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2018 Farm Bill Primer: Title I Commodity Programs

Background

Commodity programs have historically been an essential part of U.S. farm policy by virtue of their long history (dating back to the 1930s) of providing various forms of revenue support. However, the specific program design and the list of eligible commodities have varied over time with changing market and policy conditions.

Provisions of Title I, the "Commodity Title," of the 2018 farm bill (Agricultural Improvement Act of 2018, P.L. 115-334) authorize current commodity revenue support programs for crop years 2019-2023. (For details, see CRS Report R45525, *The 2018 Farm Bill (P.L. 115-334): Summary and Side-by-Side Comparison*.) U.S. Department of Agriculture (USDA) commodity programs are funded through the Commodity Credit Corporation. (For details, see CRS Report R44606, *The Commodity Credit Corporation: In Brief*.) Producers must meet eligibility requirements to participate in the Title I commodity programs and are subject to annual payment limits. (For details, see CRS Report R44739, *U.S. Farm Program Eligibility and Payment Limits*.)

Two Tiers of Market-Based Support

There are two tiers of revenue protection for program commodities: the lower marketing assistance loan (MAL) program and the higher Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC) programs. Not all commodities are eligible for all programs (**Table 1**).

Tier I: Market Assistance Loan (MAL) Program

First-tier revenue protection is available under the MAL program, which offers producers a commodity-specific, statutorily fixed loan rate that is available for all production of eligible commodities (referred to as loan crops). A participating producer may put a harvested loan crop under a nine-month, nonrecourse loan valued at the statutory commodity loan rate. For a nonrecourse loan, USDA must accept the crop as full payment for the loan if a producer forfeits. The loan uses the crop as collateral (thus coupling MAL benefits to current production), and the loan rate, in effect, establishes a price guarantee. If local market prices increase above the loan rate (plus interest), a producer may repay the MAL and reclaim the crop. If market prices are below the loan rate, then other program options are available to producers, including repayment of the loan at a USDA-announced lower rate, forfeiture of the crop, or taking a loan deficiency payment in lieu of an MAL. (See CRS In Focus IF10714, *Farm Bill Primer: The Marketing Assistance Loan Program*.)

Tier II: ARC and PLC Programs

A second, higher tier of support is available under the PLC and ARC programs. Producers choose between PLC and ARC depending on their preference for protection against a decline in (a) crop prices or (b) crop revenue, respectively. PLC provides price protection based on reference prices set in statute at levels above the MAL loan rates. The 2018 farm bill added an escalator provision that could potentially raise a covered commodity's effective reference price to as much as 115% of the statutory PLC reference price. ARC provides revenue protection based on the product of five-year moving averages of both historical county yields and the higher of national average annual farm prices or the PLC effective reference price. (See **Table 1** for a list of MAL loan rates and PLC reference prices compared with average farm prices for eligible program commodities.) In contrast to MAL benefits, which are linked to current production, ARC and PLC make payments based on a portion (85%) of historical farm program acres—known as base acres—and are therefore decoupled from producer production choices.

Alternatively, instead of choosing commodity-specific PLC and ARC, a farmer could choose to combine all covered commodities into a single, whole-farm revenue guarantee under the farm-level "individual" ARC (ARC-IC) program. (For details, see CRS In Focus IF10711, *Farm Bill Primer: ARC and PLC Support Programs*.)

The 2018 farm bill allows producers flexibility in their program choices. In 2019 producers may select ARC or PLC coverage, on a commodity-by-commodity basis, effective for both 2019 and 2020. If no initial choice is made, then the default is whichever program was in effect under the 2014 farm bill. Then, beginning in 2021, producers again choose between ARC and PLC annually for each of 2021, 2022, and 2023. In addition, producers may now remotely and electronically sign annual or multi-year contracts for ARC and PLC.

Eligible Program Commodities

Commodities eligible for the MAL loan program include most major field crops as well as wool, mohair, and honey. A smaller subset of commodities—which excludes cotton, wool, mohair, and honey—is defined by the 2018 farm bill as "covered" commodities eligible for the ARC and PLC programs (**Table 1**). The mix of supported crops reflects historical policy goals and compromises that have evolved over the decades. Producers of specialty crops (e.g., fruits, vegetables, and tree nuts) and livestock have generally received little or no direct government price or revenue support through commodity programs.

Dairy, Sugar, and Disaster Programs

Title I authorizes separate programs for dairy and sugar (CRS Report R45525, *The 2018 Farm Bill (P.L. 115-334): Summary and Side-by-Side Comparison*). Title I also includes disaster assistance programs focused on livestock and tree crops that were permanently authorized by the 2014 farm bill and the noninsured disaster assistance program (NAP) for commodities not eligible for crop insurance (CRS In Focus IF10565, *Federal Disaster Assistance for Agriculture*).

Table 1. Farm Prices, Market Loan Rates, and PLC Reference Prices: 2014 and 2018 Farm Bills

Program Commodities[b]	Unit	Farm Price[a]	Tier I: Market Loan Rate			Tier II: PLC Reference Price	
			2014 Farm Bill		2018 Farm Bill	2014 and 2018 Farm Bills	
		$/unit	$/unit	% MYAP	$/unit	$/unit	% of MYAP
Corn	bu.	$3.52	$1.95	55%	$2.20	$3.70	105%
Soybeans	bu.	$9.25	$5.00	54%	$6.20	$8.40	91%
Wheat, all	bu.	$4.92	$2.94	60%	$3.38	$5.50	112%
Peanuts	cwt.	$21.06	$17.75	84%	$17.75	$26.75	127%
Sorghum	bu.	$3.29	$1.95	59%	$2.20	$3.95	120%
Barley	bu.	$4.95	$1.95	39%	$2.50	$4.95	100%
Oats	bu.	$2.45	$1.39	59%	$2.00	$2.40	98%
Rice, long grain	cwt.	$11.35	$6.50	57%	$7.00	$14.00	123%
Rice, medium grain	cwt.	$16.15	$6.50	40%	$7.00	$16.10	100%
Dry peas	cwt.	$11.90	$5.40	45%	$6.15	$11.00	92%
Lentils	cwt.	$27.20	$11.28	36%	$13.00	$19.97	73%
Chickpeas, large	cwt.	$31.35	$14.00	45%	$14.00	$21.54	69%
Chickpeas, small	cwt.	$25.00	$10.00	40%	$10.00	$19.04	76%
Cotton, upland[c]	cwt.	$65.97	$52.00[d]	79%	$52.00[d]	na	na
Seed Cotton[e]	cwt.	$33.37	na	na	na	$36.70	110%
Sugar, refined beet	cwt.	$32.69[f]	$24.09	74%	$25.37	na	na
Sugar, raw cane	cwt.	$25.97[g]	$18.75	72%	$19.75	na	na
Wool, graded	cwt.	$146.33[h]	$115.00	79%	$115.00	na	na
Wool, nongraded	cwt.	$146.33[f]	$40.00	27%	$40.00	na	na
Mohair	cwt.	$501.67	$420.00	84%	$420.00	na	na
Honey	cwt.	$213.75	$69.00	32%	$69.00	na	na
Minor oilseeds[i]	cwt.	na	$10.09	58%[j]	$10.09	$20.15	115%
Sunflower	cwt.	$18.07	$10.09	56%	$10.09	$20.15	112%
Flaxseed	cwt.	$16.67	$10.09	61%	$10.09	$20.15	121%
Canola	cwt.	$16.62	$10.09	61%	$10.09	$20.15	121%
Rapeseed	cwt.	$30.05	$10.09	34%	$10.09	$20.15	67%
Mustard	cwt.	$32.70	$10.09	31%	$10.09	$20.15	62%
Safflower	cwt.	$24.50	$10.09	41%	$10.09	$20.15	83%

Source: USDA, National Agricultural Statistics Service (NASS), and Economic Research Service (ERS), Farm Income and Wealth Statistics.
Notes: na = not applicable, bu. = bushel, cwt. = hundredweight or 100 lbs. Commodities with market loan rates are loan crops. Crops with PLC reference prices are "covered" commodities. Tier II support also includes ARC revenue protection not listed in this table.

a. The Olympic average (excluding high and low data years) for crop years 2014-2018 of market-year average farm prices (MYAPs). Average adjusted world prices are used for comparison of upland cotton and rice MAL loan rates instead of farm prices.
b. Tier I commodities are referred to as "loan" commodities; Tier II commodities are known as "covered" commodities.
c. Upland cotton was removed from eligibility by the 2014 farm bill due to a ruling from a World Trade Organization dispute settlement case successfully brought by Brazil against U.S. cotton support programs (CRS In Focus IF10193, *The WTO Brazil-U.S. Cotton Case*).
d. The loan rate for upland cotton is the average MYAP for the preceding two years but within a range of $45/cwt. and $52/cwt.
e. Seed cotton was added as a covered commodity, but not a loan commodity, by the Bipartisan Budget Act of 2018 (P.L. 115-123).
f. U.S. wholesale refined beet sugar price, Midwest markets, Milling and Baking News, as reported by ERS.
g. U.S. raw sugar price, Contract No. 14/16, duty fee paid New York, as reported by ERS.
h. Average farm price received with no distinction for graded or ungraded, as reported by NASS.
i. Minor oilseeds include the six listed oilseeds as well as crambe and sesame—but these two are excluded due to insufficient data.
j. Weighted average based on 2018 production.

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Randy Schnepf, rschnepf@crs.loc.gov, 7-4277