairy Feed Ration costs. Maximum production on which payments are made are 2.4 million pounds for October 1, 2007 through September 30, 2008, 2.985 million pounds for October 1, 2008 through August 31, 2012, and 2.4 million pounds per fiscal year thereafter.

Possible Consequences of the Dairy Support Provisions.

- Changes from the 2002 bill are very little. Dairy programs have generally been supported and reauthorized in past farm bills as necessary on expiration of provisions. There is no reason to suspect that this might not be the case in the future.

Cotton

Reflecting the strength of the cotton industry, unique program changes were achieved in the context of the legislation. Cotton received a reduction in the 2002 farm bill established target price from 72.4 cents per pound to 71.25 cents per pound. This concession was a budget tool to offset expenses for the Textile Economic Adjustment Assistance program.

Cotton is unique in that it is not affected by the thirty day average market price determination for repayment of marketing loans or loan deficiency payment calculations. Basis is determined based on the current average world price.

Adjustments in FCEA included:

- Continuation of a requirement to determine an adjusted world price (AWP) adjusted to U.S. quality and location (Prior to enactment of ’08 farm bill, USDA released regulation changing AWP calculation to Far East quotations),
- In determining the AWP, USDA is required to use average transportation costs (current regulations specify conditions limiting adjustment to 85% of transportation costs),
- For certain high quality cotton, the Secretary shall further reduce AWP to reflect differences between premiums in US market and international markets,
- Cotton loan program changes provided for the elimination of warehouse location differentials, and modifications in loan premium and discount schedules,
- USDA is required to make storage credits available whenever the repayment rate is below the loan rate. Credits are to be made available at 90% of the 2006 rate during 2008-11 and at 80% of that rate for 2012.

The Textile Economic Adjustment Assistance program is a significant policy development which subsidizes the domestic textile industries for the use of cotton.. The subsidy is not limited to domestically produced cotton. The legislation provides for:

- Payments to domestic users of 4 cents per pound for all upland cotton consumed from August 2008 through July 2012, after adjusted to 3 cents per pound.
- Recipients must agree to invest the proceeds in plant and equipment including the acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities, or machinery.

Special cotton import provisions are established creating an import quota equal to one week's mill usage when the average US price internationally exceeds the world market price for four consecutive weeks. Imports under this quota must be bought with three months and arrive in country with six months. A limitation of ten week's of mill use in one marketing year is imposed on the quota. A global import quota is triggered under certain conditions, but cannot exist if the special import quota is in effect.

Kansas, Virginia, and Florida are now officially established as cotton producing states which will qualify them for Cotton Board membership and other benefits. The prohibition on USDA projections of cotton prices is removed.

Possible Consequences of Cotton Provisions

- Market indications are that (at current and expected prices) counter-cyclical payments will not trigger which will prevent the producer from feeling any impact of the reduction in the target price. Should prices fall, producers will of course absorb the 1.15 cent differential between the old and new target price. The adjustments to the Far East average world price calculation will be to the benefit of the producer. This modification could produce much higher marketing loan gains and loan deficiency payments particularly with cotton's exception to the thirty day average price determination for repayment rates.

- The textile assistance program may incur additional scrutiny from our trading partners and the WTO if it is construed as a mechanism to insure use of domestically produced cotton. It is of interest that media reporting on this program has been minimal. Perhaps there is some popular support for subsidizing specific industries after all.
- Import quota modifications are geared toward domestic users to protect them from high US price spikes they have seen in the past. The allowable volume of imports appears to be set at a level to equalize US pricing.
- Changes to the premium and discount schedules are in response to world quality standards that have increased over time.
- The extension of storage credits for loan cotton will favors the utilization of the marketing loan program as long as the AWP is close to or below the national loan rate.
- The lifting of the prohibition on USDA to project cotton prices will assist producer's marketing decisions with respect to the loan and marketing opportunities.

Peanuts

Congress chose to resist including peanuts as a covered commodity, hence a separate subtitle was maintained. The House advocated inclusion, but the Senate prevailed. Virtually all of the provisions for peanuts are the same as those commodities eligible for DCP and ACRE programs, with a few exceptions. The exceptions:

- Separate payment limits,
- Determination of effective date for loan deficiency payments, and
- Costs associated with loans.

The direct payment rate, target price, and loan rate remain as established in the 2002 FSRIA. The effective date for loan deficiency payments will be on the date the producer or Direct Marketing Association (DMA) requests payment. Handling and associated costs will be borne by the CCC for peanuts placed in the loan subject to re-payment at redemption. The CCC will also absorb the expenses of storage, handling, and associated costs for loan peanuts that are forfeited.

Possible Consequences of the Peanut Provisions

Price discovery is virtually non-existent in the peanut market for producers as their market options are based on 'option' contracts. Option contracts are basically provided by the sheller, through a DMA, to place peanuts in the loan. The producer relinquishes his right to determine time of redemption to the DMA, which operates at the behest of the sheller. In short, CCC becomes a bank for the sheller on all loan peanuts providing the producer with the loan value and the sheller with handling costs. The only out of pocket money for the sheller is the option premium. As the sheller redeems (hand-to-mouth), the loan is paid but the overall cost of money to the sheller is reduced significantly.

- The forfeiture provision will provide great incentive for the shellers to allow peanuts to reach maturity to recoup storage and handling as well as purchase the peanuts for a discounted rate.
- This system still does not allow significant opportunities for spot pricing of peanuts, thereby limiting price discovery.

Sugar

Sugar support increased in FCEA. The price support loan rate for raw sugar cane is maintained at the current 18 cents/lb for 2008 but rises to 18.75 cents/lb by 2011. Sugar beet and “in process sugar” loan rates are set in relation to sugar cane loan rates. Sugar producers are also guaranteed an 85% share of the domestic sugar market for human consumption, with any imports in excess of 15% of the market diverted to bioenergy production.

Possible Consequences of Sugar Provisions

- Public outcry will likely continue against the loan rate for sugar.

Crop Insurance/Disaster Assistance

The federal crop insurance program is modified under FCEA to attain cost savings, greater compliance, special treatment of organic farmers, expanded research and development, timing shifts in premium due dates and company expense reimbursement, and regular opportunities for RMA to evaluate the industry. Cost savings are expected by adjusting the national loss ration from 1.075 to 1.0, and making corresponding adjustments in premium rates to equal projected indemnities. Cost savings will also come from reducing administrative and operating expense payments by 2.3 percentage points from current rates (except for an adjustment when the loss ratio in an individual state exceeds 1.2). Premium due dates and company reimbursement dates are changed starting in 2012. Significant increases in catastrophic and non-insured crop assistance program administrative fees are included in the legislation.

Supplemental Agricultural Disaster Assistance is a component of the title as a redundancy to Title XV. Since the program was initiated and funded by Senate Finance with House Ways and Means in concurrence, it is discussed separately. Other disaster assistance programs under the title are specific to major incidents such as Hurricane Katrina and are primarily implemented by the Small Business Administration and the Federal Emergency Management Agency.

Possible Consequences of Crop Insurance Provisions

Premium costs are escalating due to higher prices which lead to higher indemnity levels. Therefore:

- RMA's national loss adjustment ratio from 1.075 to 1.0 will be particularly painful to high value crops that are not as actuarially predictable as lower value enterprises.
- At a time when crop insurance participation is at an all time high and risk management is as challenging as ever, it seems Congress has thrown the farmer under the bus to achieve cost savings for other programs.
- The minor reduction in A&O paid to companies (2.3 percentage points) is more for budgetary purposes than substance. Commission rates will still be very lucrative at current and projected premium levels.
- It is apparent that if Congress intends to reduce crop insurance expenses, then USDA should administer the entire program without private re-insurers.

Disaster Assistance

A hard fought issue in the farm bill was that of the provision of permanent disaster legislation. Ad hoc disaster assistance has been authorized in some part of the nation almost every year over the past several farm bills. Title XV of the new farm bill creates authorization for a "Supplemental Agricultural Disaster Assistance trust fund".

Producers suffering losses on eligible commodities for the farm in designated disaster areas (and with a waiver for losses that exceed 50% outside a disaster area) will be eligible for assistance under this program.

Past disaster assistance programs were funded by emergency appropriations or from offsets with the budget baseline. The creation of a Trust Fund is a novel approach to creating a pool of funds for agricultural programs. Trust Fund money is derived from a 3.08% assessment of duties accumulated under the Harmonized Tariff Schedule. The Fund is available for borrowing as necessary to implement the program.

The Trust Fund supports five new disaster assistance categories: These are the Supplemental Revenue Program (SURE), the Livestock Forage Disaster Program (LFP), the Livestock Indemnity Program (LIP), the Tree Assistance Program (TAP), and the Emergency Assistance Program for livestock, honey bees, and farm raised fish. A payment limit of $100,000 per individual per crop year in total disaster assistance is imposed for all programs except TAP under this title. A separate limit is imposed for the TAP program of $100,000 per individual per crop year. The program is authorized only through September 2011.

SURE participation requires insurance for all crops with an exception for 2008 if producers pay a nominal administrative fee by August 20, 2008. A difference in past assistance is that this program encompasses the entire farm and all crops in determining a total farm revenue program guarantee. If total farm revenue is less than an estimated program guarantee, 60% of the difference between farm and program guaranteed revenue would be provided in payment. The SURE guarantee is based on 115% of the insurance protection purchased or 120% of the noninsured assistance program coverage signed up for on the farm, but may not exceed 90% of the expected revenue for the farm. The SURE multiplier applied to the insurance coverage level provides protection against so called "shallow losses."

Total farm revenue includes the actual production value of the crop; insurance indemnities; any other disaster assistance; 15% of the DP for the farm; all loan deficiency payments and marketing loan program gains; and all CCP or average crop revenue payments.

LFP, LIP, and TAP programs are similar in application and benefit levels to previous ad hoc disaster programs. The program for livestock, honey bees, and farm raised fish is intended to augment other assistance programs that the Secretary of Agriculture determines to be inadequate. Except for the Livestock Indemnity Program, these programs require prior insurability from either crop insurance or the noninsured crop disaster assistance program.

Possible Consequences of Disaster Assistance

- LFP, LIP, and TAP have existed to some degree in disaster legislation for some time, and should be easily implemented under the current legislation.
- Authorization for the additional emergency program is funded at $50 million annually and therefore based on past emergency funding needs should not prove to be a major problem for FSA.
- A major policy difference exists between traditional ad hoc disaster programs and SURE. Ad hoc disaster program treated each crop separately and the SURE program accounts for entire farm revenue losses creating what is likely to be a major headache for FSA.

- Traditional ad hoc assistance program losses were calculated on those exceeding 35%. Payments were made irrespective of insurance indemnity level. The SURE program language incorporates indemnity payments into the farm revenue. This incorporation offsets the indemnity level the producer chooses as the guarantee will be offset by the indemnity payments. There will be no incentive to increase buy up insurance as the coverage level will diminish the difference between guarantee and farm revenue.

Evaluation of SURE is mixed, and varying assumptions make questions about the adequacy of the funding unclear. The 60% factor applied to the difference between the program guarantee and the total farm revenue caps the indemnity enhancement at 9%. This can be compared to the previous ad hoc disaster program covering losses greater that 35% loss at approximately 50% of the insurance price which allowed for much greater indemnification. Ad hoc assistance was specific to each crop on each farm and not the total of all crops on farms, which also provided a greater risk management benefit.

A final observation is about the Congressional multi-jurisdictional aspect that this program creates in the Farm Bill. This represents a major policy concession by the House and Senate Agriculture Committees, incorporating separate committee jurisdiction within the scope of the bill.

Conservation

Conservation programs available under the 2002 farm bill are generally reauthorized in the new farm bill with some modifications and with growth in the overall level of funding. Program payment limitations were modified to reflect attribution of funds to the individuals receiving them.

Reserve programs, including the Conservation Reserve Program and the Wetlands Reserve Program, were both reauthorized through 2012. The acreage cap in the CRP was reduced from 39.2 million acres to 32 million acres nationwide beginning in 2010. CRP now allows wetlands with a cropping history, constructed wetlands that receive nitrogen runoff and commercial aquaculture ponds (that raised aquaculture in any year 02-07) subject to natural overflow to be eligible for the program. The WRP cap is increased from 2.275 million acres to 3.041 million acres nationwide and includes a change in rules for compensating landowners that could make WRP enrollments more attractive.

For working lands, a major change in program name and payment structure renames the Conservation Security Program (CSP) the Conservation Stewardship Program (CSP).

The “Tiered” payment approach of the 2002 FSRIA CSP is replaced by payment to compensate producers for installing and adopting conservation practices. The amount of payment will be based on environmental benefits and costs of applying the conservation practices. Animal waste facility construction, treatment and maintenance of facilities (basically those covered by EQIP) are not eligible for this program. Additional funding and program provisions apply. Enrollment in the new CSP is targeted to cover nearly 12.8 million new acres per year at an average cost of implementation of $18 per acre, or $230 million per year for new contracts.

EQIP or the Environmental Quality Incentives Program continues to provide cost-share and technical assistance for adopting new conservation practices. New EQIP priorities highlighted in the 2008 farm bill include conservation practices related to organic production and transition, payments to producers to address air quality concerns, and a new Agricultural Water Enhancement Program to address water quality and water conservation needs.

The funding authorization for EQIP is increased from $1.3 billion per year in 2007 to $1.75 billion per year by 2012. Payments are authorized for a producer to implement one or more eligible conservation practices. Originally designed as a cost share program, payments to producers for performing conservation practices are limited to 75% of the costs associated with planning, design, materials, equipment, installation, labor, management, maintenance, or training; 100% percent of income foregone. Limited resource, socially disadvantaged or beginning farmers or ranchers will be allowed increases in those limits but to not more than 90% of costs. Limitations of $300,000 apply per individual or in the case of “special environmental significance” not more than $450,000 over a 6 year period.

To encourage a move to organic production practices, EQIP payments will be made for conservation practices which apply to organic production; and to transitions to organic production. However these funds cannot be used to gain organic certification. Limitations of $20,000 per year or $80,000 per 6 year period apply to this provision.

Other programs reauthorized in the 2008 farm bill include preservation programs such as the Farmland Protection Program (FPP) and the Grasslands Reserve Program (GRP). The FPP is modified to work through “certified entities” for the purchase of conservation easements. The GRP is set to increase by 1.22 million acres during 2009-2012.

Possible Consequences of Conservation Provisions

Incentives provided in FCEA to incorporate conservation practices are not sufficient to compete with current commodity prices, but that may change as prices begin to inevitably fall within the next few years.

- Lowering the acreage cap in CRP will preclude the possibility of a new general signup until 2010 (with enrollments beginning fiscal year 2011).

From the current enrollment of 34.7 million acres (USDA-FSA, March 2008), expirations in 2008 and 2009 will take out 5.1 million acres, dropping the total CRP enrollment to 29.6 million acres.

The CRP continuous signup process has resulted in approximately 380 thousand acres enrolled each year since it was implemented in 1997. If that level of enrollment continues, the CRP would be near 30.6 million acres during 2010, leaving little room for additional signup to the limit of 32 million acres. As a result and especially in light of current prices, most of the 5.2 million acres of CRP that expire in 2008 and 2009 will transition from the CRP back into agricultural production.

- FCEA reduces the overlap in program funding.
- Except for changes to the CSP and CRP programs some minor adjustments in funding and streamlining functional areas are all that distinguishes the new from the old farm bill conservation programs. The Conservation title might be considered to be pretty much status quo as regards most programs.

Energy

The FCEA allocates one billion dollars over the life of the bill to authorize, reauthorize and fund programs that augment renewable energy investments in technologies, new feedstocks, and facilities. The Biomass Research and Development Program is continued with mandatory funding of $118 million. Collaborative implementation exists between USDA and the Department of Energy coordinating research and development activities which address feedstock improvements and biofuel production efficiencies.

Biorefinery assistance provides $320 million in mandatory funding for loan guarantees to produce biofuels. Guarantees may cover 90 percent of the loan amount with loans up to 80 percent of cost or maximum of $250 million.

The Rural Energy for America Program (REAP) provides $250 million in grants and loan guarantees to farmers and rural businesses for investing in renewable energy systems and energy efficiency. USDA is directed to fund and support expanding production of advanced biofuels under the Bioenergy Program with mandatory funding of $300 million. Essentially, incentives are paid on increased production of biofuels developed from farm and forestry crops as well as waste materials.

Possible Consequences of Energy Provisions

- Given current world price of sugar and loan rates of 18.75 to 24 cents per pound, the requirement that the USDA purchase excess sugar to avoid forfeiture may be an expensive program and will likely face scrutiny.
- Reduced support for grain ethanol and increased support for cellulosic ethanol is put forth as a relief for the global food crisis and a relief for livestock producers. However the technology to convert cellulosic materials to ethanol has not been fully developed and may require the length of this farm bill to get going. A range of consequences include large amounts of research spending with either little to

show by the end of five years or significant breakthroughs with reauthorized programs after 2012.

Horticulture and Organic Agriculture

A major effort was mounted by the specialty crop industry after the 2002 Farm Bill to achieve greater inclusion in the 2008 Farm Bill. Their efforts were accomplished with the authorization of approximately one billion dollars of funding to support the industry under a separate title.

Under FCEA market prices and shipment information will be enhanced with a new market news service and additional funding for organic marketing data collection and publication. Funds are included to educate both the public and the fresh produce industry on fresh food safety. The title authorizes funding to support farmers' markets, agri-tourism and other direct producer-to-consumer enterprises. Electronic benefits transfer payment is authorized for the purchase of fresh produce.

Central to the Title is increased funding support for the Specialty Crop Block Grants program. This provision builds upon the Specialty Crops Competitiveness Act of 2004 and will be funded at $466 million over ten years. Grants are provided to the states to support marketing, research, education, food safety, and pest and disease management.

Further funding is authorized to establish priorities and partnerships between federal and state governments to provide early detection of pests and formulation of methods of pest control in specialty crops. Organic farming is supported by USDA's cost share program to offset costs incurred during the organic certification process. Research on Colony Collapse Disorder in honey bees, and a National Clean Plant Network are also established under the title.

Possible Consequences of Specialty and Horticultural Crops Provisions

- This title provides some compensation against potential future elimination of fruit and vegetable planting restrictions on base acres thus guaranteeing the support of this group for future farm bills.
- Abuse of the specialty crop block grants process is a concern. With a significant increase in the dollars available, the Managers indicated their concerns that the process be accomplished with public comment and careful Secretarial review to avoid potential abuses.
- Many states since 2006 have used block grants almost exclusively for funding of marketing programs that incorporate other commodities that are not within the scope of specialty crops. Opposition or at least protest from those cut out of the program is likely.
- Support for farmers' markets, roadside stands, agri-tourism, and other similar producer to consumer enterprises may be affected by food safety problems.

Livestock

FCEA adds a new livestock title to provide basic protections for farmers producing livestock and poultry. Producers will be allowed to decline arbitration clauses in livestock and poultry contracts. Should litigation over contract disputes become necessary, language enables producer to petition for local court jurisdiction. Contracts may be canceled within three days after acceptance by a producer. Swine and poultry contracts must disclose the possibility of large capital investments over the life of the contract to improve transparency. Other protections for producers regarding unfair practices are also specified.

The 2002 Farm Bill required country-of-origin labeling (COOL) at retail sale outlets for beef, lamb, pork, fish, peanuts, fruits, and vegetables. Implementation has been delayed until September 30, 2008. FCEA clarifies that meat must be born, raised, and slaughtered in the same country to be labeled as such. The bill also added chicken (and pecans) to list of products that must be labeled. The industry-supported compromise was to ease record-keeping expectations to the level of what is normally maintained, provided it shows where the animals came from at the point of sale.

Administrative oversight of the Packers and Stockyards Act by USDA is improved by instructing USDA to provide and annual compliance report detailing number of investigations, time spent, and potential violations of the Act.

Possible Consequences of Livestock Provisions

- Congress addressed several contract grower concerns with respect to relationships with contractor. As the cost of production of these commodities continues to increase and profit margins are squeeze; the possibility of corporations finding loopholes in the law and off-shoring of the industry will escalate.
- The language does provide greater protection for the individual producer.
- The industry, in general, was quite pleased when Congress left the packer feeder ban on the cutting room floor. There are those producers and smaller feeders that are not happy with this result, perceiving it as caving to corporate agriculture, and will continue to fight it.
- Country of origin labeling is essentially finalized with additions of a few commodities and clarification of multiple country meat originations. Industry specialists believe the burden on most producers to be minor since virtually all

commercial operators maintain adequate records. Compliance for integrated processors will be easier than originally thought.

- A point to consider is even with the compromise, COOL may still be a burden for stocker cattle producers. Current "normal" records do not always specify where specific animals originate because of commingling.
- It is apparent Congress wanted the provision to be implemented politically, but with little teeth in enforcement as the maximum fine is set at $1000. This would indicate a great deal of latitude until the program is mature.

Credit

Through the Credit Title, FCEA authorizes programs supporting farm ownership, operating loans, and loans for cost share conservation programs. Priority in virtually all credit programs is relegated to beginning and socially disadvantaged farmers. Congress recognizes that beginning farmers are faced with extremely high start up expenses, and the programs attempt to assist the beginner in achieving a farm operation.

Credit availability for all farmers for farm ownership loans and operating loans is increased to $300,000. A land contract pilot program provides loan guarantees to individuals that self-finance the sale of land to beginning farmers. Farm purchasing loan programs for beginning farmers that combine resources of the farmer, commercial lender and USDA are modified.

A pilot program named the Beginning Farmer and Rancher Individual Development Account is a pilot program authorized for 15 states (yet to be determined). The program works through non-profit entities to set up accounts for beginning farmers who lack significant financial resources. Qualified expenditures would include: farmland purchases or down payments, mortgage payments on farmland, and breeding stock, fruit and nut trees, or trees for harvest.

Possible Consequences of Credit Provisions

Implementation of loan programs roll out fairly smoothly and it would be safe to assume that the federal government will be the lender of last resort even on loan guarantees. A focus on beginning farmers is admirable, but the economics are problematic. Beyond the cost of land (owned or rented) is the escalating cost of production and equipment. The economy of scale dictates larger farming operations to generate adequate net margins for survival. This would indicate that:

- Beginning farmer will need to be ‘sponsored’ either by family or partnership to be successful even with lower cost federal loans.

Nutrition

In response to requests from urban representatives and higher food prices, the Nutrition Title gets more than two-thirds of the funds in the new act, with $10.361 billion in new funds. Reforms in the Food Stamp Program, newly-renamed the “Supplemental Nutrition Assistance Program” (SNAP), provides additional money with an increase in the minimum standard deduction and the minimum benefit for recipients. Revised SNAP provisions indexes asset limits and excludes such assets as retirement accounts and education funds. The title also now allows the full cost of dependent care to be deducted, and excludes special combat pay as income so that some lower-paid soldiers may be eligible for food stamp support. A pilot program is to be established to support more fresh fruits and vegetables purchased by food stamps.

Other provisions in the Nutrition Title provide more support for USDA to fight fraud cases. Coupons are eliminated with a full transition to Electronic Benefit Transfer (EBT) cards, also expanding their use to Senior Farmer's Markets. The Seniors Farmers Market Nutrition Program is authorized to get $20 million in new money over the next 10 years. The Snack Program gets additional funding of $1.02 billion to assist participating schools (and is now expanded to all states, to provide healthy snack foods to students at after-school activities).

Other programs include:

- USDA nutrition monitoring and a demonstration project to evaluate obesity strategies, especially for children in low-income communities.
- Additional funding of $5 million for Innovative Community Food Projects.
- The Food Distribution Program on Indian Reservations will be studied to see if it meets dietary guidelines, as well as providing $5 million/year for native and locally grown food purchases.
- Extension of the Commodity Supplemental Food Program for low-income elderly.
- Increases in the USDA's Emergency Food Assistance Program to provide for purchase of commodities at $190 million for FY08; $260 million for FY 09; and formula funding for FYs 2010-12.

Possible Consequences of Nutrition Provisions

- The revisions of the key nutrition programs, such as food stamps will be important to low-income families who are increasingly challenged by rising food prices.
- Low-income elderly and children will be benefited.
- Additional support for food programs continues to support a higher demand for food than would exist without the funding.
- This also exerts upward price pressure for the food consumer in general.

Trade (Title III & portions of Title XV, Tax and Trade)

The Trade Title provides for increased spending over baseline with some emphasis on responding to the global food crisis, maintaining access to foreign markets and benefitting the diplomatic agenda.

Responding to criticisms of food emergency response, funds ($8 million) are authorized to help the Agency for International Development (AID) warehouse food in developing countries and for planning for rapid distribution of food in emergencies. A pilot program is initiated to purchase $60 million worth of food locally in developing countries during food emergencies. The McGovern-Dole International Food for Education and Child Nutrition Program is maintained, with $84 million to get nutritious meals to children in schools in developing countries.

To comply with the WTO, export credit guarantee programs were reformed. The fee cap on GSM-102 is lifted. Also the GSM-103 long term export credit program was eliminated. The Market Access Program is authorized $200 million per year, while the Foreign Market Development Program is extended with funding of $3 million for eligible commodities. Other programs such as the Farmer-to-Farmer program and the Bill Emerson Humanitarian Trust are also extended. The Global Crop Diversity Trust is to be endowed by AID to conserve genetic diversity food crops and storing germplasm. Funding increases of $4 million in 2008, increasing to $9 million in 2012 are established for technical assistance for specialty crops.

Softwood lumber is added to the Tariff Act of 1930. This provision establishes the rules for export and import of softwood lumber, as well as establishing penalties of violation.

Trade provisions in Title XV include extension of certain trade benefits, including duty-free status for apparel from Haiti and the Dominican Republic.

Possible Consequences of Trade Provisions

Trade-related and commodity provisions of the farm bill indicate a Congressional commitment to

- Respect the spirit of trade agreements;
- Provide food aid to hungry and disaster-hit peoples outside the US; and,
- Support competitive marketing of US agricultural commodities and products.
- This trade title generally continues support for trade goals with the exception of lack of harmonization with domestic commodity-related provisions.

Tax and Trade

Title XV (Tax and Trade) is essentially a separate act (Heartland, Habitat, Harvest, and Horticulture Act of 2008) that is incorporated into FCEA. The act addresses many different tax issues. Farm tax reforms variously target ethanol credit modification, limiting farming losses on Schedule F, payment of optional self-employment taxes, extending tariff on ethanol, and excluding denaturant form alcohol fuels credit.

Farm tax "relief" is generated by tax exempt "Aggie Bonds," security tax credit for agribusinesses, equal tax treatment for horses, and tornado disaster tax relief for Kansas. Further tax breaks apply to CRP payments to retired or disabled farmers, tax deduction for endangered species, extension of deductions for conservation easements, establishment of maximum tax rate on timber transactions, and tax-credit timber conservation bonds. Domestic energy development is supported by a production tax credit for cellulosic biofuels. Relief measures allow the depreciation of race horses over three years instead of the current allowable seven years at a cost of $126 million over ten years.

However, savings to the government are also achieved in the bill. The ethanol blending credit is reduced by FCEA from 51 cents per gallon to 45 cents, an estimated benefit of $1.2 billion over ten years. Farming losses are capped at $300,000 per year for deduction generating an estimated $479 million in revenue. Putting a positive spin on it, allowing farmers to pay more in self-employment taxes will enhance their eligibility to secure adequate Social Security benefits and provide the government an additional $105 million in new revenues. Tariffs on imported ethanol are extended for two years, and ethanol denaturant credits will be reduced from 5% allowable to 2% raising $124 million. Extension of the customs fees through 2018 offset $10 billion in spending increases incurred by the Farm Bill.

Possible Consequences of Tax and Trade Provisions

The incorporation of a separate act with jurisdiction outside the House and Senate agriculture committees is an extraordinary event that may have significant implications over time. Obviously, to maintain "paygo" compliance; additional revenues were required and the Senate Finance Committee is the tax authority. The fact that eight members of the Senate ag committee are also Finance committee members including the Chairman and Ranking Members; certainly fueled the engine for this abnormal occurrence.

- The reduction of ethanol credits was a low hanging piece of fruit that could be readily garnered with public support, but will create a squeeze on already thin margins throughout the production system.

Commodity Futures

Congress added the CFTC Reauthorization Act of 2008, which continues the Commodity Futures Trading Commission (CFTC) through 2013. New provisions were added in Exempt Commercial Markets that had been clear of direct government regulation with respect to electronic energy markets. Foreign currency fraud protection for consumers is provided by authorizing CFTC to regulate contracts in foreign currency sold to consumers. The dominance of electronic transactions has precluded CFTC's fraud authority that was applied only to third party deals. The bill creates authority for CFTC over principal-to-principal exchanges. Finally, the title increases penalties for intended or actual manipulation of futures.

Possible Consequences of Futures Provisions

The tremendous influence of speculators in commodity futures trading combined with electronic trading capabilities has diminished the CFTC's ability to effectively monitor trades particularly with respect to energy markets. These provisions should create better price discovery mechanisms and foster better detection methods to prevent market manipulation by speculators. Foreign currency exchange contracts have recently evolved into shell companies that represent unknown investors that speculate on price changes in the value of currency. The lack of identity has promulgated incidents of fraud.

- Provisions should preclude some of the advantage perpetrators would have utilizing the exempt commercial markets.

Rural Development

The Rural Development Title maintains several programs for infrastructure, economic development and health care in rural communities. Some of these programs include:

- Water, Waste Disposal, and Wastewater Facility Grants
- Rural Business Opportunity Grants
- Child Day Care Facility Grants, Loans and Guarantees
- Rural Water and Wastewater Circuit Rider Program
- Tribal College and University Facilities
- Emergency Water Assistance Grant Program
- NGO grants for low-income household water well construction and servicing
- Rural Cooperative Development Grants
- Health care services

The title provides for the Rural Firefighters and Emergency Medical Service Assistance Program, making phone system loans to public groups for expansion of 911 service. Grants will also be available for weather radio transmitters to expand coverage of the emergency weather broadcast system.

Broadband service for rural communities will continue to be supported with loans and loan guarantees. Also, the FCC is charged with developing a rural broadband strategy. Distance learning and telemedicine provisions continue to be supported.

Local agricultural production is supported by this title. Locally or regionally produced agricultural food products are defined as those raised, produced and distributed within the state in which the product is produced, or transported less than 400 miles from origin. Other programs include:

- Authorized funding of $15 million is provided to the Value-Added Agricultural Product Market Development Grant program.
- Establishment of 10% set-asides for beginning and socially disadvantaged producers, and strategic marketing alliances between small to midsize producers and supply chain partners.
- Information and resource sharing for sustainable and organic producers.
- Funds for loans under the Business and Industry Program to aid rural food enterprise entrepreneurs and local food distribution.
- Support for rural business development through micro lending and grants for the new Rural Entrepreneur and Microenterprise Assistance Program, which provides $15 million for technical and financial assistance for rural businesses with less than 10 employees.

- Extension of the Agriculture Innovation Center Demonstration Program.

Possible Consequences of Rural Development Provisions

While the maintenance of long-standing infrastructure programs is welcome by rural communities, there was some disappointment that support for broadband was not more extensive. Also, overall funding did not match the felt needs of the rural sector. It is interesting to see the small but growing support for local agriculture. This is a movement in some parts of rural America, and some see it as a small but significant shift in the thinking of how to feed consumers and provide home-grown economic development for rural agricultural areas. The assumptions that locally produced food are safer, healthier, and friendlier to the environment remain to be evaluated scientifically. However, the "feel good" experience when purchasing local food products from farmers markets has carried into limited but none-the-less welcome funding.

- Program success and safety will likely lead to greater funding in future legislation.

Research and Extension

Although authorizing most of the same activities as did the 2002 bill, major changes in the Research title of the farm bill involve reorganization of CSREES and the creation of the Research Education and Extension Office within USDA. Shifts are also made in funding lines to the 1890, 1994 and Hispanic Serving Institutions reflecting perhaps the shift in philosophy to less underserved agriculture and to specialty crops.

A Chief Scientist has been a part of the structure of the USDA in past farm bills. Under the new farm bill this position has been folded into the position of Under-Secretary of Agriculture for Research, Education and Economics. A political appointee, his/her job will be to coordinate research, education and extension activities of the “Department” in the “Research, Education and Extension Office” and the “National Institute for Food and Agriculture.” Six Divisions of this Department (with Division leaders to assist the Under-Secretary) are identified as renewable energy, natural resources, and environment; food safety, nutrition, and health; plant health and production and plant products; animal health and production and animal products; agricultural systems and technology; and agricultural economics and rural communities. The Cooperative Research, Education and Extension Service (CSREES) will transfer all authorities, functions, budgets, duties, obligations, competitive programs, capacity and infrastructure programs, personnel, etc., to a new National Institute of Food and Agriculture. A Director will be appointed by the President to direct the Institute for a period of 6 years (with reappointment possible for an additional 6 years.)to carry out fundamental and applied research and education programs as prioritized by the Under-Secretaries office.

New initiatives specified in the bill include:

- Competitive grants programs for the study of antibiotic resistant bacteria in ground and surface water and as they relate to human and animal populations;
- Awards to state Extension services and systems to work with nonprofit organizations to develop farmer and rancher related stress assistance networks;
- A program to study agricultural rural transportation issues and provide education on same and
- A seed distribution program to administer and maintain the distribution of donated vegetable seeds to food insecure populations.

In addition, grants for high priority research and Extension areas are identified in the bill (Sec 7204). Section 7206 targets Organic Agriculture research and extension funding it at the level of $18 million in 2009 and $20 million each fiscal year in 2010 through 2012.

Noncompetitive or quasi competitive programs authorized include investigations of foot and mouth disease (to be administered by the Department of Homeland Security); natural products (bioactive and botanicals) investigation; and “sun grants” energy research to be administered through regional sun grant centers.

Administration of the sun grant program will involve the collaboration of the USDA, Department of Energy (DOE) and land grant universities on bio-energy research. Centers are identified in the legislation as South Dakota State University; University of Tennessee; Oklahoma State University; Oregon State University; Cornell University and the University of Hawaii.

Interesting tidbits include reauthorization for policy research centers and an increased emphasis on building the capacity of the 1890 and other non-1862 institutions. Sections 1444 and 1445 of the 1977 National Ag., Research, Extension and Policy Act are amended to increase the proportion of total appropriations from 15% to 20% for Extension and from 25% to 30% for Research at 1890 Land-Grant universities. Capacity building grants are also provided to Non-Land-Grant Colleges of Agriculture (NLGCA). Matching funds from the states are now required to “equal” those provided as federal formula funds. Regional Centers of Excellence are to be established for specific commodities are identified by the Secretary of Agriculture.

Possible Consequences of Research and Extension Provisions

- 1862 Land Grant institutions will have to raise more funds from state sources and compete for increasingly scarcer federal dollars as formula funds dry up.
- 1890 and other Land Grants will receive some additional assistance in this bill.
- The intent is clear that institutions other than Land Grants will be part of the competitive process and will receive assistance from the feds.

Forestry

The Forestry Title of FCEA builds on past farm bill titles in supporting efforts to: improve private forest conservation, prevent illegal logging, restore private forests after disasters, and enhance the Forest Reserve Program. The title creates national priorities to maintain working forests for multiple uses, protect forests from pests, and improve public benefits from private forests. New authority is provided to help with aftermath of hurricane and wildfire damage. The Forest Reserve program has been modified from 99 year easements to permanent easements.

Possible Consequences of Forestry Provisions

- Private forestry land owners are usually well off giving Congress some pause in providing public funds for support. However the provision of conservation benefits under this title creates public as well as private benefits.
- Restoration provisions will assist landowners who suffer damage from natural disasters.

Miscellaneous Provisions

Miscellaneous items covered in FCEA include:

- Programs for socially disadvantaged and beginning farmers,

- Civil rights programs for farm workers and minority farmers,
- A permanent ban from participation in programs as a penalty for defrauding the USDA ,
- A prohibition of closure of county or field offices of the FSA for two years,
- Agri-security provisions,
- Animal welfare protections, and
- Establishment of three regional commissions dedicated to economic development.

USDA continues to struggle with assimilation and fair treatment of minority and socially disadvantaged farmers. The challenge will continue to exist as structural and social barriers are confronted.

Concluding Thoughts

Some analysts argue that the current high food prices and a global food crisis is, in part, the result of abandoning long term supply and risk management programs. Agricultural policies of the late 20th and 21st Centuries dealt more with eliminating excess supply and "drains on the market." The Farmer-Owned Reserve was dropped, prices were decoupled from production and excess capacity was seen as an enemy to be destroyed, while foreign sales were subsidized. There is little or no recognition in this farm bill of a long-term storage or long term planning line of reasoning.

Concerns about increasing weather variability and potential climate changes are largely (though not totally) ignored with little reform of crop insurance programs to account for potential increases in yield and price variability.

Along those lines, disaster assistance is made permanent at support levels many analysts believe cover only shallow losses and which may provide inadequate funding to cover widespread catastrophic farm losses sufficient enough to keep farmers in business.

Speculative use of the futures market and rapid price increases have made it extremely expensive and less practical for hedging. The increases in lines of credit now needed for forward contracting and hedging is completely ignored in the legislation.

New programs such as ACRE and SURE seem to fall short of adequately responding to increasing volatility in agriculture and food markets. This is perhaps the greatest shortcoming of the new legislation. However time and additional experience may provide better answers and policy alternatives.

For More Information

H,R, 2419 and H.R. 6124, ***Food Conservation and Energy Act 0f 2008***, full text at

http://agriculture.house.gov/inside/FarmBill.html

Report of the Commission on the Application of Payment Limitations for Agriculture, Submitted in Response to Section 1605, Farm Security and Rural Investment Act of 2002. Commission on the Application of Payment Limitations for Agriculture, Published by the Office of the Chief Economist, USDA, Washington DC August, 2003..

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