Major Commodity-Related Provisions of the 2002 Farm Act

The Farm Security and Rural Investment Act of 2002 was signed into law by the President on May 13, 2002. Although the budget framework for the legislation extends over 10 years through 2011, the new law covers 6 years, governing Federal farm programs through 2007. Commodity market impacts attributable to the act will derive primarily from the commodity provisions and indirectly from changes in the conservation provisions.

The 2002 Farm Act provides income support for wheat, feed grains, upland cotton, rice, and oilseeds through three programs: direct payments, counter-cyclical payments, and marketing loans.

Support for peanuts is changed from a price support program with marketing quotas to a program with marketing loans, counter-cyclical payments, direct payments, as well as quota loss compensation payments. To the extent possible, the sugar program is to operate at no cost to the Federal Government. A new dairy counter-cyclical payment is introduced.

Important changes in the conservation provisions include expansion of land retirement programs by raising the maximum acreage permitted in the Conservation Reserve Program and placing more emphasis on wetlands. The legislation increases the emphasis of conservation on working lands by raising funding for the Environmental Quality Incentives Program and establishing a new Conservation Security Program, which pays producers to adopt or maintain specified conservation practices. Additional conservation provisions raise funding for farmland protection and create a new Grassland Reserve.

The 2002 Farm Act modifies some agricultural export programs designed to develop and expand commercial outlets for U.S. commodities in world markets and to provide international food assistance. The new law also requires that, to the maximum extent practicable, the Secretary adjust expenditures to avoid exceeding WTO domestic support commitments (aggregate measurement of support (AMS) levels), if the Secretary determines that the AMS ceiling would otherwise be exceeded.

Direct Payments

Direct payments under the 2002 Farm Act are similar to production flexibility contract (PFC) payments of the 1996 Farm Act (sometimes referred to as AMTA payments). The payment rate for direct payments is fixed for each crop and is not affected by current production or by current market prices. Direct payments to farmers are based on historical acreage and on historical yields. Commodity coverage is expanded to include soybeans, other oilseeds, and peanuts.

Direct payments differ from PFC payments in that the 2002 Farm Act sets fixed payment rates on a per unit basis for the entire life of the act (table 1). In contrast, the 1996 Farm Act fixed total expenditure levels for each fiscal year. Payment levels were allocated among contract commodities according to percentages specified in the 1996 Act. PFC payment rates for individual commodities were then derived, based on the commodity-specific budget allocations, the contract acreage enrolled, and the program yields for that commodity. Although direct payment rates are higher than PFC payment rates for 2001 and 2002, direct payment rates are lower than the average PFC rates under the 1996 Farm Act.

Under the direct payment program, eligible producers receive annual payments.[1] The payment is equal to the product of the national payment rate of the applicable crop, the producer's payment acres (85 percent of base acres) for that crop, and the producer's payment yield for the crop. For example, the direct payment for an individual corn producer is:

$$DP_{corn} = (\text{Direct payment rate})_{corn} \times (\text{Payment yield})_{corn} \times [(\text{Base acres})_{corn} \times 0.85]$$

[1]The term "producer" is defined in the commodity title of the 2002 Farm Act to mean "an owner, operator, landlord, tenant, or sharecropper that shares in the risk of producing a crop and is entitled to share in the crop available for marketing from the farm, or would have shared had the crop been produced."

Table 1—Direct payment rates under the 2002 Farm Act compared with production flexibility contract payment rates under the 1996 Farm Act

Commodity	Unit	PFC payment rates: 1996-2002 average	PFC payment rates: 2002	Direct payment rates, 2002-07
		Dollars per unit		
Wheat	Bu	0.62	0.46	0.52
Corn	Bu	.33	.26	.28
Grain sorghum	Bu	.40	.31	.35
Barley	Bu	.26	.20	.24
Oats	Bu	.028	.022	.024
Upland cotton	Lb	.0737	.0572	.0667
Rice	Cwt	2.57	2.05	2.35
Soybeans	Bu	n.a.	n.a.	.44
Other oilseeds	Lb	n.a.	n.a.	.008
Peanuts	Ton	n.a.	n.a.	36

n.a. = Not applicable.

To receive payments on crops covered by the program, a producer enters into annual agreements for crop years 2002-07.

Counter-Cyclical Payments

Under the 2002 Farm Act, a new program of counter-cyclical payments (CCP) provides price-dependent benefits for covered commodities whenever the effective price for the commodity is less than its target price.[2] This program was developed to replace most ad hoc market loss assistance payments that were provided to producers during 1998-2001. Payments are based on historical area and yields and are not tied to current production of the covered commodity.

The new legislation establishes a target price for each covered crop. When the higher of the loan rate or the season average price plus the direct payment rate is below the target price, a CCP is made, at a rate equal to that difference. Equivalently, CCPs are made when the higher of the loan rate or the season average price is below the target price minus the direct payment rate. The payment rate for corn CCPs would be:

$$(\text{CCP payment rate})_{corn} = (\text{Target price})_{corn} - (\text{Direct payment rate})_{corn} - (\text{Higher of commodity price or loan rate})_{corn}$$

For example, the corn target price for 2002 is $2.60 a bushel, the direct payment rate is $0.28 a bushel, and the loan rate is $1.98 a bushel. If the season average corn price is $2.20 a bushel (above the loan rate), the $2.60 target price minus $2.48 ($2.20 price plus $0.28 direct payment rate) gives a payment rate for CCPs of $0.12. This payment rate can be alternatively expressed as $2.32 (the $2.60 target price minus the $0.28 direct payment rate) minus the $2.20 season average price. This alternative expression also indicates that the price cutoff where the CCP rate becomes zero is at $2.32, not the $2.60 target price. Thus, when the season average price is above $2.32 (the target price minus the fixed direct payment rate), no CCP is made. When the season average price is below the target price minus the fixed direct payment rate, a counter-cyclical payment is made, with the CCP rate increasing as prices fall. The maximum CCP rate of $0.34 a bushel in this example is attained when prices are at or below the loan rate.

[2]CCPs do not provide protection against reduced yields and higher prices, as has occurred in the 2002 market situation for many crops. This illustrates the importance of crop insurance to protect against yield losses.

The payment amount for CCPs is equal to the product of the national CCP payment rate for the covered commodity, the producer's payment acres (85 percent of base acres) for the crop, and the producer's CCP payment yield for that crop. For example, the payment for an individual corn producer is determined as:

$$\text{CCP}_{corn} = (\text{CCP payment rate})_{corn} \times (\text{CCP payment yield})_{corn} \times [(\text{Base acres})_{corn} \times 0.85]$$

For example, a farmer with 100 acres of corn base and a CCP payment yield of 120 bushels an acre would receive a CCP of $1,224 if the CCP payment rate is $0.12 per bushel.

Target prices are fixed in the 2002 Farm Act at initial levels for 2002-03 and then increased slightly for 2004-07 for many commodities (table 2).

To receive payments on crops covered by the program, producers enter into annual agreements for crop years 2002-07 at the same time that they enroll for direct payments.

Marketing Assistance Loan Program

The 2002 Farm Act continues the commodity loan program with marketing loan provisions. Commodity loan rates are fixed under the act. Rates are set for 2002-03 and then reduced slightly for 2004-07 for many commodities (table 3). Under the 1996 Farm Act, the Secretary had discretion to set loan rates within ranges determined by formula subject to minimum and maximum levels specified in the law.[3]

Commodity loan programs with marketing loan provisions are available for wheat, rice, corn, grain sorghum, barley, oats, upland cotton, soybeans, and other oilseeds

[3]The rice loan rate was fixed at $6.50 per hundredweight.

Table 2—Target prices under the 2002 Farm Act

Commodity	Unit	2002-03	2004-07
		Dollars per unit	
Wheat	Bu	3.86	3.92
Corn	Bu	2.60	2.63
Grain sorghum	Bu	2.54	2.57
Barley	Bu	2.21	2.24
Oats	Bu	1.40	1.44
Upland cotton	Lb	.724	.724
Rice	Cwt	10.50	10.50
Soybeans	Bu	5.80	5.80
Other oilseeds	Lb	.098	.101
Peanuts	Ton	495	495

under the 2002 Farm Act. Marketing loan provisions are extended to peanuts, mohair, wool, honey, small chickpeas, lentils, and dry peas. Nonrecourse loans are available for extra-long staple cotton, but the repayment rate is set at the loan rate plus interest.

Marketing loans provide loan deficiency payments and marketing loan gains to farmers of loan commodities when market prices are low. Marketing loans also reduce revenue risk associated with price variability. Commodity loan programs allow producers of designated crops to receive a loan from the Government at a commodity-specific loan rate per unit of production by pledging production as loan collateral. After harvest, a farmer may obtain a loan for all or part of the new commodity production.

Commodity loans may be settled in three ways:

- Repaying the loan at the loan rate plus interest costs (Commodity Credit Corporation (CCC) interest cost of borrowing from the U.S. Treasury plus 1 percentage point),
- Repaying the loan at a lower loan repayment rate, if applicable, or
- Forfeiting the crop pledged as loan collateral to the CCC at loan maturity.

Table 3—Marketing assistance loan rates, 2002 Farm Act compared with 2001 loan rates under 1996 Farm Act

Commodity	Unit	2001	2002-03	2004-07
		Dollars per unit		
Wheat	Bu	2.58	2.80	2.75
Corn	Bu	1.89	1.98	1.95
Grain sorghum	Bu	1.71	1.98	1.95
Barley	Bu	1.65	1.88	1.85
Oats	Bu	1.21	1.35	1.33
Upland cotton	Lb	.5192	.52	.52
ELS cotton	Lb	.7965	.7977	.7977
Rice	Cwt	6.50	6.50	6.50
Soybeans	Bu	5.26	5.00	5.00
Other oilseeds	Lb	.093	.096	.093
Peanuts[1]	Ton	610/132	355	355
Graded wool	Lb	n.a.	1.00	1.00
Nongraded wool	Lb	n.a.	.40	.40
Mohair	Lb	n.a.	4.20	4.20
Honey	Lb	n.a.	.60	.60
Small chickpeas	Cwt	n.a.	7.56	7.43
Lentils	Cwt	n.a.	11.94	11.72
Dry peas	Cwt	n.a.	6.33	6.22

n.a. = Not applicable.

[1]First number shown for peanuts in 2001 is quota loan rate; second number is additional loan rate.

When market prices are below the loan rate, farmers are allowed to repay commodity loans at a loan repayment rate that is lower than the loan rate (except for extra-long staple cotton). Marketing loan repayment rates are based on local, posted county prices for wheat, feed grains, and oilseeds, on prevailing world market prices for rice and upland cotton, and on weekly prices for pulses and peanuts. Each day, other than weekends and holidays, the Federal Government calculates and posts loan repayment rates, except for other oilseeds, rice, upland cotton, pulses, and peanuts, which are calculated weekly. When a farmer repays the loan at a lower repayment rate, the difference between the loan rate and the repayment rate represents a program benefit to producers and is called a marketing loan gain. In addition, any accrued interest on the loan is waived. When a marketing loan gain is received on a given collateralized quantity, that quantity is not eligible for further loan benefits.

Alternatively, loan program benefits can be taken directly as loan deficiency payments. Farmers may choose to receive marketing loan benefits (except for extra-long staple cotton) through direct loan deficiency payments (LDPs) when market prices are lower than commodity loan rates. The LDP option allows the producer to receive the benefits of the marketing loan program without having to take out and subsequently repay a commodity loan. The LDP rate is the amount by which the loan rate exceeds the loan repayment rate and thus is equivalent to the marketing loan gain that could alternatively be obtained for crops under loan. When an LDP is paid on a portion of the crop, that portion cannot subsequently be used as collateral for another marketing loan or LDP (Westcott and Price).[4]

Commodity certificates continue to be available for use in conjunction with the commodity loan program. Certificates can be purchased at the loan repayment rate for loan commodities. The certificates are available for producers to immediately exchange for crop collateral pledged to the CCC for a commodity loan.

Updating Base Acres and Payment Yields

The 2002 Farm Act permits the updating of base acres used for determining direct and counter-cyclical payments. For those who update their base acres, various options are provided in the legislation for updating payment yields used to compute counter-cyclical payments.

[4]Most marketing loan benefits for feed grains, wheat, and soybeans have been taken as LDPs, while most for upland cotton and rice have been marketing loan gains.

To receive payments on crops covered by the program, a producer enters into annual agreements for crop years 2002-07. Before enrolling in the program, owners of farms must establish base acres and program yields for all covered commodities. There are five options for designating base acres, which apply to all covered commodities for both direct payments and counter-cyclical payments:

- Choose base acres equal to the contract acreage that would otherwise have been used for 2002 production flexibility contract payments,
- Choose one of three options to add oilseeds to PFC acres, based on plantings in crop years 1998-2001, or
- Update all base acres to reflect the 4-year average of acreage planted during crop years 1998-2001, plus acreage prevented from planting during those years due to drought, flood, other natural disaster, or other conditions beyond the control of the producer.

An owner who does not make an election is considered to have selected the 2002 PFC acreage, plus eligible oilseeds, if applicable. Base acres for peanuts may be determined separately so long as total base acres do not exceed available cropland. Payment acres equal 85 percent of base acres.

Program payment yields for direct payments are unchanged for those crops previously covered under the PFC program. These payment yields are also used for counter-cyclical payments on farms where one of the first four options for establishing base acres is chosen. However, owners who select the last alternative for establishing base acres have three options for determining program payment yields for each individual crop for use in determining counter-cyclical payments:

- Use current program yields,
- Update yield by adding 70 percent of the difference between current program yields and the farm's average yields per planted acre for the period 1998-2001 to current program yields, or
- Update yield to 93.5 percent of 1998-2001 average yields per planted acre.

For soybeans and other oilseeds, which were added to the program, payment yields are the farm's average yields for 1998-2001, multiplied by the national average yield for 1981-85, divided by national average yield for 1998-2001 (a 0.78 adjustment factor for soybeans, for example). Peanut payment yields are based on the farm's average yields for 1998-2001.[5]

Planting Flexibility

Farmers are given almost complete flexibility in deciding which crops to plant under the 2002 Farm Act, continuing provisions of the 1996 Act. Participating producers are permitted to plant all cropland acreage on the farm to any crop, except for some limitations on planting fruits, vegetables, and wild rice on base acres.[6] The land must be kept in an agricultural or conserving use (as determined by the Secretary), and farmers must comply with certain conservation and wetland provisions. With these planting flexibility provisions, farmers may receive direct payments and counter-cyclical payments corresponding to one program crop while producing another crop.

Payment Limitations

Payment limitations put ceilings on payments to farm operations as a means of targeting benefits and reducing commodity program costs. The payment limitation on direct payments is $40,000 per person per crop year. The payment limitation on counter-cyclical payments is $65,000 per person per crop year. Separate $40,000 and $65,000 limitations apply for direct and counter-cyclical payments for peanuts. The payment limitation on marketing loan gains and loan deficiency payments is $75,000 per person per crop year. A separate $75,000 payment limitation applies for marketing loan gains and loan deficiency payments for peanuts, wool, mohair, and honey.

The three-entity rule is retained. Under this rule, an individual can receive a full payment directly and up to a half payment from two additional entities. Thus,

[5]Peanut yields in the 1998-2001 period are comparable to yields in the 1981-85 period.

[6]Planting for harvest of fruits, vegetables (other than lentils, mung beans, and dry peas), and wild rice is prohibited on base acres, except in the following situations. (1) Harvesting double-cropped fruits, vegetables, and wild rice on base acres is permitted, without loss of payments, in any region that has a history of double-cropping covered commodities with the otherwise prohibited crops. An individual farm need not have a double-cropping history, only the region. (2) Harvesting of any fruits, vegetables, or wild rice on base acres is permitted, with an acre-for-acre loss of direct and counter-cyclical payments for each base acre planted to the otherwise prohibited crop, if the Secretary determines that there is a history of planting those crops on the farm. (3) Harvesting a specific fruit, vegetable, or wild rice on base acres is permitted, with an acre-for-acre loss of direct and counter-cyclical payments for each base acre planted to the specific crop, if the Secretary determines that the producer has an established planting history of the specific crop. In such a case, the quantity harvested cannot exceed the producer's average annual planting history of the crop during the 1991-95 or 1998-2001 crop years, excluding any crop year with no acres planted to that crop.

the maximum payment that an individual can receive is $360,000 per year. Producers with adjusted gross income (on their Federal income tax returns) of over $2.5 million, averaged over the 3 preceding tax years, are not eligible for payments unless more than 75 percent of the adjusted gross income is from agriculture. There are no limits on the use of commodity certificates in conjunction with the commodity loan program other than the size of the farmer's loan eligible production.

Peanuts

The 2002 Farm Act substantially revamped the peanut program. Under previous legislation, the peanut program was a two-tier price support program based on marketing quotas and nonrecourse loans. Production for domestic edible consumption was constrained by an annually established marketing quota, which was eligible for the quota loan rate ($610 per short ton in 2001). Marketings of nonquota (additional) peanut production were permitted only for export or domestic crush; nonquota production was eligible for a lower loan rate ($132 per short ton in 2001).

Under the 2002 Farm Act, the peanut marketing quota system is eliminated. Peanuts are treated similarly to other program crops, such as grains and cotton, with direct payments and counter-cyclical payments. Producers with a history of peanut production during 1998-2001 are eligible for these programs. Also, a single marketing assistance loan program for all peanut production replaces the two-tier price support program. Farmers no longer have to own or rent peanut quota rights to produce for domestic edible consumption.

Owners of peanut quota under prior legislation will receive compensation payments for the loss of quota asset value. Payments may be made in five annual installments of $0.11 per pound ($220 per short ton) during fiscal years 2002-06, or the quota owner may opt to take the outstanding payment due in a lump sum. These payments are based on the quota owner's 2001 quota, regardless of temporary leases or transfers of quota, so long as the person owned a farm eligible for the peanut quota. Continued eligibility for peanut quota compensation payments remains with the established quota owner regardless of future interest in the farm or whether the person produces peanuts.

Sugar

The two main elements of U.S. sugar policy are the tariff-rate quota (TRQ) import system and the price support loan program. The TRQ system works in conjunction with the loan program to control imports and thus total domestic supply in order to maintain prices of sugar.

The loan program for sugar processors supports the U.S. price of sugar. Unlike most other commodity programs, sugar loans are made to processors and not directly to producers because sugarcane and sugar beets are bulky and very perishable and must be processed into sugar before they can be traded and stored. To qualify for loans, processors must agree to provide part of the loan payment to producers, in proportion to the amount of the loan value accounted for by the sugar beets and sugarcane the producers deliver.

The 2002 Farm Act continues the loan rate to processors of domestically grown sugarcane at $0.18 per pound and the loan rate to processors of domestically grown sugar beets at $0.229 per pound for refined sugar. Under the 1996 Farm Act, cane processors paid a penalty of $0.01 on each pound of sugar forfeited to the Government under the loan program; beet processors paid a penalty of $0.0107 per pound. The 2002 Farm Act terminates these loan forfeiture penalties.

The 2002 Farm Act requires USDA, to the maximum extent possible, to operate the sugar program at no cost to the Federal Government. This provision means that USDA must operate the loan program in order to avoid the forfeiture of sugar to the CCC. The 2002 Farm Act gives USDA the authority to accept bids from sugarcane and sugar beet processors (acting in conjunction with producers) to obtain raw cane sugar or refined beet sugar in CCC inventory in exchange for the reduction of the production of raw cane sugar or refined beet sugar. The 2002 Act also provides USDA authority to implement flexible marketing allotments, allocated to processors and shared by producers, to assure no forfeitures of sugar to the CCC under the loan program. USDA's authority to operate sugar marketing allotments is suspended if USDA estimates that sugar imports for domestic human consumption will exceed 1.532 million short tons, raw value.[7] Marketing allotments would remain suspended until imports have been restricted, eliminated, or otherwise reduced to or below 1.532 million short tons, raw value.

[7]This amount equals the U.S. sugar minimum access commitment under the WTO, plus the maximum annual duty-free access provided to Mexico in fiscal years 2001-07 under the North American Free Trade Agreement.

Dairy

The 2002 Farm Act extends the milk price support program and the dairy export incentive program, leaves the milk marketing order system unchanged, and adds a new counter-cyclical payment. Under the provisions of the 1996 Farm Act, the dairy price support program was scheduled to end on December 31, 1999. However, subsequent legislation extended the program. The 1996 Act also called for several changes in the milk marketing order system, including consolidation of the then-existing 31 orders. There are currently 11 Federal milk marketing orders. The 2002 Farm Act sets the framework for new national dairy market loss payments.

Under the new law, the milk support purchase program is continued through 2007. The milk support price equals $9.90 per hundredweight. The CCC will buy, at announced prices, any butter, cheddar cheese, or nonfat dry milk that is offered to it and meets specifications. Announced purchase prices are set to allow plants of average efficiency to pay producers, on average, at least the support price of $9.90 per hundredweight for milk. The Secretary has authority to adjust the relative product purchase prices for butter and nonfat dry milk twice a year if deemed necessary.

The dairy export incentive program pays cash bonuses that allow dairy product exporters to buy U.S. products and sell them abroad. Quantities and dollar amounts under this program are subject to WTO restrictions on export subsidies.

Federal milk marketing orders are intended to help establish and maintain orderly marketing conditions for both milk producers and dairy product consumers. A classified pricing system and pooling are the two key elements of milk marketing orders. Milk marketing orders define the relationship between prices of fluid milk and manufactured dairy products and a geographic price structure, sometimes called the price surface. The 2002 Farm Act did not change milk marketing orders.

The 2002 Farm Act calls for national dairy market loss payments, which will be administered as the Milk Income Loss Contract (MILC) program, to provide a safety net for dairy producers from December 2001 through September 2005. A monthly direct payment is to be made to dairy farm operators if the monthly Class I price in Boston (Federal Order 1) is less than $16.94 per hundredweight. Payments are to be made on up to 2.4 million pounds of milk per fiscal year per operation, which corresponds to the production from about 135 cows. Overall, based on analysis of data from the National Agricultural Statistics Service (USDA, NASS (a) and (b)), about 55 percent of milk production is estimated to initially be eligible for these payments, falling to about 45 percent by 2005. However, initially only about 35 percent of total production is on smaller operations that produce less than the 2.4-million-pound limit, declining to about 25 percent in 2005.

Conservation Provisions

Conservation and environmental programs play an important role in the agricultural sector. These programs provide cost-share, rental, and/or other direct payments to producers in return for using specified environmentally beneficial farming practices or for setting aside land in conserving uses. The 2002 Farm Act continues and in most cases expands almost every existing agri-environmental program. While continuing and expanding the programs that retire environmentally sensitive land from crop production, the act puts more emphasis on programs that support conservation on land in production and environmentally friendly farming practices on livestock operations (fig. 2). New programs, including the Conservation Security Program (CSP) and the Grassland Reserve Program, further expand the objectives and role of agri-environmental policy.

Under the voluntary Conservation Reserve Program (CRP), farmland owners submit bids to retire highly erodible and other environmentally sensitive cropland from production for 10-15 years. Farmers receive a cost-share payment to establish a permanent cover crop and annual rental payments for retiring land and maintaining specified conservation practices. The maximum CRP area is increased to 39.2 million acres under the 2002 Farm Act, up from 36.4 million acres under the 1996 Act. CRP enrollment is designed to enhance environmental quality and improve wildlife habitat. The expansion of the CRP under the 2002 Farm Act will reduce land available for crop production somewhat.

The 2002 Farm Act expands the Environmental Quality Incentives Program (EQIP), which provides technical assistance, cost sharing, and incentive payments to assist livestock and crop producers with conservation and environmental improvements on working lands. Cost sharing (up to 75 percent) or incentive payments can be provided for a wide range of practices, including nutrient management, livestock waste handling, conservation tillage, terraces, and filter strips. EQIP is not expected to significantly affect crop and livestock output.

The newly created Conservation Security Program (CSP) will focus on land-based practices and specifically excludes livestock waste-handling facilities. Under the CSP, which is legislated to begin in fiscal year 2003, producers develop and submit conservation plans to USDA that include conservation practices that fall within one of three tiers or levels of participation. Higher tiers offer larger payments, but require greater conservation measures. Producers enter into conservation security contracts that provide a base payment for conducting the practices designated in the conservation plan. The base payment rate is based on rental rates for the use of similar land during the 2001 crop year, as determined by USDA. Cost share payments for adoption and maintenance of the practice also are provided. Additionally, producers may be eligible for enhancement payments for implementing or maintaining conservation measures that meet other criteria. Effects of the CSP on agricultural production will depend on how the program is implemented.

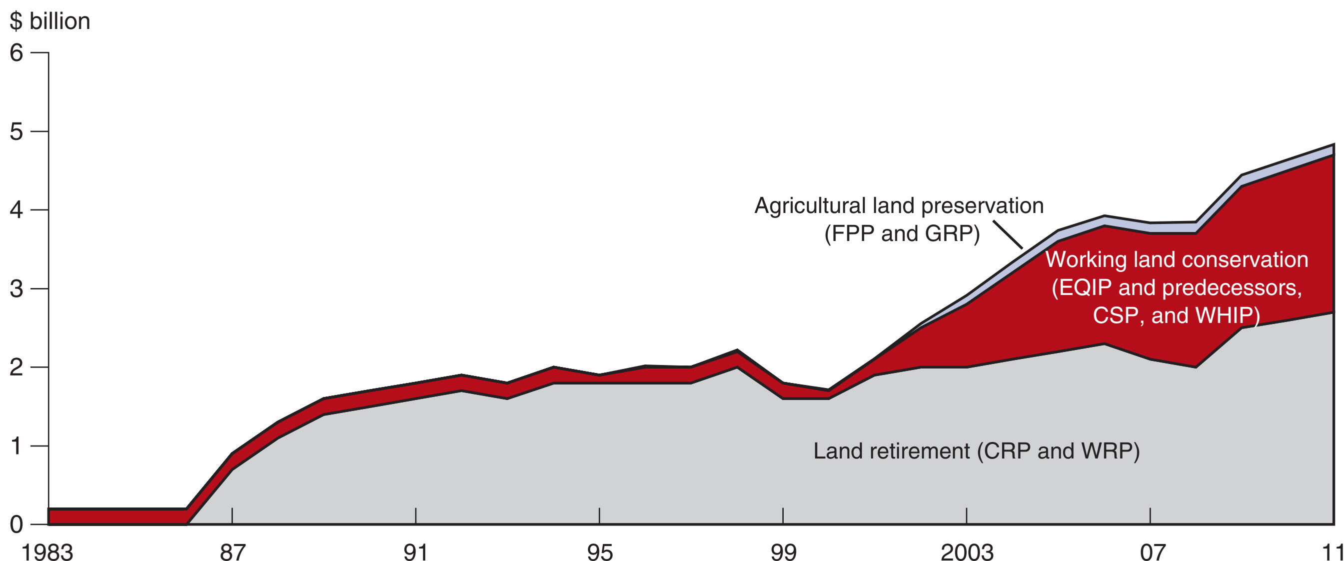
Trade-Related Provisions

The 2002 Farm Act continues and modifies agricultural export programs designed to develop and expand commercial outlets for U.S. commodities and food products in world markets and to provide international food assistance. The act orients export programs toward greater market development, with increased emphasis on high-value and value-added products. The 2002 Farm Act reauthorizes the Export Enhancement Program (EEP), although only limited use of this program has been made in recent years. While the 2002 Farm Act streamlines, improves, and clarifies trade programs, changes in the trade-related provisions are not expected to greatly alter trade flows for agricultural commodities.

The 2002 Farm Act also requires the Secretary, "to the maximum extent practicable, to adjust domestic commodity program expenditures to avoid exceeding allowable" WTO domestic support ceilings. The Uruguay Round Agreement on Agriculture put a maximum allowable level on trade-distorting domestic support programs, as measured by the aggregate measurement of support (AMS). The ceiling on the U.S. AMS fell from $23.1 billion in 1995 to $19.1 billion in 2000 and will continue at this level until a new WTO agreement is reached. Under the 1996 Farm Act, U.S. support remained under the AMS ceiling (fig. 3).

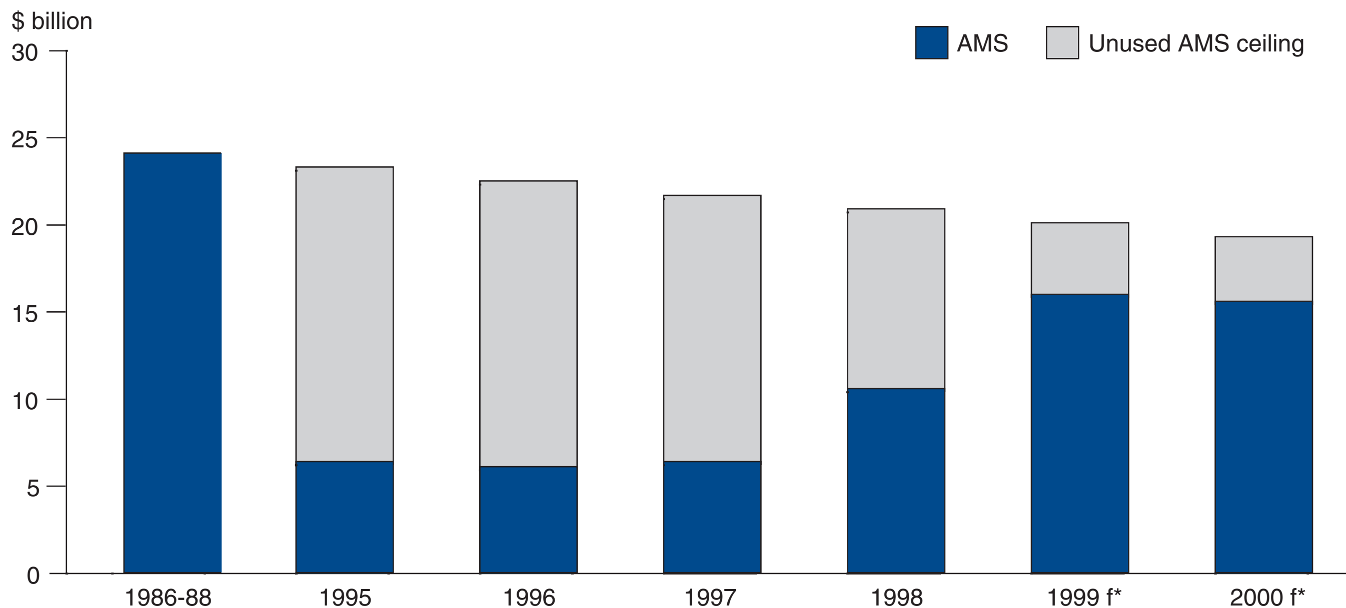
Figure 2

Conservation emphasis shifts from land retirement to working land



FPP = Farmland Protection Program; GRP = Grassland Reserve Program; EQIP = Environmental Quality Incentives Program; CSP = Conservation Security Program; WHIP = Wildlife Habitat Incentive Program; CRP = Conservation Reserve Program; WRP = Wetlands Reserve Program.
Source: Claassen.

Figure 3
U.S. aggregate measure of support (AMS) remained below WTO ceiling



f* = Forecast.
Source: USDA, *Food and Agricultural Policy: Taking Stock for the New Century*.