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New and Unique Provisions in the Agricultural Act of 2014

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The Agricultural Act of 2014 was enacted on February 7, 2014, nearly four years after the House Agriculture Committee first held hearings to prepare for the new Farm Bill. The bill passed more than two and a half years after the chairs and ranking members of the House and Senate Agriculture Committees first held discussions to try to devise a mini Farm Bill that could be attached to the deficit reduction package then being contemplated by the so-called Super Committee of select House and Senate members.

The Super Committee had been charged under the Budget Control Act of 2011 with generating net budget reductions of at least $1.2 trillion over the next 10 years. The four Agriculture Committee principals succeeded in developing a truncated Farm Bill package that would have realized $23 billion in savings, but the overall Super Committee process failed, forcing the Farm Bill back to the Agriculture Committees' regular legislative process beginning in 2012. That process stalled and the Farm Bill died at the end of the 106th Congress without reaching the House or Senate for a vote. The process began anew at the Committee level in January 2013, as no legislative steps taken in one Congress can carry over once a new session of Congress convenes.

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The 2013 Farm Bill process hit obstacles in the House again, as the first attempt at passage of the bill reported out by the House Agriculture Committee was rejected on the House floor in June. The House then split the bill into two segments, one containing everything but the Nutrition title and the second consisting of the Nutrition title only, and passed them separately on strict party line votes. The conference committee to reconcile differences between the House and Senate versions was established in October, and the conferees completed their work in late January 2014. The conference report containing all titles passed both the House and Senate with broad bipartisan support, and was signed by the President on February 7, thus ending the single longest Farm Bill debate in American history. The new Farm Bill was completed more than 16 months after the 2008 Farm Bill expired, although most provisions of that bill were extended as part of the so-called fiscal cliff legislation enacted in early 2013, through September 30, 2013.

Overall, the Congressional Budget Office (CBO) has estimated that the Farm Bill will reduce federal spending by $16.5 billion over the next 10 years, with the savings coming from three places--$8 billion in cuts to programs in the nutrition title; a reduction of $8.6 billion from farm safety net programs in the combined commodity and crop insurance titles; and nearly $4 billion in savings from consolidating programs and reducing acreage caps for Conservation Reserve Program (CRP) and Conservation Stewardship Program (CSP) in the conservation title. If the effects of 2013's automatic sequestration cuts to farm programs are abstracted from the CBO calculations, the savings would total $23 billion, hitting the initial target set back in 2011. Spending increased modestly in comparison to the baseline (or was unchanged) for the remaining eight titles, with the biggest gains coming in agricultural research ($1.1 billion), the renewable energy title ($979 million), and the miscellaneous title ($953 million). Almost half of the additional spending in the miscellaneous title went for a one-year extension of a program unrelated to agriculture, Payments in Lieu of Taxes (PILT), which provides federal payments to counties in the Western states with a large share of federal lands that cannot be taxed at the state level.

Farm Safety Net Programs

Although traditional commodity support programs and the federal crop insurance program are addressed in two different titles in the 2014 Farm Bill (Title I and Title XI), they are covered together in this section because they work together structurally to provide the latest version of the farm safety net the U.S. government has provided to farmers for more than 80 years. The approach to developing farm support policy in the 2014 Farm Bill represents a significant departure from typical Farm Bills, although it resembles the 1996 Farm Bill in many respects. Rather than simply adding programs to address newly emerging problems, this Farm Bill was relatively ruthless in repealing existing programs and starting a new program structure largely from scratch. In another significant departure from past commodity policymaking, this Farm Bill discards the one-size-fits-all approach that previously represented an effort to be even-handed between regions and instead offers program crop producers two distinct paths to obtaining federal support, requiring producers to choose between them. One major component of the farm safety net from the 2008 Farm Bill (actually around since the 1985 Farm Bill), the marketing assistance loan program, will remain largely intact.

Under prior Farm Bills, program crop producers all had access to the same sets of programs, but the perceived performance and/or value of the different components varied significantly between regions—farmers in the South liked the marketing loan and countercyclical payment programs (CCP), which protected them from variability in crop prices, while Midwest and Western farmers were looking for a program to protect their revenues, especially those who had faced several years of shallow losses, which existing programs did not adequately address. Midwest and Western farmers also highly prized participation in the federal crop insurance program, while Southern farmers for the most part did not. Most farmers across the country were quite pleased with the Direct Payment program (DP). However, the main feature that made the DP attractive to farmers, that it was paid out regardless of prevailing market conditions, was difficult to justify to the general public. When the time for the Farm Bill to be re-written came around, the commodity groups recognized that in the face of strong public pressure to reduce federal spending, the DP would have to be sacrificed, but in return, they wanted programs that would be more tailored to their regional preferences.

The repeal of key safety net components of the 2008 Farm Bill, the DP, CCP, and Average Crop Revenue Election (ACRE), resulted in a total reduction in farm program spending of about $47 billion over 10 years as compared to the CBO baseline established in March 2013. Of that amount, about $8.5 billion was devoted to federal deficit reduction, while the remaining $38 billion (or about 81 percent of the total savings) was redirected into new or revised programs in the commodity and crop insurance titles to maintain the farm safety net, albeit one primarily situated in the federal crop insurance program. Similarly, the main components of the previous dairy support system, the milk price supports, the Milk Income Loss Contract (MILC), and the Dairy Export Incentive Program, were repealed, to be replaced by a margin insurance program for dairy producers, although this program is to be operated by the Farm Service Agency (not the Risk Management Agency), and does not require that the premium structure be actuarially sound.

For the 2014/15 crop year, program crop producers will have to make a one-time decision whether to receive:

- Price-based protection for their crops, in a program called Price Loss Coverage (PLC) that is similar to the Countercyclical Payment Program (first offered under the 2002 Farm Bill) but with fixed program prices for most crops (now called reference prices) averaging 42 percent higher across all program crops as compared to target prices in the 2008 Farm Bill; or

- Revenue-based protection for their crops, in a program called Agricultural Risk Coverage (ARC) that is similar to the ACRE program from the 2008 Farm Bill but is paid based on shallow revenue losses experienced at the farm level or at the county level rather than average revenue losses at the state level as under ACRE. Benchmark revenues for purposes of determining payments will be based on 86 percent of the product of the five-year Olympic average market price for that crop, times either the five-year average county yield or the farmer's individual five-year average yield.

Producers choosing either the PLC or ARC-county level may vary them on a commodity-by-commodity basis, while producers selecting the ARC-farm level option must do so for all covered crops on their farm. Producers will also have the opportunity to update the combination of program crops covered under their base acreage allotments and to update their program yields. If farmers fail to make the election decision for the 2014 crop year, they will receive no payments for that year and be automatically placed under PLC protection for the remainder of the lifetime of the 2014 Farm Bill.

It is expected that the majority of Southern crop producers will select the PLC option and that most Midwest and Western producers will select ARC, since those were the approaches preferred by members of Congress representing their states, but producers are not bound by those preferences. If farmers expect crop prices to remain relatively high, they are more likely to select the ARC option, but if they think crop prices will decline over the next several years, they are more likely to select the PLC option, because the value of protection under ARC would decline under that scenario, as the high crop prices from recent years fall out of the calculation of the benchmark revenue.

Due to a need to address the findings of the dispute settlement panel in the WTO case brought by the government of Brazil against the U.S. cotton program, producers of upland cotton will not be eligible for either the PLC or ARC options for that crop, but instead will have a separate shallow loss insurance program (called STAX) that will be provided under the federal crop insurance program. It is designed to complement a regular crop insurance policy, so it pays on losses between 10 percent and 30 percent of expected revenue. Since the 2014 Farm Bill was completed so close to the sales closing date for federal crop insurance coverage for 2014 spring planted crops, STAX will not be available for this crop year. Instead, upland cotton producers will receive a transition payment based on the decline in the cotton market price that occurred between August and December of 2013 as estimated by USDA in their monthly WASDE report. If STAX is not yet available in time for the 2015 crop year, a second transition payment will be made. Upland cotton producers will continue to participate in the marketing assistance loan program, although a few changes were made for their crop alone to comply with the WTO case findings.

The crop insurance title contains a second shallow loss program, called Supplemental Coverage Option (SCO), that is available to crop farmers who select the PLC option in the commodity title. This coverage will be similar to the STAX program just described, except that it offers a choice of farm-level or county-level coverage, and provides a somewhat lower premium subsidy to farmers than does STAX (65 percent as opposed to 80 percent for STAX). Both subsidy levels are higher than the subsidy available for all but the lowest buy-up level for individual crop insurance coverage (67 percent subsidy for 50/100 coverage).

The additional projected costs associated with these two new programs (STAX and SCO) accounts for nearly 90 percent of the net increase in spending for the entire crop insurance title. There are relatively few changes to the underlying structure of the federal crop insurance program. The Farm Bill requires RMA to develop a revenue insurance policy for peanuts for the first time (at a 10-year estimated cost of $119 million); makes permanent the authority to offer discounts to farmers purchasing enterprise unit or whole farm coverage rather than policies for individual fields (called optional units); relaxes rules for substituting county average yields for poor crop yields in a farm's Average Production History (APH), which is used to determine the yield level a farmer may insure; and establishes priorities for new policy considerations under Section 508(h) by the Board of the Federal Crop Insurance Corporation (FCIC). The title also allows insurance coverage to be developed or requires studies to be conducted on insurance for margins? for crops and catfish; index-based weather insurance; biomass and sweet sorghum energy crops; swine or poultry catastrophic disease; whole diversified farms (existing whole farm insurance plans limit livestock activities); poultry business interruption; food safety and contamination problems;, and alfalfa. In a departure from ARPA provisions from 2000, RMA will now be able to engage directly in crop insurance policy research and development, rather than only being able to contract out for it.

The new dairy margin protection program, included in the conference report, will provide an indemnity to farmers if dairy production margins (gap between feed costs and the prevailing milk price) fall below the threshold level selected by the producer for a consecutive two-month period. Farmers will pay premiums for coverage above a $4/cwt margin, which will increase as the protected level increases. The premium rates are set by statute (and are not intended to be actuarially sound), and are lower for the first four million pounds of annual production for each covered dairy operation than for production beyond that level. As a means of signaling producers, the Secretary of Agriculture is authorized to purchase dairy products off the market for purposes of stabilizing margins and providing assistance to low-income individuals and groups if the margin falls below $4/cwt and persists at low levels for at least two months. MILC will remain in place until the margin protection program is available for producer signup. Dairy farmers also have the option of covering their operations with the livestock gross margin (LGM) policy for dairy currently available under the federal crop insurance program.

The Farm Bill tightened most aspects of payment limitations compared to the 2008 Farm Bill, but less severely than would have been the case with either the House or Senate version of the original legislation, which drew complaints from members and groups that supported the original tighter language. There are many aspects to payment limitation rules, but two in particular have drawn considerable public attention. The first stems from how individuals qualify for payments under farm programs. They must have an ownership stake in the farm but also be able to demonstrate that they are actively engaged in the operation. Under current law, they must either contribute personal labor or active personal management, but USDA has not provided concrete rules defining what constitutes active personal management. For some farms, it is known that some individuals engage in monthly conference calls with the on-farm manager to qualify for active personal management without ever being physically present on the farm. Both the House and Senate versions included language that simply dropped 'active personal management' as a qualifying activity, but conferees rejected that approach at the urging of some farm groups, instead punting the issue by requiring USDA to undertake rule making on this issue, but exempted operations run solely by members of the same family from the new rule.

The second controversial aspect is whether wealthy individuals should be eligible to receive any farm program payments. Under current law, farmers who have average adjusted gross income (AGI) over a three-year period from non-farm sources greater than $500,000 may not receive direct payments, while a separate provision restricts farmers earning more than $750,000 in AGI from farm sources from receiving any farm program payments. The Senate version would have eliminated the non-farm AGI provision, and included a provision barring individuals with average AGI from all sources greater than $750,000 from receiving any payments. The final conference report loosened this requirement, raising the cap to $900,000.

The commodity title also restored funding for four of the five components of the standing disaster program from the 2008 Farm Bill, which actually ran out of money at the end of Fiscal Year (FY) 2011. The SURE program was repealed, but the livestock indemnity program, the livestock forage program, the tree assistance program, and emergency assistance for livestock, honey bees, and farm-raised fish were extended and funded retroactively to cover eligible losses for 2012 and 2013. Secretary Vilsack announced on February 14, 2014 that USDA would expedite implementation of the renewed agricultural disaster programs, with a plan to begin sign-up for payments for losses experienced in 2012-13 and to date in 2014 by April 15, 2014. The commodity title also provides the Farm Service Agency with up to $120 million in mandatory money to implement the commodity title provisions.

Conservation Title

In the 2002 and 2008 Farm Bills, advocates of increased conservation in agriculture were able to obtain additional funding for USDA programs in this area, especially in establishing programs devoted to increasing use of conserving practices on working farmland, as opposed to land retirement or easement programs which dominated conservation policy under previous Farm Bills. As of FY13, more than 80 million acres were enrolled in one of the working lands programs (CSP, EQIP, and WHIP), while only 33 million acres were enrolled in either land retirement or easement programs. Between the two Farm Bills, conservation program spending was projected to increase by nearly $10 billion as estimated by the CBO scores of the five-year costs of each Farm Bill, although conservation program increases were trimmed back by restrictions placed on the programs through the annual appropriations process in the aftermath of each Farm Bill’s passage. Going into the most recent Farm Bill debate, conservation advocates knew the budget constraints faced by the House and Senate Agriculture Committees and did not expect to see additional funding for their programs, but hoped to forestall funding reductions.

However, the conservation title (Title II) is one of three titles that contributed net savings for the purposes of deficit reduction for the 2014 Farm Bill. The savings came primarily from two programs—first, from gradually reducing the overall acreage cap for the Conservation Reserve Program (CRP), from 32 million acres established under the 2008 Farm Bill, down to 24 million acres by FY 2017. The second was through reducing the annual acreage enrollment cap under the Conservation Stewardship Program (CSP) from its previous level of 12.76 million acres under the 2008 Farm Bill to 10 million acres.

The conservation title also consolidates several programs that provided lifetime or long-term easements. Under the new agricultural conservation easement program, owners of agricultural lands would be eligible to receive from USDA up to 50 percent of the fair value of the easement under the contract, with the remainder being picked up by the eligible entity, the latter which could include funds obtained through use of charitable donations or qualified conservation contributions. For grasslands, USDA can pay up to 75 percent of the value. For wetlands, the USDA share of the compensation can be between 50 and 75 percent of the fair market value. USDA can also pay a significant share of the costs of maintaining wetlands easements, between 50 and 75 percent of costs for 30-year agreements and between 75 and 100 percent for permanent easements. Only privately or tribal-owned lands are eligible for this program, and land enrolled in existing easement programs are to be rolled into the new program. This new program is funded at $2.025 billion between FY14-FY18, but because it sweeps ups baseline funding from the current array of programs, it is estimated to cost only $1.2 billion over 10 years above baseline levels. Unlike in previous Farm Bills, this Farm Bill provides funding for easement programs that extend into the baseline period past the legislation’s lifetime, so conservation advocates won’t have to fight for new money for this program during the next Farm Bill debate. It also explicitly assigns the responsibility for deciding how much money to spend on technical assistance for farmers enrolling in the program to USDA—that authority had previously resided with the Office of Budget and Management (OMB), which has been quite miserly in this area.

The conservation title also consolidates a number of separate regional programs into a single regional conservation partnership program (RCCP), which is provided $100 million annually in mandatory funds, while also expanding the ability of RCCP projects to draw on additional funds from other conservation programs. Under the 2008 bill, the separate programs which now make up RCCP could only draw a given percentage of the working lands programs (CSP and EQIP), but now that authority has been extended to the new consolidated easement program. There is no new money for this consolidated program—in fact; CBO scores it as saving $28 million over 10 years.

Other interesting provisions in the conservation title include adding veterans to the list of groups receiving preferred access to the programs; allowing USDA to treat conservation planning as an activity under CSP that is eligible for financial assistance; and incorporation of the purposes of the Wildlife Habitat Incentives Program (WHIP) into the EQIP program, setting aside 5 percent of EQIP funds to address those areas. Unlike in the commodity title, the conservation title actually loosens payment limitations for EQIP, allowing farmers to receive a maximum of $450,000 under a given contract, an increase from the $300,000 ceiling in the 2008 Farm Bill. This change could have the effect of channeling even more funds into EQIP contracts for confined animal feeding operations and large irrigated farms, which already receive 40 percent of total funding.

The 2014 Farm Bill also links participation in the federal crop insurance program to compliance with specific conservation requirements for the first time since the 1996 Farm Bill. These requirements, dubbed ‘Swampbuster’ and ‘Sodbuster,’ restrict farmers’ ability to farm on wetlands and highly erodible lands by denying them access to most federal farm programs if they fail to abide by the rules. These requirements have been in effect for every farm support and loan program available to farmers except for crop insurance since the 1985 Farm Bill, except for a brief two-year period (1995-96) when crop insurance was also subject to conservation compliance. The compromise adopted was an approach largely developed by a coalition of commodity, conservation, and crop insurance stakeholder groups, and applies the penalty of ineligibility for crop insurance premium subsidies for the year after a violation has been determined, and not retroactively. Farmers who have never been subject to conservation compliance rules previously (primarily producers of specialty crops who use the insurance program), will have five years to bring their operation into compliance. The 2014 Farm Bill also strengthens the so-called 'sodsaver' provision, which attempts to discourage farmers by making the federal crop insurance program (and the non-insured crop disaster assistance program (NAP)) less lucrative (by reducing premium subsidies in half and barring use of inflated yield histories) for farmers breaking out previously untilled land in the prairie pothole regions of six Midwest states. The sodsaver provision in the 2008 Farm Bill had an 'opt-in' loophole which required governors of affected states to affirmatively decide to subject their farmers to the requirement—none of them did. This provision is actually located in the crop insurance title, not the conservation title.

Nutrition Policy Changes

Disagreements over treatment of programs in the Nutrition title (Title IV), particularly the largest, the Supplemental Nutrition Assistance Program (SNAP), formerly known as the food stamp program, was the main reason for the protracted debate over the Farm Bill. SNAP became a target of conservative, `Tea Party' aligned Republican members of Congress early in the Farm Bill process, largely as a result of the dramatic increase in participation and cost of the program in the aftermath of the 2007-09 recession. The numbers of Americans receiving benefits under SNAP rose nearly 70 percent between 2008 and 2013, from 28.2 million to 47.6 million, and the cost increased even more, by 110 percent over the same period. The greater magnitude of the cost increase is largely due to two factors—higher food costs, which cumulatively increased about 10 percent over that period according to estimates of the food component of the Consumer Price Index (CPI), and a temporary 13.6 percent bump-up in the monthly amount paid to SNAP beneficiaries as a provision in the 2009 American Recovery and Reinvestment Act (the stimulus bill), an increase which expired in November 2013.

The contrasting positions between the two parties on this issue during the debate were quite striking. A 2012 paper from the Heritage Foundation asserted that the overall increase in the cost of the SNAP was a result of the `fossilization' of a program that discourages work, rewards idleness, and promotes long-term dependence, and was badly in need of reform. On the other hand, the Democrats and liberal stakeholder groups maintained that SNAP was performing as designed, to serve as a safety net in times of economic difficulty and high unemployment. The Center for Budget and Policy Priorities pointed out that CBO projects that SNAP will decline both as a share of GDP and in dollar terms in 2014, as the U.S. economy continues to strengthen.

As a result of this sharp divide, the Senate (controlled by Democrats) twice passed a Farm Bill cutting SNAP by about $4 billion over 10 years, while the House of Representatives (controlled by Republicans) first chose not to take up the Agriculture Committee-reported Farm Bill in 2012 which cut SNAP by $20 billion, then in 2013 rejected the Committee-reported version and subsequently adopted a nutrition-only bill on a strict party-line vote that cut about $40 billion over 10 years and included other provisions that imposed additional requirements on SNAP beneficiaries. One such provision would have allowed states to require beneficiaries to undergo drug testing, while another would have allowed states to impose additional work requirements. This second amendment was viewed as particularly harmful by many House Democrats, as it gave states a financial incentive to cut participants from SNAP rolls by allowing them to retain half of the savings to be spent for other purposes, and provided no additional resources for states to help beneficiaries find meaningful work.

The two portions of the House Farm Bill were later re-linked for the purpose of convening a conference committee with the Senate to reconcile the differences between the two versions of the legislation.

The final deal on the nutrition title wound up quite close to the Senate version. The Farm Bill generated net savings of $8.6 billion from SNAP spending over 10 years by closing the so-called 'heat and eat' loophole. Under previous law, about 17 states had provided SNAP beneficiaries with a nominal payment of $1 per year under the Low-Income Heating Assistance Program (LIHEAP) that qualified them for a utility deduction, thus increasing their monthly SNAP benefit. The conference report provision requires states to pay at least $20 per year to households in order to qualify for that deduction (the Senate version had set a $10 minimum). CBO evidently assumes most states won't be willing to pay out the additional LIHEAP funds, thus generating the savings. It is estimated that about 850,000 households will see a reduction in benefits due to this provision, but no one would lose eligibility for benefits.

In order to address some of the concerns raised about SNAP rendering recipients unwilling to work, conferees devised a pilot program for states to provide incentives for SNAP recipients to seek job training and/or move back into the labor force. This provision is funded at $250 million for pilots to be established in FY14 and FY15 and is intended to replace the provision from the House bill which allowed states to retain a portion of SNAP benefits denied to recipients through tightening of the state's work requirements. The title also includes a number of provisions designed to improve SNAP compliance, such as denying benefits to lottery winners, affluent college students, undocumented immigrants, and certain categories of convicted felons (such as murderers) who are violating parole conditions, and to invest new resources in detecting retailer fraud. SNAP is already a fairly well-targeted program--USDA reports that states achieved a record-low SNAP error rate in FY 2012. Less than 3 percent of all SNAP benefits represented overpayments, meaning they either went to ineligible households or went to eligible households but in excessive amounts, and more than 98 percent of SNAP benefits were issued to eligible households.

Other provisions will enable states to provide more flexibility in delivering benefits to certain groups, such as allowing programs for restaurants to serve meals to homeless, elderly, or disabled recipients under SNAP; allowing SNAP benefits to be used to pay for shares in Community-Supported Agriculture projects (CSA's); and allowing SNAP to be used in home delivery of food to elderly recipients. The title bars USDA from actively encouraging eligible individuals to apply for SNAP benefits, and provides $250 million more over 10 years for food banks. The title also allocates $100 million for the development of projects designed to encourage increased purchases of fruits and vegetables by SNAP recipients.

Food Aid Reform in the Trade Title

The trade title of the 2014 Farm Bill (Title III) contains relatively little mandatory money compared to the three titles already discussed, less than 0.4 percent of the overall five-year cost, but it is noteworthy for the provisions reforming the international food aid programs that were included. In the spring of 2013, President Obama released his FY 2014 budget proposal, which included significant changes in how U.S. food aid programs are to be operated. Under the reform proposal, USAID would have been allowed to utilize up to 45 percent of resources devoted to emergency food assistance under the Title II 'Food for Peace' program to purchase food within or near the recipient countries (known as local and regional procurement or LRP) or distribute vouchers to beneficiary households to purchase food. U.S.-sourced commodities would still be used when and where appropriate. The proposal would also allow cash resources to be used to fund development activities under Title II rather than requiring NGO's conducting those activities to ship U.S. food into the targeted countries and then re-sell it to generate cash for non-food-based activities (a process known as monetization). Such transactions yield on average only about 70 percent of what was originally spent on the commodities. The U.S. Agency for International Development (USAID), which operates the largest of the U.S. food aid programs, the Title II program, estimated that the proposed reforms would have enabled the U.S. government to utilize its resources more efficiently and thus assist between 2-4 million additional people every year.

The President's food aid reform proposal ran into immediate problems, with strong opposition coming from groups that benefit from the current structure of U.S. food aid programs, which requires that food aid be sourced only from U.S.-produced commodities and shipped primarily on U.S.-flagged carriers. These groups include farm and commodity groups, food processing companies, and the U.S. maritime industry. The groups in the NGO community which deliver U.S. food aid under both emergency situations and to pursue development activities, were split with respect to this proposal, with some defending the status quo approach and others favoring reform in order to improve program efficiency and flexibility.

The relevant Congressional Committees of jurisdiction also reacted warily, although their concerns appear to have stemmed as much from the manner in which Obama Administration officials developed and put forward their proposal as with the substance of the proposal itself. Not only was the proposal not vetted with Congress or stakeholder groups prior to its release, it was not made public until April 10, 2013, less than a month before the Senate Agriculture Committee Chair, Senator Debbie Stabenow (D-MI) released her proposed draft Farm Bill for her Committee's consideration. Consequently, the draft bill did not contain any elements of the President's food aid reform proposal, although its provisions did reflect some advances in program flexibility. The House Agriculture Committee's version of the Farm Bill contained no reform elements.

The final version of the Farm Bill reflected many of the reforms put forward by the Senate Agriculture Committee. It included the following key provisions:

- Establishment of a permanent Local and Regional Procurement (LRP) program to be operated at the U.S. Department of Agriculture, authorized at $80 million annually;

- An increase in the share of Title II (Food for Peace) funds that can be used to cover non-commodity expenses of food aid programs, up to 20 percent from its current cap of 13 percent, while broadening the scope of activities that can be paid for by these funds to include direct costs of development programs, thus decreasing the need to monetize food aid commodities and improving flexibility for programs;

- Promotion of transparency in the costs of food aid by requiring USAID to report on costs involved in program implementation, including overseas transportation, storage, and handling of commodities, administrative costs, and cost recovery for monetized food aid, with additional reporting required on monetization transactions that fail to generate at least a 70 percent recovery rate;

- A modification of the `safe box' for development funding under the Title II program—rather than providing a flat amount per year, it sets a $350 million floor on the amount that is to be allocated to development and non-emergency programs on an annual basis, but allows the amount to vary between 20 and 30 percent of total Title II funding;

- Maintenance of key funding for efforts to improve food aid quality initially provided in the 2008 Farm Bill; and

- An increase in resources for USAID to operate overseas facilities to store and distribute pre-positioned food aid commodities, to improve response times to emergencies.

The trade title also includes several programs which promote commercial exports of U.S. agricultural commodities. There were few changes to existing programs in this portion of the title, except to give the Secretary of Agriculture explicit authority to modify the GSM-102 Export Credit Guarantee program to bring it into compliance with the findings of the WTO panel in the Brazil cotton case. In addition to finding U.S. cotton programs to be inconsistent with existing rules, the WTO also found the U.S. export credit programs to not have been properly notified as export subsidy programs and thus also inconsistent with WTO rules. The trade title also requires the Secretary of Agriculture to propose a reorganization of USDA with respect to its handling of international agricultural trade issues, including establishing a new subcabinet position of Under Secretary of Agriculture for Trade and Foreign Agricultural Affairs, a position that would be subject to Senate confirmation. There are no changes in mandatory funding levels for export promotion programs, nor for the single food aid program (Food for Progress) that receives mandatory funds. The $139 million increase (over 10 years) in mandatory funding for the trade title reflects an interaction effect with the changes in automatic budget sequestration rules that were made in the Bipartisan Budget Act of 2013.

Other Provisions of Interest

Rural Development and Agricultural Research – Out of seven programs in the rural development and agricultural research titles which received mandatory funds in this Farm Bill, only one of them was an entirely new program, the Foundation for Food and Agricultural Research. The other programs (rural micro-enterprise program, value-added marketing grants, and water and waste water infrastructure in RD, and organic research and extension, specialty crop research, and beginning farmer development) had received funding in previous Farm Bills, but had no baseline carryover from the 2008 Farm Bill, so they needed new funding. The Value-added Marketing Grants received higher funding levels in the 2014 Farm Bill than in the 2008 bill, and the program will be more focused on projects which create or expand marketing opportunities for small- and medium-size farmers, beginning and socially disadvantaged farmers, and veterans seeking to enter into farming or ranching.

The Foundation is established as a non-profit corporation, to foster collaborative agricultural research projects between public sector entitles (like federal and state agencies and institutions of higher learning) with private sector actors such as companies and non-profits. It will be provided with $200 million in seed money for FY 2014 to award grants or enter into cooperative agreements to do research, especially in areas identified as unmet or emerging needs. All other programs and research authorizations in both titles are subject to the annual appropriations process. One such provision which drew some public attention will allow universities or state departments of agriculture to grow industrial hemp for purposes of research, the first time this crop will be able to be grown legally in this country without a federal permit since the 1970’s.

Organic Farming – There are provisions benefitting producers of organic commodities scattered throughout the bill, including explicit instructions for the first time to RMA to offer price elections for organic crop insurance coverage that reflect price premiums in the market over conventional crops; giving organic producers the opportunity to establish a separate check-off program; increased funding for the National Organic Program; and continued funding for organic certification assistance, organic research, and data collection on organic production and marketing.

Local and Regional Food Systems – There were no major new programs established in this area, but several key programs received funding increases over what was allocated in the 2008 Farm Bill. There was additional funding for the Farmers Market and Local Food Promotion Program (previously the Farmers Market Program), which will now also provide grants to entities (non-profits or commercial enterprises) that process, distribute, aggregate, or store locally or regionally produced foods. The Horticulture title (Title X) also expanded funding for the Specialty Crop Block Grant Program, which is given to states based on their share of national specialty crop production and distributed by state departments of agriculture, and is often utilized to support farm to school initiatives, farmer food safety training, food hubs, processing businesses, and marketing research. The bill provides for the creation of a new local food production data collection and program evaluation initiative to collect important data and to understand the impacts and effectiveness of programs designed to facilitate local food systems, but does not provide any mandatory funds for the initiative.

Assistance for Beginning Farmers and Ranchers – There are provisions benefiting beginning farmers and ranchers scattered throughout the Farm Bill, some of them entirely new. The 2014 Farm Bill will provide $444 million in new mandatory funds into provisions that will help beginning, socially disadvantaged and veteran farmers and ranchers over the bill's lifetime. This includes providing a higher premium subsidy (by 10 percentage points at nearly every coverage level) for beginning farmers. They can also be insured under the yield history (APH) of the previous operator of a given farm if they were involved in that farm as a secondary or tertiary operator. These provisions are estimated to cost $261 million over 10 years. In addition, USDA will now have greater flexibility in determining what kind of experience can qualify a beginning farmer for access to the direct loan program (in Title V), and it retains or increases priority access or higher cost share percentages for beginning farmers who participate in USDA conservation programs. The conservation title also modestly increases funding for the Conservation Reserve Program – Transitions Incentives Program (CRP-TIP), which incentivizes retiring landowners to rent or sell their farmland to beginning and socially disadvantaged farmers, and also makes veterans eligible for this program.

Budgetary Pressures on Farm Bill Programs Going Forward

Although the House and Senate Agriculture Committees are unique in having provided savings to be devoted towards deficit reduction voluntarily and not as part of an omnibus budget deal, the pressure to cut farm program spending is likely to continue. The Bipartisan Budget Act of 2013 established funding levels for the federal government for FY 2014 and 2015, in the process reducing the impact of sequestration cuts for those two years but also extending automatic sequestration an additional two years through the end of FY 2023. This legislation gives the Agriculture Committees a bit of a hiatus.

Beginning in the spring of 2015, as Congress and the Administration begin to set overall funding levels for FY 2016, there will be renewed pressure to undertake additional budget reductions, especially if the Republican Party is able to regain control over the U.S. Senate in the 2014 mid-term elections. This pressure could take the form of budget reconciliation, which would formally instruct every committee to cut a set amount of spending (or increase revenue) from programs under its jurisdiction. It is unlikely that the Agriculture Committees would be exempted from that process, despite the $16 billion in savings generated from the

2014 Farm Bill, although Committee members would be expected to make such an argument.

Under a budget reconciliation scenario, attention will continue to be focused on the three areas of the farm program spending from which the savings in the 2014 Farm Bill were realized—the nutrition programs, which could conceivably include child nutrition programs (although the House Committee of jurisdiction for these programs is the House Education and Work Force Committee, not House Agriculture Committee, complicating the process), the farm safety net programs in the commodity and crop insurance titles, and the conservation programs. Pressure will doubtless continue from the conservative end of the spectrum to make additional cuts to the SNAP program, while pressure from the liberal end of the spectrum will likely focus on farm safety net program spending, particularly the federal crop insurance program, whose participants have been able to avoid any type of payment limitation so far. The 2014 Farm Bill removed one source of temptation for the executive branch to make unilateral cuts in the federal crop insurance program—it requires that any future re-negotiations of the Standard Reinsurance Agreement (SRA) between USDA and the private companies which deliver crop insurance to farmers, be budget-neutral, unlike the SRA's renegotiated in 2005 and 2010, which cut expense reimbursements and imposed other cost reductions on the crop insurance industry.

Even though the size of the annual federal budget deficit was reduced by more than half between FY 2009 and 2013, scrutiny of all federal spending is likely to continue. Depending on political developments over the next few years, that scrutiny could result in further demands for cutting farm spending, well in advance of the expiration of the current Farm Bill on September 30, 2018.