The 1996 Farm Bill: What Does It Mean for the Agricultural Community?

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The recent passage of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, a.k.a. the 1996 farm bill, has left many in agriculture with mixed feelings. On one hand, there is relief the bill is signed, sealed, and delivered, while on the other hand there is a feeling of uncertainty about its effects on the agricultural community. Several months have been devoted to debates and discussions concerning the most recent farm bill, but only a short amount of time is available for producers to review the final provisions of the bill before its implementation.

The major provisions of the bill address nine issues encompassing commodity programs, agricultural trade, conservation, nutrition assistance, agricultural promotion, credit, rural development, research, and miscellaneous. The first section or title of the farm bill, entitled Agricultural Market Transition Act, defines the commodity programs that will be in place for the next seven years, and combined with the agricultural trade and conservation sections, comprise the “heart” of the 1996 FAIR act. The following paragraphs will discuss these main provisions of the farm bill and provide an overview of potential impacts on the agricultural community.

Title I - Agricultural Market Transition Act

Crops - Production flexibility contracts will replace acreage reduction programs and target prices currently in place. These will be seven year contracts that producers enter with the federal government in return for set payments. Producers are allowed to plant any commodity they wish on their land, with the exception of some fruits and vegetables, while receiving payments for those crops for which they have established base acreage, including wheat, feed grains, cotton and rice. For example, if a producer has land that was enrolled in the acreage reduction program or was considered planted in farm programs in at least one of the last five years or had a Conservation Reserve Program (CRP) contract that expired or was voluntarily terminated on or after January 1, 1995, the producer is eligible to engage in a production flexibility contract. This acreage is considered contract acreage. Producers may enroll all or a portion of their contract acreage in the program and may subsequently reduce this quantity in future years.

Producers that may participate in production flexibility contracts include owners of eligible cropland who assume all or partial risk associated with producing the crop, a producer with a share-rent lease provided the owner of the land participates, or a producer who cash rents under a lease expiring on or after September 30, 2002. In addition to meeting these requirements, the owner or producer entering into the contract must comply with conservation, wetland, and planting flexibility requirements.

There will be a one-time sign-up for these production flexibility contracts which will begin on May 20, 1996, and run through July 12, 1996. Total government outlays for the contract payments are fixed at $5.6, $5.4, $5.8, $5.6, $5.1, $4.1, and $4 billion dollars for 1996 through 2002 respectively. Wheat contracts will receive 26.6 percent of total annual outlays, corn 46.22 percent, sorghum 5.11 percent, barley 2.16 percent, oats 0.15 percent, upland cotton 22.63 percent, and rice 8.47 percent.
For an individual producer, the contract payment quantity of a contract commodity for each fiscal year will equal 85 percent of the contract acreage multiplied by the specific farm program payment yield. Annual contract payments will be made by September 30 of each year. For 1996, 50 percent of the contract payment may be received within 30 days following the signing and approval of the production flexibility contract. For the years 1997 through 2002, 50 percent of the payment may be received on December 15 or January 15. No person may receive more than $40,000 per year under one or more production flexibility contracts.

Regardless of the commodity for which payment is received, producers may plant almost any crop they wish on their contract acreage and, in addition, may hay or graze any government farm program acreage at any time during the year. The only exception is that planting of fruits and vegetables other than lentils, mung beans, and dry peas on contract acreage is prohibited. In addition, producers are not required to obtain catastrophic crop insurance to participate, but they will be required to waive any eligibility for emergency crop loss assistance (disaster assistance) if they choose to forego the insurance.

In addition to production contracts, the government will make nonrecourse marketing assistance loans available to producers. Loan rates will be set using existing USDA formulas with maximum levels mandated as follows. Maximum loan rates are $6.50/cwt for rice, $0.5192/lb. for upland cotton, $2.58/bu. for wheat, $1.89/bu. for corn, and $0.7965 for extra-long staple cotton. The Secretary of Agriculture will retain authority to decrease these rates for wheat and feed grains by up to 10 percent, depending on factors including the stocks-to-use ratio. For soybeans, the loan rate is limited to a range of $4.92 to $5.26 per bushel, and for minor oilseeds, this range is 8.7 to 9.3 cents per pound.

**Dairy** - With respect to the dairy industry, several changes have been made concerning governmental support. The target or support price for fluid milk drops from $10.35/cwt in 1996 to $9.90/cwt in 1999. Similar to current policy, the milk support price will be maintained through governmental purchases of butter, cheese, and nonfat dry milk. However, the purchase price set for butter will now be allowed to fluctuate along with nonfat dry milk and cheese. As of January 1, 2000, government purchases of dairy products for price support purposes will terminate.

In addition, producer assessments on milk sold will be eliminated with the implementation of the FAIR act. Within the next three years, the number of federal milk marketing orders will be reduced from 33 to between 10 and 14. In developing these orders, the price of fluid milk will be determined using multiple basing points, utilization rates, and uniform multiple component pricing. The FAIR act also allows the Northeast Interstate Dairy Compact to be entered into for six states in the northeastern United States. The current Dairy Export Incentive Program (DEIP) will be used at levels that comply with World Trade Organization (WTO) obligations.

**Title II - Agricultural Trade**

**Export Enhancement Program (EEP)** - Funding for this program is capped at $350, $250, $500, $550, $579, $478, $478 million dollars for 1996 through 2002. By 2001, funding is equal to the maximum allowable under GATT.
In addition, the Secretary may subsidize exports of intermediate value-added products and will develop an export promotion strategy. The Market Promotion Program is renamed the Market Access Program with a cap of $90 million annually. PL480 food aid is reauthorized for seven years, and the Food Security Commodity Reserve allows sorghum, corn, rice and wheat to be stored.

**Title III - Conservation**

**Conservation Reserve Program** - The FAIR act provides authority to extend existing or enter into new CRP contracts through 2002 at a level not to exceed 36.4 million acres. Early-out options exist for those producers wishing to bring land back into production, provided the land is not deemed environmentally sensitive and the contract has been in place for at least five years. Issues not addressed include payment levels, eligibility criteria, and extensions of current contracts. These issues will be addressed later in the year by the Secretary.

**Other** - The 1996 farm bill also extends the Wetlands Reserve Program through 2002 with a maximum enrollment of 975,000 acres. One-third of these acres may be obtained through permanent easements, one-third from 30-year easements, and one-third through the use of restoration cost-share agreements. In addition, farmers and ranchers with land that faces serious threats to soil, water, and natural resources may obtain technical and financial assistance to implement environmentally beneficial land management systems through a new program called the Environmental Quality Incentive Program (EQIP). EQIP replaces several existing programs and is not available for operators of large confined livestock operations. These contracts will be between 5 and 10 years in length with maximum payments of $10,000 a year or $50,000 per contract.

**Implications for Agriculture**

Given the tight stock levels we already have for grains, in particular, corn, and the fact the FAIR Act eliminates government owned stocks, we can expect more volatility in crop prices in the short run. Adverse weather conditions will cause prices to be more volatile than in the past. This condition is nothing new to agricultural markets, but prices will be much more sensitive and swings may be much wider. During the drought of 1988, government stocks of corn were 4.5 billion bushels. About 2.4 billion bushels were pulled to maintain prices at $2.55. At this price level, consumers did not feel the effects of the drought, but under the conditions we are entering into with this legislation, this buffer will be eliminated.

The upside of the FAIR Act is the planting flexibility offered to producers. Crop producers will now be producing for the market and not the government. Shifting acreage out of one commodity and into another will occur more frequently as producers opt for those crops that will yield higher returns. In the long run and with normal weather, prices will begin to level out as producers are given the opportunity to operate in a market-oriented environment and adjust plantings accordingly.
With the exception of the Environmental Quality Incentive Program (EQIP) and the ability to hay and graze on contract acres, livestock producers will not be directly affected by the FAIR Act. However, those in the livestock industry will be influenced by price patterns in the crop sector. Livestock producers should be prepared to deal with more volatile short-term feed prices, especially over the next few years, and plan accordingly with respect to developing arrangements to lock-in lower prices. With respect to cattle producers, lower prices in the market today are attributable to the cattle cycle with higher feed costs adding additional downward pressure. In addition to feed costs and production cycles, hog and poultry prices will be increasingly affected by the export market.

Summary
With the potential for greater price volatility within a given year, producers and others in the agricultural community will need to develop management and financial tools to reduce risk. For some, this may include forward contracting to ensure input or output prices. For others it may include even more careful planning with respect to the timing of purchases and sales, still others may choose to diversify and spread the risk over a mixture of income sources. Regardless of the methods used, those operating within agriculture need to be increasingly aware of their changing business environment. As the United States continues to move toward a global market, events in trading nations will have more significant impacts on our marketing and prices. Strategic plans will need to be updated in an effort to be better positioned in this new era of global agriculture.