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2018 Farm Bill Primer: The Farm Safety Net

Overview

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 2018 farm bill (Agricultural Improvement Act of 2018, P.L. 115-334) made several modifications to existing farm programs but largely left the farm safety net intact. See **Figure 1** for projected cost estimates and **Table 1** for program details and a list of related CRS reports.

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 2018 farm bill for the 2019-2023 crop years.

The **marketing 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 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 choose between PLC and ARC based on their preference for protection against a decline in either (a) crop prices using a statutorily fixed PLC reference price or (b) crop revenue using on a five-year average revenue based on county yields and national average farm prices under ARC. Participation is free, but sign up is necessary.

Dairy and sugar producers have separate programs, which are outlined in **Table 1**.

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. Producers must sign up and pay a premium for crop insurance policies. 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.

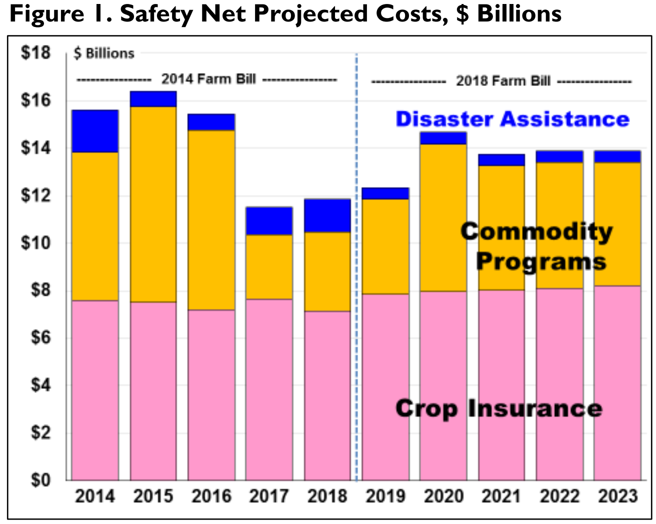
3. Agricultural Disaster Programs

Agricultural disaster programs cover livestock producers and fruit tree 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, honeybees, 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. Another program, the Noninsured Disaster Assistance Program (NAP), is available for a fee for crops that otherwise are not eligible for crop insurance or disaster assistance.

Projected Farm Safety Net Cost

Farm safety net outlays are projected to average $13.7 billion per year under the 2018 farm bill (**Figure 1**), down slightly from the $14.2 billion average annual outlay under the 2014 farm bill.

Figure 1. Safety Net Projected Costs, $ Billions



Source: Compiled by CRS; data for 2014-2017 are from FSA; projections for 2018 2023 are from CBO's January 2019 USDA baseline projections.

Table 1. 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, seed cotton, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed, and peanuts.	PLC payments made if national market-year average farm price (MYAP) of a "covered" crop is below its effective reference price. PLC payment rate capped by difference between effective reference price and MAL loan rate. ARC payments made if actual county revenue is below 86% of a historical five-year average revenue benchmark based on national MYAPs and county yields. ARC payments capped at 10% of the revenue benchmark.	No participation fee. Producers must sign up and select either PLC or ARC, by covered commodity, initially for 2019 and 2020 then annually for 2021, 2022, and 2023.
Marketing assistance loans (MAL)	**Loan commodities:** same crops as for PLC/ARC plus upland cotton, ELS cotton, wool, mohair, and honey.	Loans provide interim financing at statutory loan rates. Optional benefits include loan deficiency payments, marketing loan gains, commodity certificate exchanges, or forfeiture.	No participation fee.
Upland Cotton support programs	Cotton Ginning Cost-Share Program: direct payments to producers to offset cotton ginning costs.	Economic adjustment assistance to users of $0.03/lb. made to domestic users of upland cotton.	No participation fee.
Sugar Program	Refined beet sugar and raw cane sugar.	MAL loan rates 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.
Dairy Margin Coverage (DMC) Program	Milk. Producer-selected coverage of 5% to 95% of historical farm milk production base.	DMC payments are made if actual average monthly margin (milk price minus feed cost) is below producer-selected threshold.	$100 fee plus statutorily fixed premium for coverage selected by producer.
Additional dairy support	Milk and dairy products.	Import restrictions and federal milk marketing orders.	No participation fee.
Federal Crop Insurance *(Administered by USDA's Risk Management Agency)*			
Crop insurance policies	More than 100 crops, including 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 (except not eligible if seed cotton enrolled in ARC or PLC).	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 are eligible. Those enrolled in ARC or STAX are ineligible.	Supplements crop insurance, indemnifies area-wide losses >14% of guarantee up to deductible.	Producer pays 35% of premium (65% subsidized).
Disaster Assistance Programs and 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, or vines producing an annual crop.	Payment for excess livestock mortality (LIP), grazing losses (LFP), other losses (ELAP), and excess fruit tree or vine mortality (TAP). Disaster designation not required. See notes below for program names.	No participation fee.
NAP	Available for crops not currently eligible for crop insurance.	Payments for losses in excess of 50% yield paid at 55% price. Additional coverage available for purchase: up to 65% yield at 100% price.	Participation fee of $250 per crop plus a charge for more coverage.
Emergency Loans	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.	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); R45044, IF10750, and IF10833 (dairy); R43998 (sugar program); R40532 and R43494 (crop insurance); RS21212 (disaster assistance); R44739 (program eligibility and payment limits); and R43817 (WTO rules and limits on domestic support).

Notes: ELS = extras-long staple. Disaster programs: Livestock Indemnity Payments (LIP); Livestock Forage Disaster Program (LFP); Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP); and Tree Assistance Program (TAP)—see CRS Report R42854.

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