PolicyPennings by Dr. Daryll E. Ray

The legislative journey to a new farm bill has started

The crafting of a new farm bill made it over one hurdle July 19, 2007 as the House Agriculture Committee sent the legislation to the floor with bipartisan support. Ag Committee Chair Collin Peterson hopes to begin debate on the legislation during the week beginning July 23. The legislation embodies incremental change in existing policies rather than the radical reform sought by some.

Peterson spelled out the philosophy that guided his development of this bill when he said, “It’s about being able to keep independent family farmers in business. When a guy comes in to get a loan for his crop, he has to be able to show the banker that if everything goes to hell, he can pay his loan back.”

For instance, the committee’s bill includes a three year average $1 million adjusted gross income (AGI) cap—producers with AGI’s over the cap would be denied farm program and conservation payments. The payment-denial AGI cap is reduced to $500,000 for those who earn more than 33.34 percent from non-agricultural sources. The administration wanted to see the limit set at 200,000. Committee members were certainly aware that the $1 million limit would affect about 9,500 farmers while the lower $200,000 limit would affect 38,000 producers.

The legislation also changed the rules on payment caps eliminating the three entity rule that allowed some operators to avoid payment limits. At the same time it boosted the cap on direct payments from $40,000 to $60,000. The countercyclical payment cap remains at $65,000. In the case of conservation programs, the cap would be $60,000 for participating in one program and $125,000 if participating in more than one program.

While eliminating the use of generic certificates that allowed some farmers to avoid payment limitations, the legislation turned around and removed the cap on the amount of money producers could get from Loan Deficiency/ Marketing Loan Gains (LDP/MLG).

The loan rates on which LDP/MLGs are based were left the same for corn ($1.95), sorghum ($1.95), rice ($6.50), and upland cotton (52 cents). The loan rate for wheat was raised 19 cents to $2.94; feed barley: 10 cents to $1.95; malt barley: 65 cents to $2.50; oats: 6 cents to $1.39; soybeans: 20 cents to $5.00; and other oilseeds 14 cents to 10.7 cents per pound.

As long as prices stay at current high levels, the elimination of the LDP/MLG cap and the increase in loan rates will result in minimal budgetary pressure. But, if the price bubble were to burst, these changes could trigger a significant increase in government payments.

On another front, the legislation that passed out of the committee also included a compromise of mandatory country-of-origin labeling (COOL). The committee language requires that COOL begin no later than September 30, 2008. The language retained the requirement that meat identified as a product of the US comes from animals that were born, raised, and processed in the US.

Animals that are not exclusively born, raised, and slaughtered in the US would be labeled product of the US and country x, or y, or z). Imported meat from foreign countries would list the country of origin. Ground beef that includes meat from more than one country would be labeled, “may contain meat from country x, and y, and z.”

While many producers were pleased with the reaffirmation of COOL, some expressed concern about language that allowed for the inclusion of a mandatory arbitration clause in animal production contacts. The concern is that the mandatory arbitration language gives more power to the company than it does to the grower.

The Senate agriculture committee has not begun its deliberations on the farm bill, so even if the House completes its work on the bill in the near future, the process is far from finished.

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Originally published in *MidAmerica Farmer Grower*, Vol. 24, No. 30, July 27, 2007
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