Agricultural Policy Assumptions

Baseline projections assume a continuation of current agricultural legislation and reflect policy decisions as of mid-November 1999. Most of the policy features assumed reflect provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act). The baseline also reflects applicable provisions of the Agricultural Adjustment Act of 1938, the Agricultural Act of 1949, the Omnibus Budget Reconciliation Act of 1990, the Omnibus Budget Reconciliation Act of 1993, the Emergency Farm Financial Relief Act, and the Omnibus Consolidated and Emergency Supplemental Appropriations Act of Fiscal Year 1999 (1999 Appropriations Act), and the FY 2000 Agricultural Appropriations Act (2000 Appropriations Act).

Programs for Contract Crops and Oilseeds

Key policy assumptions for "contract crops" (wheat, corn, grain sorghum, barley, oats, rice, and upland cotton) and oilseeds are summarized in this section.

Planting Flexibility

Nearly complete planting flexibility is permitted, with limitations on fruits and vegetables, as long as the producer complies with conservation and wetland provisions.

Production Flexibility Contracts

The 1996 Farm Act provides decoupled income support payments over 7 years that are not related to market prices or most farm-level production decisions. To receive payments and be eligible for loans on contract commodities, a producer had to enter into a production flexibility contract (PFC) for 1996-2002 during the one-time enrollment period held in 1996. Eligible land leaving the Conservation Reserve Program (CRP) may be added to an existing PFC or enrolled in a new PFC at the beginning of a fiscal year.

Farmers receive production flexibility contract payments for 7 years, 1996-2002. Payments are based on enrolled contract acreage and generally are not related to current plantings. Cumulative outlays for contract payments for fiscal 1996-2002 are capped at slightly over $36 billion. Total PFC payments will be lower, reflecting payment limitations. Production flexibility contracts are assumed to continue beyond 2002 in the baseline, with funding for contract payments remaining at the fiscal 2002 level of $4.008 billion.

Payment levels are allocated among contract commodities according to percentages specified in the 1996 Farm Act (see table 5). Adjustments were made in 1996 and 1997 for payments of previous years' deficiency payments that occur in those years and repayments of unearned deficiency payments that were due in those years. A further adjustment of $8.5 million annually is added to rice payments starting in fiscal 1997. This rice payment adjustment is also assumed in the baseline to continue beyond 2002.

Payment rates for each commodity are derived by dividing the commodity's total annual contract payments (before payment limitation reductions) by the corresponding total payment quantity on all enrolled acreage for the commodity (see table 6). Production flexibility contract payments to individual farmers are then based on the derived payment rate times the payment quantity on the farm. The payment quantity equals 0.85 times the payment yield times the contract acreage.

Annual production flexibility contract payments are made on a fiscal year basis. Through fiscal year 1998, a 50-percent advance payment could be made on either December 15 or January 15 of the fiscal year, at the option of the owner or producer. The Emergency Farm Financial Relief Act, enacted in August 1998, allowed farmers to receive fiscal year 1999 PFC payments earlier--at the producer's option, 1999 PFC payments could be received in one payment or in two equal payments at any time during the fiscal year. This payment timing option was extended through fiscal 2002 in the 2000 Appropriations Act, and is assumed in the baseline to continue in subsequent years.

Annual contract payments under the 1996 Farm Act are limited to $40,000 per person (except for additional payments that result from repayment of prior-year advanced deficiency payments). The payment limit on marketing loan gains and loan deficiency payments was $75,000 per person, per crop year, through the 1998 crops, and the three-entity rule was retained. The 2000 Appropriations Act raised this limit to $150,000 for 1999 crops. The baseline assumes that this payment limit returns to $75,000 for subsequent years.

The 1999 Appropriations Act provided $2.857 billion for market loss assistance (MLA-99) payments to be paid in fiscal 1999 to farmers who were eligible for PFC payments in fiscal 1998. MLA-99 payment rates are shown in the footnote of table 6. The 2000 Appropriations Act provides $5.544 billion for market loss assistance (MLA-00) payments to be paid in fiscal 2000 to farmers who were eligible for PFC payments in fiscal 1999. MLA-00 payment rates will be approximately equal to the 1999 PFC rates shown in table 6. The 2000 Appropriations Act also provides $475 million to 1999 producers of oilseeds.

The 1999 Appropriations Act additionally provided $2.375 billion for crop loss assistance and the 2000 Appropriations Act provides $1.2 billion for crop loss assistance.

Marketing Assistance Loans

The baseline assumes that marketing assistance loan rates for corn, wheat, upland cotton, and oilseeds will be determined based on formulas in the 1996 Farm Act, subject to the maximum levels specified in the law and minimum levels specified for upland cotton and oilseeds (see table 6). However, for crop year 2000/01, loan rates are assumed to remain at $5.26 a bushel for soybeans, and $0.5192 per pound for upland cotton. Loan rates for sorghum, barley, and oats are set each year in relation to the corn loan rate, taking into account their feed values relative to corn as measured by ratios of 5-year lagged moving average prices relative to corn prices. The rice loan rate is set at $6.50 per hundredweight.

Marketing loan provisions allow the repayment of commodity loans at less than the loan rate when posted county prices (wheat, feed grains, and oilseeds) or world prices (upland cotton and rice) are below the loan rate. Also, loan deficiency payments may instead be made to eligible producers of wheat, feed grains, upland cotton, rice, and oilseeds who agree to forgo obtaining a loan.

Cotton User Marketing Payments

The 1996 Farm Act capped total expenditures for cotton user marketing certificates during fiscal years 1996-2002 at $701 million, which was used by mid-December 1998. The 2000 Appropriations Act removed the program's expenditure cap starting in fiscal 2000, and the program was reinstated in October 1999.

For fiscal year 2000 and subsequent years, cotton user marketing payments are made to domestic users and exporters of upland cotton when the lowest-priced U.S. growth of upland cotton quoted for delivery in Northern Europe exceeds the Northern Europe price by more than 1.25 cents per pound for 4 consecutive weeks, and if during the same 4-week period, the adjusted world price (AWP) does not exceed 134 percent of the base U.S. loan rate. Payments will be made in cash or certificates to domestic users on documented raw cotton consumption and to exporters on documented export shipments during the fifth week at a payment rate equal to the difference between the U.S. price and the Northern Europe price, minus 1.25 cents per pound during the fourth week of the period.

Program Assumptions for Other Commodities

Baseline policy assumptions for selected other commodities--dairy, sugar, and tobacco--are discussed in this section. Dairy and sugar assumptions are largely based on provisions from the 1996 Farm Act and the 2000 Appropriations Act. Policy assumptions for tobacco reflect earlier legislation because the tobacco program was not included in the 1996 Farm Act.

Dairy

Dairy price supports were phased down to $9.90 per hundredweight in 1999. The 2000 Appropriations Act extended the price support program to December 31, 2000, leaving support at $9.90. Starting January 1, 2001, a recourse loan program, in which loans must be repaid with interest, is implemented for butter, nonfat dry milk, and cheddar cheese at loan rates equivalent to $9.90 per hundredweight for milk.

Sugar

The 1996 Farm Act set the raw cane sugar loan rate at 18 cents per pound and the refined beet sugar loan rate at 22.9 cents per pound. These levels are assumed in the baseline to continue through the projections.

Nonrecourse loans are available when the tariff-rate quota for sugar imports exceeds 1.5 million short tons. Sugar program loans are recourse in years when the tariff-rate quota is at or below 1.5 million short tons, but such loans convert to nonrecourse loans if the tariff-rate quota is increased above 1.5 million short tons. Processors must pay a 1-cent fee on each pound of raw cane sugar and 1.07 cents on each pound of refined beet sugar forfeited to the CCC under a nonrecourse loan.

Sugar marketing assessments were paid on all processed, domestically-grown sugar for fiscal 1997 through 1999, but were suspended through fiscal 2001 by the 2000 Appropriations Act. The baseline assumes sugar assessments will resume in fiscal 2002. Assessments on raw cane sugar marketings equal 1.375 percent of the 18 cent loan rate, 0.2475 cents per pound. Assessments on refined beet sugar marketings equal 1.47425 percent of 18 cents, 0.2654 cents per pound.

Tobacco

The major provisions of the tobacco program are included in the Agricultural Adjustment Act of 1938, as amended; the No-Net-Cost Tobacco Program Act of 1982; and the Omnibus Budget Reconciliation Act of 1993. The tobacco program was not included in the 1996 Farm Act.

Tobacco marketing quotas and allotments continue, in accordance with the Agricultural Adjustment Act of 1938. Support for flue-cured and burley tobacco is based on statutory formulas that include a 5-year moving average of market prices and a cost-of-production index. The baseline assumes a continuation of the no-net-cost assessment paid by growers and buyers to cover costs of the tobacco price support programs.

Imports of flue-cured, burley, and certain other tobaccos are covered by a tariff rate quota as authorized by GATT implementing legislation. The baseline assumes that tobacco marketing assessments on domestic producers and purchasers and on importers, which ended after crop year 1998, do not resume.

Conservation Reserve Program

The baseline assumes that the Conservation Reserve Program (CRP) will gradually build from an estimated recent level of about 32.5 million acres in fiscal 2000 to its maximum authorized level of 36.4 million acres by 2003 (see table 7). Authority to sign up and enroll acreage in the CRP is assumed to be extended after 2002 to maintain CRP acreage at 36.4 million acres. The cropping history allocation of the CRP to specific crops provided in table 7 reflects crops grown in 1998 on farms with CRP acreage. New enrollments in the CRP reflect periodic regular signups and continuous signups.

Major Trade Program Assumptions

The following assumptions are made for major U.S. trade programs.

Export Enhancement Program (EEP)

The EEP program is not currently being used, so the baseline assumes that no EEP expenditures occur in FY 2000. However, EEP expenditures are assumed to resume in the baseline starting in FY 2001. Annual quantity and expenditure levels for EEP for the remainder of the baseline are assumed to be within the limits set in the Uruguay Round Agreement on Agriculture and enacted in the 1996 Farm Act.

Dairy Export Incentive Program (DEIP)

Estimates of the quantity of dairy products exported under the DEIP and associated expenditures are formulated in the baseline within the maximum allowable expenditure and quantity levels of the Uruguay Round Agreement on Agriculture. The maximum annual expenditures for U.S. dairy product export subsidies are $144.2 million in FY 1999, $130.4 million in FY 2000, and $116.6 million in FY 2001. The baseline assumes that DEIP funding then continues at $116.6 million for subsequent years.

Export Credit Guarantee Programs

Annual program levels assumed in the baseline for GSM-102 and GSM-103 credit guarantee programs are based on forecast economic and market conditions and the expected supply/demand conditions of the countries to which GSM credit guarantees will be made available. The baseline assumes program levels of $3.792 billion in FY 2000 and subsequent years.

P.L. 480 Program

P.L. 480 program levels in the baseline for FY 2000 reflect the 2000 Appropriations Act--$155 million for Title I Credit, $21 million for Title I Ocean Freight Differential, $800 million for Title II, and no funding for Title III. These FY 1999 funding levels are then adjusted for unobligated funds from prior years and Farmer-to-Farmer Program transfers. For FY 2001, Title I Credit and Title I Ocean Freight Differential program levels are assumed at $159.678 million and $20.322 million, respectively. The Title II program level is at $837 million for FY 2001 and Title III is assumed to remain unfunded. Program levels for the rest of the baseline are assumed to increase at the general inflation rate.

Food Security Commodity Reserve

The Food Security Commodity Reserve (now the Bill Emerson Humanitarian Trust) is assumed to remain near its current level of about 2.5 million metric tons (about 93 million bushels) of wheat through the baseline. The reserve is authorized for up to 4 million metric tons of grain (wheat, rice, corn, and sorghum) to meet humanitarian food aid needs. The existing 300,000 ton release authority for urgent humanitarian relief in disasters is raised to 500,000 metric tons in the case of unanticipated need, with release of an additional 500,000 metric tons of eligible commodities allowed that could have been released but were not released in previous years. The Secretary is authorized to release eligible commodities from the reserve when supplies are so limited that eligible commodities cannot be made available for programming under P.L. 480. The 1996 Farm Act authorizes replenishment of the reserve, but does not set a specific time for replenishment. Also, funds for any commodity purchases for replenishment must be authorized in an appropriations act. The baseline assumes that funds for replenishment of the reserve through commodity purchases will not be appropriated.

Beginning in FY 2000, the Africa: Seeds of Hope Act of 1998 allows the retention and use of funds from P.L. 480 reimbursements to purchase grain to replace supplies released from the reserve. The purchases would be limited to no more than $20 million per fiscal year. CCC also is authorized to hold money as well as commodities in the reserve. However, the baseline assumes no release of grain from the reserve.

Other Agricultural Policy Assumptions

- *Ethanol*. The federal tax credit for ethanol use is assumed in the baseline, reflecting its extension through 2007 in the Building Efficiency Surface Transportation Equity Act. Additionally, a domestic commodity industrial usage program is assumed in the baseline which increases the use of agricultural commodities in the production of ethanol.

- *Bilateral and Multilateral Agreements.* The baseline assumes full compliance with all bilateral and multilateral agreements affecting agriculture and agricultural trade. Examples include full compliance with internal support, market access, and export subsidy provisions of the Uruguay Round (UR) Agreement on Agriculture.

- *World Trade Organization (WTO)*. The baseline assumes no accession to the WTO by the former Soviet Union, China, Taiwan, or any other country not formally admitted as of November 1999.

- *EU Enlargement*. The baseline assumes no enlargement of the EU-15 to add countries of Central and Eastern Europe.

- *Asia-Pacific Economic Cooperation (APEC).* No implementation of more liberalized trade among the APEC countries is assumed.

- *North American Free Trade Agreement (NAFTA).* No expansion of NAFTA to include additional countries is assumed.

- *Export Subsidy Carryover Credit.* Beyond the current year, the baseline assumes no additional carryover to later years of unused UR agreement export subsidies.

- *Other Agricultural Policy Trends*. Agricultural and trade policies in individual foreign countries are assumed to continue to evolve along their current paths. In particular, the process of liberalizing economic and trade policies underway in many developing countries will continue.

Table 5. Production flexibility contract payments under the 1996 Farm Act

Commodity	Commodity share	1996	1997	1998	1999	2000	2001	2002
	Percent				*Million dollars*			
1996 Farm Act gross contract payments								
Wheat	26.26	1,463	1,414	1,523	1,471	1,347	1,085	1,053
Corn	46.22	2,574	2,489	2,681	2,590	2,371	1,909	1,852
Sorghum	5.11	285	275	296	286	262	211	205
Barley	2.16	120	116	125	121	111	89	87
Oats	0.15	8	8	9	8	8	6	6
Upland cotton	11.63	648	626	675	652	597	480	466
Rice	8.47	472	456	491	475	435	350	339
Total payments, unadjusted		5,570	5,385	5,800	5,603	5,130	4,130	4,008
Adjusted contract payments, before payment limitations 1/								
Wheat		1,976	1,426	1,534	1,483	1,362	1,097	1,065
Corn		1,771	3,434	2,695	2,603	2,389	1,924	1,868
Sorghum		206	347	298	288	265	213	207
Barley		140	117	126	122	112	90	88
Oats		9	8	9	8	8	6	6
Upland cotton		746	639	689	665	616	496	482
Rice 2/		472	461	498	480	442	356	346
Total adjusted payments		5,321	6,433	5,848	5,650	5,195	4,183	4,061
Projected contract payments after payment limitations and other adjustments								
Wheat		1,941	1,397	1,496	1,447	1,330	1,068	1,037
Corn		1,745	3,384	2,633	2,547	2,345	1,886	1,830
Sorghum		201	338	287	277	257	206	200
Barley		137	113	120	115	108	86	84
Oats		9	8	9	8	8	6	6
Upland cotton		699	597	637	616	571	457	443
Rice		455	448	478	466	431	348	338
Total payments		5,186	6,286	5,660	5,477	5,049	4,057	3,937

1/ Adjusted for prior-year earned deficiency payments paid in these years, repayments of unearned 1995 deficiency payments, and repayments of prior-year PFC payments. These adjusted contract payments are used for payment rate calculations.

2/ 1996 Farm Act includes additional rice payments of $8.5 million annually, FY 1997 through FY 2002.

Note: FY-1999 appropriations for agriculture provided $3.057 billion for market loss assistance, with $2.857 billion paid to farmers eligible for production flexibility payments in the previous year. FY-2000 appropriations for agriculture provided $5.544 billion for market loss assistance paid to farmers eligible for production flexibility payments in the previous year.

Table 6. Summary baseline policy variables

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Marketing assistance loan rates (Dollars per unit)												
Corn	1.89	1.89	1.89	1.77	1.63	1.63	1.70	1.83	1.89	1.89	1.89	1.89
Sorghum	1.74	1.74	1.71	1.56	1.44	1.45	1.52	1.66	1.72	1.73	1.73	1.73
Barley	1.56	1.59	1.60	1.51	1.34	1.34	1.41	1.51	1.56	1.57	1.56	1.56
Oats	1.11	1.13	1.16	1.13	0.99	0.96	1.02	1.10	1.15	1.16	1.16	1.16
Wheat	2.58	2.58	2.58	2.41	2.18	2.18	2.21	2.36	2.58	2.58	2.58	2.58
Rice	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Upland cotton	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192	0.5192
Soybeans	5.26	5.26	5.26	4.92	4.92	4.92	4.92	4.92	4.92	4.92	4.92	5.09
Production flexibility contract payment rates (Dollars per unit)												
Corn	0.38	0.36	0.33	0.27	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Sorghum	0.45	0.44	0.40	0.32	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31
Barley	0.28	0.27	0.25	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Oats	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Wheat	0.66	0.64	0.59	0.47	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Rice	2.92	2.83	2.60	2.10	2.03	2.03	2.03	2.03	2.03	2.03	2.03	2.03
Upland cotton	0.082	0.079	0.073	0.059	0.057	0.057	0.057	0.057	0.057	0.057	0.057	0.057
Production flexibility contract payments (Dollars per PFC acre, average)												
Corn	32.85	31.78	29.14	23.46	22.78	22.78	22.78	22.78	22.78	22.78	22.78	22.78
Sorghum	21.87	21.09	19.34	15.55	15.10	15.10	15.10	15.10	15.10	15.10	15.10	15.10
Barley	11.28	10.83	9.95	7.99	7.76	7.76	7.76	7.76	7.76	7.76	7.76	7.76
Oats	1.36	1.30	1.20	0.96	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
Wheat	19.44	18.76	17.25	13.89	13.48	13.48	13.48	13.48	13.48	13.48	13.48	13.48
Rice	119.62	115.70	106.35	85.77	83.28	83.28	83.28	83.28	83.28	83.28	83.28	83.28
Upland cotton	41.96	40.61	37.59	30.25	29.39	29.39	29.39	29.39	29.39	29.39	29.39	29.39

Note: Units for marketing assistance loan rates and production flexibility payment rates are dollars per bushel except for upland cotton (per pound) and rice (per hundredweight).

Market loss assistance payment rates, paid in FY-1999 to farmers eligible for production flexibility payments in the previous year, are: wheat, $0.33; corn, $0.187; sorghum, $0.225; barley, $0.141; oats, $0.016; rice, $1.45; and upland cotton, $0.041. Market loss assistance payment rates, paid in FY-2000 to farmers eligible for production flexibility payments in the previous year, are equal to FY-1999 production flexibility rates.

Table 7. Conservation Reserve Program acreage assumptions

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Million acres											
Cropping History 1/												
Corn	5.1	5.2	5.7	6.1	6.3	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Sorghum	1.2	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Barley	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Oats	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Wheat	7.6	7.5	8.0	8.5	8.8	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Upland cotton	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Soybeans	4.3	4.4	4.8	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Subtotal	20.2	20.4	22.0	23.5	24.2	24.7	24.7	24.7	24.7	24.7	24.7	24.7
Fallow	2.5	2.5	2.7	2.8	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Other	7.6	7.4	7.8	8.4	8.6	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Total	30.2	30.3	32.5	34.7	35.8	36.4	36.4	36.4	36.4	36.4	36.4	36.4

1/ The cropping history allocation is based on 1998 plantings on farms with CRP acreage, and is used as a general indicator influencing land available for plantings.