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August 16, 2017

# Farm Bill Primer: The Farm Safety Net

The federal "farm safety net" provides risk protection and financial support to U.S. farmers. The three components of the farm safety net are (1) farm commodity programs, (2) crop insurance, and (3) disaster assistance programs. The U.S. Department of Agriculture (USDA) administers the farm safety net programs. The 2014 farm bill (Agricultural Act of 2014; P.L. 113-79) revised commodity programs, enhanced crop insurance, and retroactively authorized the four new, permanent disaster programs beginning in FY2012. See **Table 1** for program cost estimates by crop year and **Table 2** for program details and a list of related CRS reports. Upland cotton, dairy, and sugar producers have separate programs, discussed in **Table 2**.

## 1. Farm Commodity Programs

Farm commodity programs provide a floor price and income support for eligible commodities and producers. They are authorized by periodic farm bills, most recently by the 2014 farm bill for the 2014 to 2018 crop years.

The **Market Assistance Loan (MAL)** program provides both a floor price and interim financing for so-called loan commodities. A participating producer may put a harvested "loan" crop under a nine-month, nonrecourse loan valued at a statutory commodity loan rate. Then the producer has the option to repay the loan and reclaim the crop if market conditions are favorable or select another MAL benefit—for example, LDP or MLG (see **Table 2**)—when crop market prices are below the loan rate.

The **Agriculture Risk Coverage (ARC)** and **Price Loss Coverage (PLC)** programs provide additional income support for certain "covered" commodities such as corn, soybeans, wheat, rice, and peanuts. Producers were given a one-time choice under the 2014 farm bill of either (1) PLC or county-level ARC for each "covered" crop or (2) individual ARC—which covers all crops with a single farm-level revenue guarantee. The choice was to last for 2014 through 2018. Participation is free. For both ARC and PLC, the payments are decoupled—that is, based on historical "base" acres rather than actual production.

Producers must meet eligibility requirements to participate in farm programs and are subject to annual payment limits. (For details, see CRS Report R44739, *U.S. Farm Program Eligibility and Payment Limits*.) Also, as a member of the World Trade Organization (WTO), the United States has committed to abide by WTO rules and disciplines, including those that govern domestic farm policy. (For details, see CRS In Focus IF10192, *WTO Disciplines of Domestic Support for Agriculture*.)

## 2. Federal Crop Insurance

Federal crop insurance is permanently authorized by the Federal Crop Insurance Act as amended (7 U.S.C. 1501 *et seq.*) but is periodically modified by new farm bill legislation. It makes available subsidized "multiple peril" crop insurance for eligible commodities, which helps producers manage risks associated with a loss in either yield or crop revenue depending on the type of policy selected. Insurable perils include drought, flood, insects or disease outbreaks, and crop-specific revenue shortfalls. The policies are sold and serviced by private insurance companies. Federal support includes paying a portion (an average of 62%) of producer premiums, paying $1.4 billion in annual delivery costs, and sharing underwriting risk with the private insurance companies.

## 3. Agricultural Disaster Programs

Agricultural disaster programs cover livestock producers and tree fruit producers, who generally do not benefit from crop insurance and/or commodity programs. These programs make payments for (1) livestock deaths in excess of normal mortality; (2) forage losses related to drought; (3) other losses for producers of livestock, honey bees, and farm-raised fish; and (4) losses in trees/bushes/vines from which an annual crop is produced. Participation is free. No disaster designation is needed for program availability.

## Projected Farm Safety Net Cost

Farm safety net outlays are expected to average $13.6 billion per year for crop years 2014 through 2018.

**Table 1. Safety Net Costs, $ Billions, Crop Year**

| Program | 2014 | 2015 | 2016 | 2017F | 2018F |
|---|---|---|---|---|---|
| MAL | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 |
| ARC | 4.5 | 5.9 | 3.8 | 2.9 | 2.0 |
| PLC | 0.8 | 1.9 | 3.8 | 2.9 | 2.5 |
| Cotton[a] | 0.5 | 0.1 | 0.4 | 0.0 | 0.0 |
| MPP (net)[b] | (0.0) | (0.0) | (0.0) | 0.1 | 0.1 |
| Crop Ins. | 7.8 | 5.9 | 3.5 | 7.0 | 7.3 |
| Disaster | 1.8 | 0.7 | 0.5 | 0.5 | 0.3 |
| **Total** | **15.8** | **14.8** | **12.0** | **13.4** | **12.3** |

**Source: Realized data for 2014-2016** are from USDA. The Congressional Budget Office's (CBO) June 2017 baseline data are used for 2016 ARC and PLC outlays and all **2017-2018 projected outlays**. CBO fiscal year data are adjusted by CRS to crop year equivalents. For details, see CRS Report R44914, *Farm Safety-Net Payments Under the 2014 Farm Bill: Comparison by Program Crop*.

a. Upland cotton programs (see **Table 2**).

b. MPP outlays minus producer-paid premiums.

**Table 2. Farm Safety Net Programs**

| Program | Commodity Coverage | Program Description | Producer Cost |
|---|---|---|---|
| **Commodity Programs** *(Administered by USDA's Farm Service Agency)* | | | |
| ***Price Loss Coverage (PLC)*** *or* ***Agriculture Risk Coverage (ARC )*** | **Covered commodities**: wheat, corn, grain sorghum, oats, barley, long grain rice, medium grain rice, pulse crops (dry peas, lentils, small chickpeas, and large chickpeas), soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed, and peanuts. | PLC payments are made if the national farm price of a "covered" crop is below its statutory fixed reference price. PLC payment rate is capped by difference between reference price and MAL loan rate. ARC payments are made if actual revenue is below 86% of a historical five-year moving average revenue guarantee based on national prices and county yields. ARC payments are capped at 10% of the revenue guarantee. | No participation fee. |
| ***Marketing Assistance Loans (MAL)*** | **Loan commodities:** same crops as for PLC/ARC plus upland cotton, extra-long staple cotton, wool, mohair, and honey. | Loans provide interim financing at statutory loan rates. Optional benefits include loan deficiency payments (LDP), marketing loan gains (MLGs), commodity certificate exchanges, or forfeiture. | No participation fee. |
| ***CTAP, CGCS, and EAAU*** | Upland cotton. | Cotton Transition Assistance Payments (CTAP), Cotton Ginning Cost-Share Program (CGCS), and Economic Adjustment Assistance to Users (EAAU). | No participation fee. |
| ***Nonrecourse loans, import quotas, and marketing allotments*** | Refined beet sugar and raw cane sugar. | Minimum price guarantee for processors, limits on domestic sugar sales for human use, and tariff-rate quota protection from imports. | No participation fee. Generally, no net federal cost. |
| ***Margin Protection Program (MPP) and Dairy Product Donation Program (DPDP)*** | Milk. | MPP payments are made if actual two-month average margin (milk price minus feed cost) is below producer-selected threshold. Under DPDP, USDA buys dairy products for donation to low-income persons when margin is low. | $100 fee plus statutorily fixed premium for coverage selected by producer. |
| **Federal Crop Insurance** *(Administered by USDA's Risk Management Agency)* | | | |
| ***Crop insurance policies*** | More than 100 crops, including commodity program crops (see above), specialty crops (fruits, tree nuts, vegetables, nursery crops), pasture, rangeland, forage crops, and livestock margins. | Indemnities triggered when actual yield or revenue falls short of the guarantee set at 50%-85% of expected level (as selected by producer) and established at prices prior to planting. Loss is at field or county level, depending on policy. | Premium depends on producer-selected deductible and other risk factors. Producer pays a portion of premium; no delivery cost. |
| ***Stacked Income Protection (STAX)*** | Upland cotton. | Indemnifies area-wide revenue losses >10% of guarantee, up to deductible (with max of 30%). | Producer pays 20% of premium (80% subsidized). |
| ***Supplemental Coverage Option*** | Program crops enrolled in PLC. | Supplements crop insurance, indemnifies area-wide losses >14% of guarantee up to deductible. | Producer pays 35% of premium (65% subsidized). |
| **Disaster Assistance, Noninsured Crop Disaster Assistance Program, & Emergency Loans** *(Administered by USDA's Farm Service Agency)* | | | |
| ***Supplemental Agricultural Disaster Assistance Programs*** | Beef/dairy cattle, bison, poultry, sheep, swine, horses, other livestock, honeybees, farm-raised fish, and trees/bushes/vines producing an annual crop. | Payment for excess livestock mortality (LIP), grazing losses (LFP), other losses (ELAP), and excess fruit tree/vine mortality (TAP). Disaster designation not required. See notes below for program names. | No participation fee. |
| ***Noninsured Crop Disaster Assistance Program (NAP)*** | Available for crops not currently eligible for crop insurance. | Payments for losses in excess of 50%. Additional coverage is available for purchase. | Participation fee of $250 per crop plus a charge for more coverage. |
| ***Emergency Loans (EM)*** | Crops and livestock (also physical losses to real estate). | Low-interest loans for producers in a disaster county and not eligible for commercial credit. Requires disaster designation. | Producers repay interest and principal in one to seven years (longer for real estate). |

**Source:** CRS reports: R43758 (farm safety net), R43448 and R44914 (commodity programs), R40532 and R43494 (crop insurance), RS21212 (disaster assistance), R44739 (program eligibility and payment limits), and RS20840 and R43817 (WTO rules and limits on domestic support).

**Notes:** Additional support for dairy via import restrictions and federal milk marketing orders (CRS Report R43465); sugar via a sugar-to-ethanol program (CRS Report R43998). Disaster programs: Livestock Indemnity Payments (LIP); Livestock Forage Disaster Program (LFP); Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP); and Tree Assistance Program (TAP)—see CRS Report R42854.

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**IF10638**