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2014 Farm Bill Provisions and WTO Compliance

Randy Schnepf
Specialist in Agricultural Policy

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Summary

The enacted 2014 farm bill (Agricultural Act of 2014; P.L. 113-79) could result in potential compliance issues for U.S. farm policy with the rules and spending limits for domestic support programs that the United States agreed to as part of the World Trade Organization's (WTO's) Uruguay Round Agreement on Agriculture (AoA). In general, the act's new farm safety net shifts support away from classification under the WTO's green/amber boxes and toward the blue/amber boxes, indicating a potentially more market-distorting U.S. farm policy regime.

The 2014 farm bill eliminates many of the support programs of the 2008 farm bill (P.L. 110-246) and replaces them with several new "shallow-loss" programs, addressing relatively small shortfalls in farm revenue—Agricultural Risk Coverage (ARC), Supplemental Coverage Option (SCO), and Stacked Income Protection Plan (STAX)—as well as a revamped counter-cyclical price support program, Price Loss Coverage (PLC), that relies on elevated support prices. Among the safety net programs, only the marketing loan program and the U.S. sugar program were extended unchanged. The sugar program will continue to count for $1.4 billion against the current U.S. limit of $19.1 billion for non-exempt, trade-distorting amber box outlays.

The most notable safety net change is the elimination of the $5-billion-per-year direct payment (DP) program, which was decoupled from producer planting decisions and was notified as a minimally trade-distorting green box outlay. DPs are replaced by programs that are partially coupled (PLC and ARC) or fully coupled (SCO and STAX), meaning that they could potentially have a significant impact on producer planting decisions, depending on market conditions. Fully and partially coupled farm programs influence planting decisions, both by increasing the overall profitability of farming (as low-price signals are muted) and by changing the relative returns to planting alternative crops. Increased profitability tends to increase total planted acreage and output, while changes in relative returns influence the share of acreage planted to each crop, with consequences that could spill over into international markets.

Many of the new programs authorized by the 2014 farm bill have yet to be fully implemented; thus producer participation is uncertain, while potential distortions have yet to be measured and will likely hinge on future market conditions. For example, under a relatively high market price environment, as existed during the 2010-2013 period, U.S. program outlays would be small and would fall within the $19.1 billion U.S. amber box limit. Most studies suggest that, for U.S. program spending to exceed the $19.1 billion limit, a combination of worst-case events would have to occur—for example, low market prices generating large simultaneous outlays across multiple programs, in addition to the $1.4 billion of implicit costs associated with the sugar program. Such a scenario is unlikely, although not impossible, particularly since outlays under several of the programs (including the new dairy program, SCO, STAX, and crop insurance) are not subject to any per-farm subsidy limit. Perhaps more relevant to U.S. agricultural trade is the concern that, because the United States plays such a prominent role in most international markets for agricultural products, any distortion resulting from U.S. policy would be both visible and vulnerable to challenge under WTO rules. Furthermore, projected outlays under the new 2014 farm bill's shallow-loss and counter-cyclical price support programs may make it difficult for the United States to agree to future reductions in allowable caps on domestic support expenditures and related de minimis exclusions, as envisioned in ongoing WTO multilateral trade negotiations.

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Table of Acronyms

ACRONYM	Full Term	Source
A&O	Administrative and operating	2014 farm bill
AoA	Agreement on Agriculture	WTO
ACRE	Average Crop Revenue Election program	2008 farm bill
AMS	Aggregate measure of support	WTO
ARC	Agricultural Risk Coverage program	2014 farm bill
ARC-CO	Crop-specific, county-based ARC program	2014 farm bill
ARC-ID	Farm-level ARC program	2014 farm bill
BCAP	Biomass Crop Assistance Program	2014 farm bill
CBO	Congressional Budget Office	2014 farm bill
CCC	Commodity Credit Corporation	2014 farm bill
CCP	Counter-cyclical payment program	2008 farm bill
DM	De minimis exemption	WTO
DMPP	Dairy Margin Protection Plan	2014 farm bill
DP	Direct payment program	2014 farm bill
DPDP	Dairy Product Donation Program	2014 farm bill
DPPS	Dairy Price Product Support program	2008 farm bill
ELAP	Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program	2014 farm bill
FFP	Flexible Feedstock Program	2014 farm bill
GSM-102	General Sales Manager-102 export credit guarantee program	2014 farm bill
LIP	Livestock Indemnity Program	2014 farm bill
LFP	Livestock Forage Disaster Program	2014 farm bill
MILC	Milk Income Loss Contract program	2008 farm bill
MLP	Marketing Loan Program	2014 farm bill
NAP	Noninsured Crop Disaster Assistance program	2014 farm bill
OA	Olympic average (excludes the high and low data points from the calculation)	2014 farm bill
PLC	Price Loss Coverage program	2014 farm bill
REAP	Rural Energy for America Program	2014 farm bill
SAFP	Season-Average Farm Price received by producers	2014 farm bill
SCM	Agreement on Subsidies and Countervailing Measures	WTO
SCO	Supplemental Coverage Option	2014 farm bill
STAX	Stacked Income Protection Plan	2014 farm bill
SURE	Supplemental Revenue Assurance program	2008 farm bill
TRQ	Tariff rate quota	WTO
USDA	U.S. Department of Agriculture	2014 farm bill
WTO	World Trade Organization	WTO

Introduction

As a signatory member of the World Trade Organization (WTO),[1] the United States has committed to abide by WTO rules and disciplines, including those that govern domestic farm policy. The WTO's general rules concerning subsidy disciplines, trade behavior, and market access concessions apply to all members. In addition, each individual member country also negotiated its own specific policy commitments—spelled out in a document called a Schedule of Concessions (or Country Schedule).[2]

Trade plays a critical role in the U.S. agricultural sector. USDA estimates that exports account for about 20% of total U.S. agricultural production.[3] Because the United States plays such an important role in so many agricultural markets, its farm policy is often subject to intense scrutiny, both for compliance with current WTO rules and for its potential to diminish the breadth or impede the success of future multilateral negotiations—in part because a farm bill locks in U.S. policy behavior for an extended period of time, during which the United States would be unable to accept any new restrictions on its domestic support programs.

Current U.S. farm policy is authorized by the 2014 farm bill (the Agricultural Act of 2014; P.L. 113-79) for the 2014-2018 crop years.[4] The 2014 farm bill made significant changes to U.S. farm price and income support programs. These changes could have important implications for U.S. commitments to the WTO in terms of compliance with current spending limits and with rules on mitigating program spillover effects and distortions in international markets.

This report assumes knowledge of the U.S. farm safety net programs and their function. It briefly describes the relevant WTO rules governing domestic support programs under the Agreement on Agriculture (AoA) and the Agreement on Subsidies and Countervailing Measures (SCM). The report then reviews the current U.S. farm safety net programs,[5] including changes made under the 2014 farm bill, particularly to Title I price and income support programs, in light of their potential for compliance with the AoA and SCM and their potential to affect the success of the current Doha Round of multilateral trade negotiations.[6] **Table 1** provides a list of current farm safety net programs. **Table 2** lists key parameters of the farm support programs referenced in this report. **Table 3**, at the end of the report, briefly reviews each of the individual 2014 farm bill provisions that are relevant to WTO commitments, including a description of their function, average outlays, any changes made under the 2014 farm bill, WTO status, and related potential WTO effects.

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[1] The WTO is a global rules-based, member-driven organization dealing with the rules of trade between nations. As of June 26, 2014, the WTO included 160 members. See CRS Report IF10002, *The World Trade Organization at 20*.

[2] Any possible exceptions to the WTO's rules, e.g., certain product-specific export subsidies, are identified for individual member countries in their Schedule of Concessions. Each member country's schedule is publicly available at the WTO website at http://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm.

[3] CRS Report R43696, *Agricultural Exports and 2014 Farm Bill Programs: Background and Issues.*

[4] CRS Report R43076, *The 2014 Farm Bill (P.L. 113-79): Summary and Side-by-Side.*

[5] "Safety net" broadly describes all price and income support programs and risk management programs available to U.S. agricultural producers. Farm program critics contend that "safety net" is a euphemism for federal subsidies.

[6] For specific farm program details, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*; CRS Report R43494, *Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79)*; and CRS Report RS21212, *Agricultural Disaster Assistance*.

Table 1. Current Farm Safety Net Programs, 2014-2018

Price Deficiency Payment Programs

- Marketing Loan Program (MLP) and associated benefits
- Price Loss Coverage (PLC)

Shallow-Loss Support Programs

- Agricultural Risk Coverage, County-Level (ARC-CO)
- Agricultural Risk Coverage, Farm or Individual-Level (ARC-ID)
- Supplemental Coverage Option (SCO)
- Stacked Income Protection Plan (STAX) for upland cotton

Crop Insurance

- Premium subsidy for catastrophic (CAT) yield policies
- Premium subsidy on additional ("buy-up") yield and revenue insurance policies
- Risk Sharing with private crop insurance companies under the Standard Reinsurance Agreement (SRA)
- Delivery, administrative, and operating reimbursements to private crop insurance companies

Dairy Support Programs

- Dairy Margin Protection Program (DMPP)
- Dairy Product Donation Program (DPDP)
- Tariff Rate Quota (TRQ) protection
- Dairy Price Support Program under permanent law (temporarily suspended)

Sugar Support Programs

- Marketing Loan for raw sugar from sugar cane and refined sugar from sugar beets
- Tariff Rate Quota (TRQ) protection
- Marketing Allotments
- Feedstock Flexibility Program (FFP)

Disaster Assistance Programs

- Noninsured Crop Disaster Assistance Program (NAP)
- Livestock Indemnity Program (LIP)
- Livestock Forage Disaster Program (LFP)
- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP)
- Tree Assistance Program (TAP)
- Emergency Disaster loans

Special Cotton Support Programs

- Temporary Upland Cotton Transition Payments
- Special program provisions for Upland Cotton—import quotas
- Special competitiveness program for extra-long staple (ELS) Cotton
- Economic Adjustment Assistance to Users of Upland Cotton
- Cotton Storage Payments

Source: Compiled by CRS.

WTO Rules Governing Domestic Support

A domestic farm support program can violate WTO commitments in two principal ways—first, by exceeding amber box spending limits (see box below), and second, by generating market distortions that spill over into the international marketplace and cause significant or measurable adverse effects. For such a violation to be meaningful, another WTO member country must successfully challenge the violation under the WTO dispute settlement process.[7]

AoA: Rules and Limits on Domestic Support

The Agreement on Agriculture (AoA) spells out the rules for countries to determine whether their policies for any given year are potentially trade-distorting, calculate the costs of any distortion, and report those costs to the WTO in a public and transparent manner.[8]

WTO Classification of Domestic Support Programs

The WTO's AoA categorizes and restricts agricultural domestic support programs according to their potential to distort commercial markets. Whenever a program payment influences a producer's behavior, it has the potential to distort markets (i.e., to alter the supply and market price of a commodity) from the equilibrium that would otherwise exist in the absence of the program's influence. Those outlays that have the greatest potential to distort agricultural markets—referred to as amber box subsidies—are subject to spending limits. In contrast, more benign outlays, which cause less market distortion, are exempted from spending limits. The WTO uses a traffic light analogy to group programs.

- **Green box** programs are minimally or non-trade distorting and ***are not*** subject to any spending limits.
- **Blue box** programs are described as market-distorting but production-limiting. Payments are based on either a fixed area or yield, or a fixed number of livestock, and are made on 85% or less of historical (i.e., base) production. As such, blue box programs ***are not*** subject to any payment limits.
- **Amber box** programs, the most market-distorting programs, are cumulatively measured by the aggregate measure of support (AMS). Certain amber box outlays may be excluded under the de minimis exemptions (see below). Non-exempted amber box outlays ***are*** subject to an annual aggregate spending limit.
- Prohibited (i.e., **red box**) programs include certain types of export and import subsidies and non-tariff trade barriers that are not explicitly included in a country's WTO schedule or identified in the WTO legal texts.
- **De minimis (DM) exemptions** apply to spending that is sufficiently small—relative to either the value of a specific product or total production—to be deemed benign. DM exemptions are limited to 5% of the value of production (either total or product-specific).

The United States is committed, under the AoA, to spend no more than $19.1 billion annually on amber box programs, subject to DM exemptions. Since 1995, when the AoA rules first came into effect and member countries began notifying their outlays on domestic support, the United States has stayed within its amber box limits (**Figure 1**). However, U.S. compliance has hinged on judicious use of the DM exemptions in a number of years (e.g., 1999-2001 and 2005). This has included the notification of crop insurance premium subsidies during the 1995 to 2011 period as non-product-specific support (see the red bars for 1995-2011 in **Figure 1**), which then allowed for

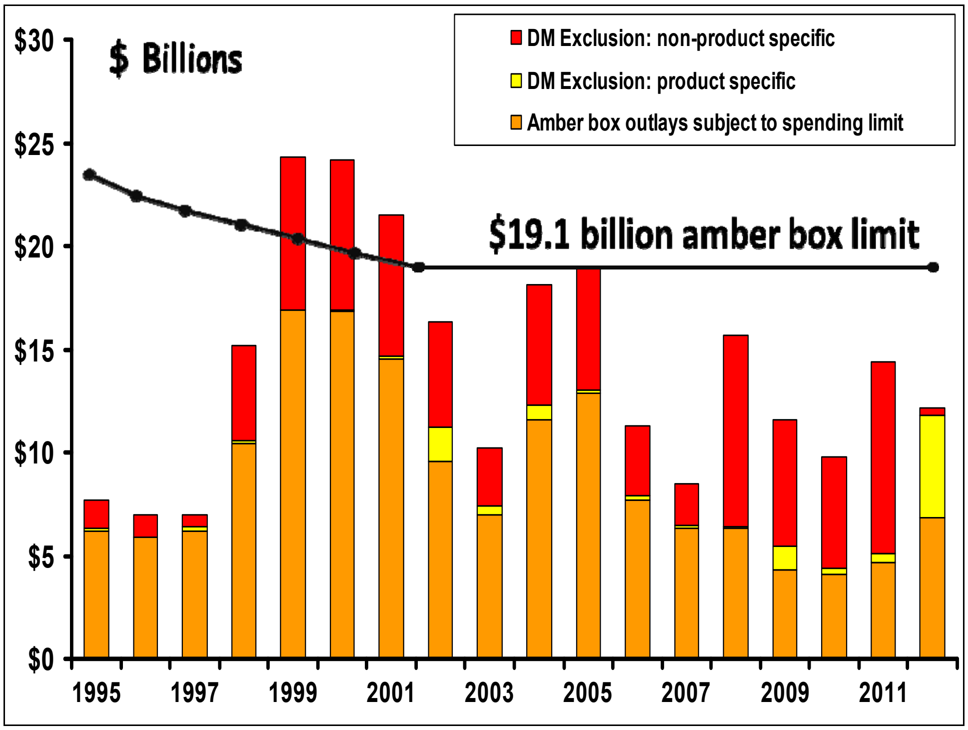
[7] For a summary of WTO rules see CRS Report IF10192, *WTO Disciplines of Domestic Support for Agriculture*. For a detailed review of WTO domestic support classification and a description of how U.S. farm programs have been categorized through 2011, see CRS Report RS20840, *Agriculture in the WTO: Rules and Limits on Domestic Support*.

[8] See CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*.

these outlays to be exempted under the DM exclusion for non-product-specific spending, as described later in this report.

In its most recent notification (2012), the United States changed its notification status for crop insurance premium subsidies to product-specific support.[9] A total of $11.8 billion in amber box outlays were notified as "product-specific" in 2012, including $7.0 billion of crop insurance subsidies. However, $5.0-billion product-specific amber box outlays were excluded under the DM product-specific exemption (see the yellow bar for 2012 in **Figure 1**), thus reducing U.S. amber box outlays subject to a spending limit to $6.864 billion.

Figure 1. Total U.S. Amber Box Outlays Including De Minimis (DM) Exclusions



Source: WTO, annual notifications of the United States through 2012, the most recent year of notification.

Notes: See the text box above for a description of amber box, the spending limit, and the DM exclusions.

SCM: International Market Distortions and Adverse Effects

In addition to potentially exceeding payment limits, a market-distorting program may be challenged under Articles 5(c) and 6.3 of the Agreement on Subsidies and Countervailing Measures (SCM) when the program's effect spills over into international markets—that is, if it can be established that a subsidy causes adverse market effects.[10]

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[9] The U.S. change in notification for crop insurance premium subsidies and the subsequent implication for WTO compliance is discussed later in this report in "

De Minimis (DM) Exemptions."

[10] See CRS Report RS22522, *Potential Challenges to U.S. Farm Subsidies in the WTO: A Brief Overview*.

The importance of SCM rules has been made salient by the so-called "Brazil cotton case," in which a WTO dispute settlement panel ruled against both the U.S. cotton price and income support programs and the GSM-102[11] export credit guarantee program.[12] As a result of the ruling and the potential for WTO-sanctioned retaliation, the United States made substantial policy changes in the past two farm bills to bring the related programs into WTO compliance. Because the United States is a major producer, consumer, exporter, and/or importer of many agricultural commodities, the SCM is relevant for most major U.S. agricultural products. If a particular U.S. farm program is deemed to result in a market distortion that adversely affects other WTO members—even if it is within agreed-upon AoA spending limits—then that program may be subject to challenge under the WTO dispute settlement procedures (see box below).

SCM Rules on Adverse Effects in International Markets

Based on precedent from past WTO decisions, several criteria are important under SCM rules in establishing whether a subsidy for a particular commodity results in significant market distortions with resultant adverse effects. First, the subsidy must meet the following criteria:

- the subsidy constitutes a substantial share of farmer returns or of production costs for a commodity;
- the subsidized commodity is important to world markets (i.e., it represents a significant global share in terms of either production or trade); and
- a causal relationship exists between the subsidy and adverse effects in the relevant commodity market.

Second, the "market distortion" of a program or policy must have measurable market effects on the international trade and/or market price of the affected commodity, as measured by any of the following criteria:

- the subsidy displaces or impedes the import of a like product into the domestic market;
- the subsidy displaces or impedes the export of a like product by another WTO member country;
- the subsidy (via overproduction and resultant export of the surplus or displacement of previous imports) results in significant price suppression, price undercutting, or lost sales in the international market; or
- the subsidy results in an increase in the world market share of the subsidizing member.

For any farm program that is challenged under the SCM, a WTO dispute settlement panel reviews the relevant trade and market data and makes a determination of whether the program resulted in a significant market distortion**.** Following these guidelines, a subsidy may be found to be actionable or prohibited. WTO *actionable subsidies* (i.e., policies that incentivize overproduction and result in lower market prices or altered trade patterns) must be withdrawn or altered to minimize or eliminate the subsidy's distorting aspect. WTO *prohibited subsidies* (i.e., certain export- and import-substitution subsidies not included in a member's country schedule) must be stopped or withdrawn "without delay," in accordance with an abbreviated timetable announced by the WTO ruling panel. If the violating policies are not withdrawn or altered according to the timetable, then the WTO member bringing the challenge may take appropriate countermeasures.

Perhaps the most easily recognized distortion occurs when a program offers price support or income payments based on (i.e., coupled to) the current level of farm activity—either area planted or volume of output. Such an incentive can encourage greater production or output than the market is prepared to absorb and, as a result, tends to lower market prices. Given the United

[11] Under the General Sales Manager (GSM) 102 program, the federal government guarantees repayment when U.S. banks extend credit to foreign banks to finance import purchases into foreign markets of U.S. agricultural goods.

[12] See CRS Report R43336, *The WTO Brazil-U.S. Cotton Case.*

States' prominent role in international agricultural markets, such potential market distortions, should they emerge, can be quickly transmitted from domestic to global markets.

Since most governing provisions for U.S. farm programs are statutory, new legislation may be required to implement even minor changes to achieve compliance in the event that a WTO challenge successfully finds a program in violation of a WTO rule.[13] So, a key question that policymakers ask of virtually every existing farm program, as well as of new farm proposals, is how it will affect U.S. commitments under the AoA and U.S. compliance with SCM rules. The answer rests not only on cost, but also on each program's design, implementation, and subsequent market effects.

Changes to Farm Support in the 2014 Farm Bill

The Agricultural Act of 2014 reshaped the structure of U.S. commodity support, otherwise known as the farm "safety net." In general, the new suite of farm support programs shifts support away from the green/amber boxes and toward the blue/amber boxes, thus indicating greater potential for market distortion. In particular, the 2014 farm bill:[14]

- terminated several of the core "farm safety net" programs from the previous 2008 farm bill, including direct payments (DP), the counter-cyclical payment (CCP) program, and the Average Crop Revenue Election (ACRE) and Supplemental Revenue Assurance (SURE) programs;
- retained the traditional marketing loan program (MLP)—which triggers payments when market prices drop below support levels (referred to as loan rates)—but with a single adjustment to the loan rate for upland cotton (which is now allowed to float within a formula-determined range of 45¢/lb to 52¢/lb as compared with the previous fixed value of 52¢/lb);
- replaced CCP with a similar counter-cyclical payment program called Price Loss Coverage (PLC) using substantially higher reference support prices;[15]
- added several new shallow-loss programs, including Agricultural Risk Coverage (to replace ACRE) with county-level (ARC-CO) and farm-level (ARC-ID)[16] options, a Supplemental Coverage Option (SCO), and Stacked Income Protection (STAX); and

[13] The 2014 farm bill includes a provision, Sec. 1601(d), that effectively serves as a safety trigger for USDA to adjust program outlays in such a way as to avoid breaching the amber box limit.

[14] For specific program details, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*; CRS Report R43494, *Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79)*; and CRS Report RS21212, *Agricultural Disaster Assistance.*

[15] Payments under these programs are counter-cyclical because they tend to rise when prices fall and to fall when prices rise.

[16] Although the acronym ARC-ID signifies "individual," it is more accurately described as a farm-level program because it uses yields from the farm to determine the guaranteed and actual revenues. In contrast, ARC-CO uses the county average yield, rather than the farm-level yield, for determining payments. County-level programs are easier to administrate (since county data is more reliable and more readily available than farm-level data) and discourage producer manipulation of farm-level production data.

- repealed the previous dairy product price support (DPPS) and Milk Income Loss Contract (MILC) programs and replaced them with a new Dairy Margin Protection Program (DMPP) and Dairy Product Donation Program (DPDP).

Federal Budget "Cost" vs. International Trade Distortion "AMS"

Evaluating the merits of a domestic support program depends on one's perspective. This is because costs to the federal budget usually do not equal costs (or distortions) in the international marketplace. For the federal budget, changes to a farm program are officially evaluated by the Congressional Budget Office (CBO), which produces a "score" of a proposed program change against a baseline of current farm law. The score measures the net change in federal budget outlays from current policy—increases in outlays are viewed as costs; decreases in outlays are viewed as savings. Much of the "savings" associated with the elimination of the 2008 farm bill programs was used to offset the costs of adding new safety net programs.

In contrast, a foreign producer or exporter may have a different perspective and instead may see U.S. farm programs as providing an unfair advantage to U.S. products in international markets. In this context, domestic support programs for agriculture may be evaluated according to the WTO's rules for determining which programs are most likely to distort production and trade and for calculating their annual cost as measured by the AMS.

These different approaches to tabulating costs (CBO versus WTO) may result in different evaluation outcomes for the same program change. For example, direct payments (DPs) of the 2008 farm bill (P.L. 110-246) had a federal budget cost of about $5 billion annually, but from a WTO perspective they were fully decoupled[17] and mostly non-market-distorting, and thus did not count toward the U.S. amber box total.[18] Replacing DPs with a "shallow-loss" program coupled to market prices and current yields, with projected annual outlays of $3 billion, would represent a saving of $2 billion from CBO's perspective but would represent an increase of $3 billion in market-distorting amber box from the WTO's perspective. Similarly, the U.S. sugar program is required by statute to operate at "no net cost" to taxpayers,[19] thus resulting in a budget score of zero. However, the implicit price subsidy inherent in the tariff rate quota (TRQ)[20] protection provided to U.S. sugar producers is valued at about $1.4 billion annually by the WTO.

CBO Scores Budget Savings for the 2014 Farm Bill

According to the January 2014 "score" by the CBO, the 2014 farm bill will reduce the federal budget deficit by $16.6 billion over 10 years, compared with the cost of then-current law. While important for U.S. budget purposes, this provides little guidance with respect to farm program

[17] "Decoupled" means that program payments are not linked to either planted acres or output. In contrast, "coupled" means that payments are directly linked to plantings or production.

[18] As an aid to understanding how the new safety net of the 2014 farm bill might affect markets, **able 2Table 2** groups the principal support programs into four categories: price-deficiency-payment programs, shallow-loss programs, deep-loss programs, and programs based on supply control.

[19] An important aspect of the sugar program is that it operates, to the maximum extent possible, at no budgetary cost to the federal government by avoiding marketing loan forfeitures to USDA's Commodity Credit Corporation (CCC). See the section below entitled "Marketing Loan Program (MLP)" for a description of loan forfeiture.

[20] Under a TRQ, a quota is established below which imports may enter with no or minimal duty, and above which imports are subject to a higher, often prohibitive duty.

compliance with WTO rules, as those budget scores were based on what are now generally perceived as "outdated" price projections.[21] The possibility that farm program costs might be much larger than originally anticipated is due to record corn and soybean harvests in 2014, which sent farm prices plummeting. According to USDA, the 2014/15 season average farm prices for corn and soybeans have declined 46% and 30%, respectively, from 2012/13's record highs, which prevailed during much of the 2014 farm bill debate and which provided the basis for many of the program parameters in the new farm safety net.[22]

Table 2. 2014 Farm Bill: Major Safety Net Programs and Key Parameters

	Basis for Program Payment					
Program	**Yield**	**Acres**	**Price Trigger[a]**	**Limit[b]**	**Required Loss**	**Subsidy**
Price Deficiency Payment Programs						
Marketing-Loan Program (MLP)	Farm	Planted	Fixed	$125,000	None needed	100%
Price Loss Coverage (PLC)	Base[c]	85% * Base[d]	Fixed	$125,000	None needed	100%
Shallow-Loss Programs						
Agriculture Risk Coverage-County (ARC-CO)[e]	County, 5-yr. OA[f]	85% * Base	SAFP,[g] 5-yr. OA	$125,000	14%-24% of county avg.	100%
Agriculture Risk Coverage-Individual (ARC-ID)[h]	Base	65% * Base	SAFP, 5-yr. OA	$125,000	14%-24% of farm avg.	100%
Stacked Income Protection Plan (STAX)	County	Planted	Within-year market-based	None	10%-(D or 30%)[i] of county avg.	80% of premium
Supplemental Coverage Option (SCO)	County	Planted[j]	Within-year market-based	None	14%-D of county avg.	65% of premium
Deep-Loss Program						
Federally subsidized Crop Insurance	Farm or County	Planted	Within-year market-based	None	Varies from 10% to 50%[k]	~62%[l] of premium
Hybrid Program[m]						
Dairy Margin Protection Program (DMPP)	Base[n]	(25% to 90%) * Base	Margin[o]	None	None needed	Indeter-minate[p]
Program Support Based on Supply Controls						
Sugar Program	Indirect support based on import restrictions, marketing allotments, and price supports for refined beet sugar and raw cane sugar. There is no payment limit.					

Source: Compiled by CRS.

a. All price triggers are set at the national level.

b. The $125,000 limit per person applies to combined MLP, PLC, and ARC payments for all commodities except peanuts, which have a separate $125,000 limit across the MLP, PLC, and ARC programs.

[21] CBO cost estimates for the 2014 farm bill, January 28, 2014, available at http://www.cbo.gov/publication/45049.

[22] USDA, *World Agricultural Supply and Demand Estimate*, World Agricultural Outlook Board, Nov. 10, 2014.

c. Base yield is the historical yield of a program crop used to calculate the production that is eligible for payments. Producers were offered a one-time option to update base yields to 90% of the average yield for 2008-2012; otherwise they would retain the program yield used under the 2008 farm bill programs.

d. Base acres are the historical planted acres of program crops used to calculate production eligible for payments. Producers were offered a one-time option to update the allocation of program crops across the farm's total base acres; otherwise they would retain the base allocation used under 2008 farm bill programs.

e. ARC-CO may be applied separately for each program crop.

f. The five-year olympic average (OA) excludes the high and low years from the calculation.

g. The five-year OA of the season-average farm price (SAFP). The 2014 farm bill stipulates that the PLC reference price is used in the ARC guarantee for any year where the SAFP is less than the reference price; thus the reference price acts as a floor price for ARC.

h. The farm-level ARC-ID applies to the aggregate of all program crops.

i. Whichever is smaller, 30% or the underlying insurance policy deductible (D), expressed as a percent of the guarantee.

j. Acres covered by ARC-CO, ARC-ID, or STAX are not eligible for SCO.

k. Crop insurance policy coverage varies across crops and regions. Coverage ranges from 50% up to 85% for farm-based insurance and up to 90% for county-based insurance. The required loss is equal to the policy deductible. For example, a policy with coverage of 75% requires a loss of 25% before an indemnity is made.

l. Crop insurance premium subsidy varies by type of policy and coverage level but averages about 62%.

m. The dairy support programs combine features of (1) a price deficiency payment program that substitutes a producer-selected margin level for a target price, (2) both shallow- and deep-loss programs depending on the producer-selected coverage levels and market conditions, and (3) supply controls, since a system of tariff-rate quotas continues to provide price support for various dairy products.

n. The highest milk marketings of the dairy operation during any one of the three calendar years 2011, 2012, or 2013; special adjustments are available for beginning producers with incomplete production history.

o. The margin equals the all-milk price minus the cost of an average feed ration per 100 lb. of milk.

p. The implicit DMPP subsidy is equal to the difference between an unspecified actuarially fair premium and the fixed premium set in statute for DMPP. This value will vary annually by market conditions as well as by both margin and coverage level selected. In addition, U.S. dairy products receive implicit subsidies from a system of TRQs that provide protection from lower-priced foreign imports and from federal purchases of U.S. dairy products under the Dairy Product Donation Program.

Evaluating U.S. Farm Programs by WTO Rules

Prior to the 2014 farm bill,[23] spending under most price and income support programs was notified as amber box: either product-specific in the case of MLP, ACRE, and the dairy and sugar price support programs, or non-product-specific in the case of the CCP, SURE, and crop insurance programs. The non-product-specific amber box spending was then excluded from counting toward the amber box limit by the DM exemption. An exception to this notification pattern was the direct payment (DP) program, which was notified as fully decoupled green box and thus did not count toward the amber box limit.

[23] For information on pre-2014 farm bill programs, see CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*; CRS Report R40422, *A 2008 Farm Bill Program Option: Average Crop Revenue Election (ACRE)*; CRS Report R40452, *A Whole-Farm Crop Disaster Program: Supplemental Revenue Assistance Payments (SURE)*; and CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill.*

It is unclear how USDA will classify several of the new farm programs, such as ARC and PLC, which could potentially be notified as either blue box or non-product-specific amber box outlays in accordance with precedence and their similarity to CCP as partially decoupled programs with payments limited to 85% of historical base. Any assessment of the WTO classification and potential market effect of the new domestic support programs authorized under the 2014 farm bill is very preliminary at this time. Many of the new programs have yet to be fully implemented, and an estimate of spending under their first year (i.e., 2014) will have to wait until late 2015 for the relevant marketing year to end.[24] The programs likely will not be notified by USDA until early 2017, when a more "final" estimate of outlays becomes available. With these caveats in mind, the new programs are discussed in light of their potential market distortions, using previous U.S. notifications as a guide, to better understand how the new U.S. farm commodity support programs of the 2014 farm bill might comply with WTO rules.[25]

Green Box: Decoupled Income Support

Green box programs are minimally or non-trade-distorting and are not subject to any spending limits. U.S. green box notifications have grown from $46 billion in 1995 to $127.5 billion in 2012. The United States notifies a broad range of domestic support programs as green-box-compliant, including regulatory and market assistance programs, conservation activities, and domestic food programs. The 2014 farm bill consolidated conservation programs, reauthorized and revised nutrition assistance, and extended authority to appropriate funds for many USDA green box programs through FY2018.

The principal U.S. farm price and income support program included in the green box (under Decoupled Income Support) has been direct payments (DPs), with annual notifications averaging nearly $5 billion from 1996 through 2012. Because DP outlays were both fixed (they did not vary with producer behavior or market conditions) and decoupled (they were based on historical—not current—plantings), they did not influence a producer's current behavior and thus were deemed minimally market-distorting. DPs originated with the 1996 farm bill (P.L. 104-127) and were repealed by the 2014 farm bill. Also included in the green box are two subsidy components of the crop insurance program—administrative and operating (A&O) expenses and the underwriting of program losses. For 2012, federal outlays on crop insurance A&O expenses were notified as $1.4 billion, while underwriting costs were $0 (compared with $1.6 billion annually for 2008-2011).[26]

The 2014 farm bill added an option for expanded coverage up to 65% under the Noninsured Crop Disaster Assistance Program (NAP). NAP payments are notified as green box since they involve crop losses of at least 50% and are reimbursed at just 55% of the market price. The additional coverage option will not change NAP's green box status. NAP payments also have an annual payment limit of $125,000 per person. None of the current suite of farm price and income support programs and shallow-loss crop insurance programs—MLP, PLC, ARC, SCO, STAX, DMPP, and the sugar program—would qualify for the green box, because they are coupled, partially or fully, to current prices and/or plantings, or receive additional TRQ protection from imports (as is the case for U.S. dairy and sugar producers).

[24] Annual notifications to the WTO may correspond to each country's relevant crop or marketing year.

[25] See CRS Report RS20840, *Agriculture in the WTO: Rules and Limits on Domestic Support*.

[26] "U.S. Domestic Support Notification for Marketing Year 2012," G/AG/N/USA/100, WTO, December 8, 2014.

Blue Box: Partially Decoupled or Production-Limiting Programs

Blue box programs are market-distorting but production-limiting. Payments are based on either a fixed area or yield, or a fixed number of livestock, and are made on 85% or less of historical (i.e., base) production. As such, blue box programs are not subject to any payment limits. The United States has not notified any of its farm programs as blue box since 1995.[27] As part of the ongoing Doha Round of trade negotiations,[28] it was generally agreed that the partially decoupled U.S. CCP program would be reclassified from amber box to blue box; however, this reclassification never occurred because the Doha Round of negotiations has not been completed and the CCP program was repealed by the 2014 farm bill. It is not clear if the supposed CCP designation as blue box could be resurrected for PLC and ARC outlays.

As mentioned earlier, the PLC and ARC programs are similar to CCP and ACRE, respectively, in program design. Both PLC and the county-level ARC (ARC-CO) are coupled to market prices but fully decoupled from the producer's planting decision. The farm-level ARC option (ARC-ID) is coupled to both market prices and farm-level yields.

Under PLC, a producer receives a payment on 85% of base acres when the national season average farm price (SAFP) is below a statutorily set reference price for an eligible program crop. The producer need not plant a single acre of the program crop to receive a payment; instead, the producer must have made a one-time permanent declaration of a portion of his or her historical base acres to that program crop at sign up. Similarly, under ARC-CO, a producer does not have to actually plant the crop to receive a payment—any payments are made on 85% of historical base acres, not actual planted acres as in the previous ACRE program. In addition, all ARC-CO program payments are triggered at the county level, not the farm level.[29] Hence payments under both PLC and ARC-CO are fully decoupled from planted acreage and farm-level yield, but not from market prices.[30] However, it remains to be seen how such program payments will be notified by the United States.[31]

Since the blue box has no spending limit, there would be plenty of room for potential PLC and ARC payments were they to be notified as such. But such a notification would likely draw international rebuke (if not outright challenge) for its regressive nature—backtracking from a general commitment to gradually reform domestic policy in such a way as to reduce distortion-causing domestic support.

[27] That was the last year that payments were made under the old target-price deficiency payment program linked to acreage set-asides, which was repealed by the 1996 farm bill and replaced by direct payments.

[28] CRS Report RS22927, *WTO Doha Round: Implications for U.S. Agriculture.*

[29] An exception would be "generic" base acres—i.e., historical cotton base acres that are no longer linked to cotton programs but become eligible for program payments if planted to "covered" program crops. Re-establishing a link between producer crop choices and federal payments, in effect, recouples producer behavior and program payments.

[30] For more information, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79).*

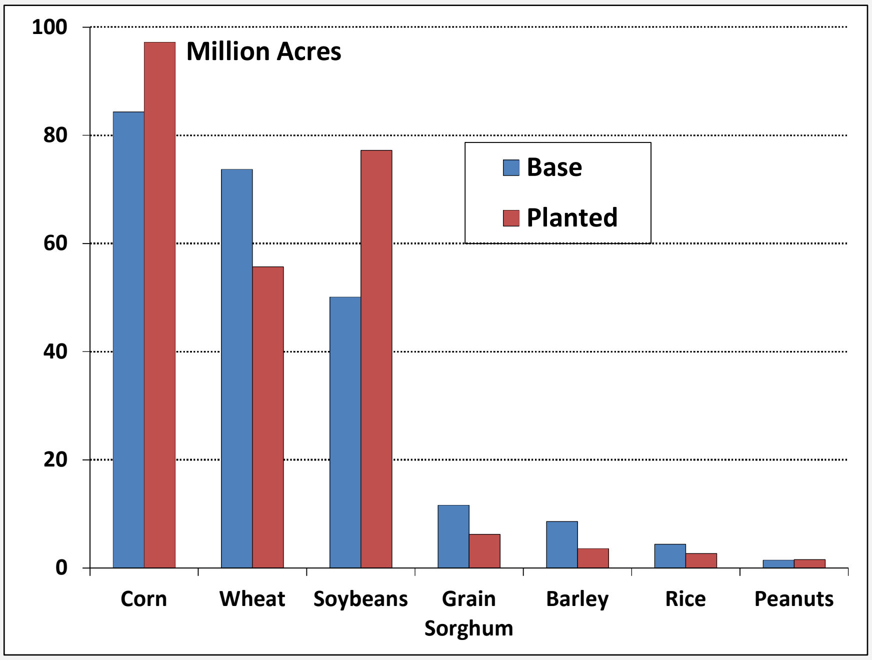
[31] One prominent economist has already declared them to be "unambiguously amber box" because they are triggered by current-year market prices. See V. H. Smith, *The 2014 Agricultural Act: U.S. Farm Policy in the Context of the 1994 Marrakesh Agreement and the Doha Round*, Issue Paper No. 52, International Centre for Trade and Sustainable Development (ICTSD), Geneva, Switzerland, June 2014. Two other noted economists, Joseph Glauber, former chief economist of USDA, and Patrick Westhoff, Director, Food and Agriculture Policy Research Institute (FAPRI) at the University of Missouri, contend that both PLC and ARC would likely qualify as non-product-specific amber outlays under current WTO rules, but as blue box outlays under the proposed Doha texts; J. Glauber and P. Westhoff, *50 Shades of Amber: The 2014 Farm Bill and the WTO*, paper presented at the Allied Social Science Association annual meeting, January 3-5, 2015, Boston, MA.

Area Considerations vis-a-vis WTO Measures of Market Distortion

For the price-related distortions (discussed more in the next box) to occur, farms have to be able to shift acres to the crops favored by relatively higher support prices. The 2014 farm bill makes PLC and ARC payments on historical base acres, thus reducing the incentive to shift current plantings toward a crop receiving deficiency payments. Exceptions to this are (1) the annual flexibility inherent in a producer's crop choice for generic base and (2) individual crop selection under the ARC-ID program. Additionally, the potential for base updating in the next farm bill incentivizes shifting acres to the crop with a relative support price advantage.

Prior to the 2014 farm bill, actual plantings had diverged significantly from base acres for most program crops (see figure). When base acres diverge significantly from planted acres, producers have more incentive to shift acres back toward their base in response to weak market prices and favorable government support prices.

Major Program Crops, Million Acres of Base Versus Planted, 2012



Source: Adopted from C. Zulauf, N. Paulson, J. Coppess, and G. Schnitkey, "2014 Farm Bill Decisions: Base Acre Reallocation Option," *farmdoc daily* (4):138, Department of Agriculture and Consumer Economics, University of Illinois, July 24, 2014.

The 2014 farm bill gives producers a one-time option of reallocating their base across program crops or retaining their previous historical base allocation of program crops. By allowing all farms to update their base acres to the average acres planted in a recent time period, the program becomes more reflective of current producer behavior and market conditions, thus better matching a farm's current risk setting. Many producer groups had argued for using planted acres, since a farm's risk is tied directly to its planting decisions, and thus making payments on planted acres enhances a program's risk management effectiveness.[32] However, recoupling program payments to planted acres also has the potential to distort resource allocations as producers shift their plantings to crops with the highest reference price relative to the current market price. The base and yield updating provisions are also a form of recoupling, since payments are once again coupled to an updated base reflective of current decision-making.

[32] Carl Zulauf, "The Base vs. Planted Acre Issue: Perspectives, Trade-Offs, and Questions," *CHOICES* 28(4), 4th quarter 2013.

Price Considerations for Market Distortion

Market prices are a key determinant of the use of resources.[33] Thus the relationship between market prices and reference prices is essential in understanding how a program may distort producer behavior.[34] Farm programs have their strongest potential to affect market outcomes when market prices are near or below support prices. This is because when the national season average farm price (SAFP) for a program crop falls below its support price, it will trigger deficiency payments for participating producers. In this situation, planting incentives can be distorted: a producer would be inclined to prefer planting those commodities with the highest reference price relative to the current market price. The potential distortion is likely amplified when the relatively high reference price floors of PLC and ARC are combined with the expectation of base/yield updating for each new farm bill. A producer will want to maximize his planting of base acres to program crops with the highest relative price support.

If producers make planting decisions based on statutory prices rather than market prices, then the support programs are affecting producer behavior, the production outcome, and the market supply and demand balance. Fixed target or reference prices have the greatest potential to create outcomes that differ from the market because they fail to reflect changes in market conditions. The WTO panel hearing on the Brazil-U.S. cotton case was very clear in its pronouncement that price and income support programs should be responsive to market conditions and should minimize influencing producer behavior in order to avoid noncompliance with WTO trade rules.[35]

PLC and ARC Price Guarantee

Since both PLC and ARC rely on statutorily fixed reference prices to establish a support price floor (ARC-CO uses a moving-average price formula but substitutes in the reference price for those data years where the market price is less than the reference price), both programs could—during extended periods of low prices—distort planting incentives, depress market prices, and generate large payments. For example, based on market conditions as of May 2014, USDA estimates combined PLC and ARC outlays at $10.1 billion in crop year 2015 and $10.9 billion in 2016.[36]

SCO, STAX, and Crop Insurance Price Guarantees

SCO, STAX, and crop insurance link their price guarantee to current market conditions—but within-year prices, not across-year prices as used by ARC—since they all use the pre-planting-time average of harvest-time futures contracts as the expected price component in their price or revenue guarantee. Futures contract prices are closely linked to current and expected market conditions. In addition, SCO and STAX payments are based on county revenue triggers that limit moral hazard (i.e., risky behavior to increase probability of a payment). Thus, SCO, STAX, and crop insurance avoid the potential distortion associated with using a statutorily fixed price trigger.

Amber Box: Market-Distorting Agricultural Support Programs

Amber box programs, the most market-distorting programs, are cumulatively measured by the aggregate measure of support (AMS). Certain outlays may be excluded from the amber box under the DM exemptions. Non-exempted amber box outlays are subject to an annual aggregate spending limit.

U.S. amber box outlays, as notified through 2011, have included product-specific payments made under the sugar program, DPPS, MILC, MLP, ACRE, and commodity loan interest subsidies, and non-product-specific payments made under CCP, SURE, crop insurance, farm storage facility loans, irrigation and grazing subsidies, the Biomass Crop Assistance Program (BCAP), and the

[33] Carl Zulauf, "Market Distortion and Farm Program Design: A Case Examination of the Proposed Farm Price Support Programs," *farmdoc daily*, June 7, 2013.

[34] Carl Zulauf and David Orden, *U.S. Farm Policy and Risk Assistance*, ICTSD Issue Paper No. 44, September 2012.

[35] CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*.

[36] "Final Rule: Agriculture Risk Coverage and Price Loss Coverage Programs," *Federal Register*, vol. 79, no. 187, September 26, 2014.

Renewable Energy for America Program (REAP).[37] However, in its 2012 notification, the United States reclassified federal crop insurance premium subsidies as product-specific support. The distinction between product-specific and non-product-specific outlays is important, because non-exempted amber box outlays count directly against the amber box spending limit.

Price-deficiency and shallow-loss programs—which account for most non-exempted U.S. amber box spending—are counter-cyclical in nature, meaning that their outlays tend to be highest during periods when commodity prices are below support levels and lowest during high-commodity-price years. As a result, the extended period of high market prices from 2006 through 2013 has contributed to relatively low non-exempt U.S. amber box notifications in recent years (**Figure 1**). In contrast, crop insurance premium subsidies are positively correlated with market prices as evidenced by the larger DM exemptions during the 2008-2011 period of high commodity prices. Many economists expect that payment outlook to change under the expanded price and income support benefits of the 2014 farm bill, coupled with an outlook for lower market prices.[38]

Price Deficiency Payment Programs

A price deficiency payment program makes a payment when the market price is less than the support price.[39] Support prices can be either statutorily fixed or determined by a formula based on market prices. Current U.S. farm programs include two price deficiency payment programs (**Table 2**)—marketing loan program (MLP) and the new PLC program. Neither program prevents market prices from seeking an equilibrium based on supply and demand conditions, but the program payments do support producer incomes when market prices are below the program price triggers.

Marketing Loan Program (MLP)

The traditional nonrecourse MLP was extended under the 2014 farm bill. Under the MLP, USDA supports prices of eligible crops at statutory loan rates via a nine-month nonrecourse loan program. To avoid selling at the harvest-time low price, a producer may elect to place his/her crop under a USDA marketing loan where the crop is valued at the statutory loan rate. If the market price remains below the loan rate after nine months, the producer may forfeit the crop under loan to USDA. Alternatively, the producer may opt for alternate program benefits that are available whenever the posted county price, or a USDA-announced average world price (AWP) for rice or upland cotton, falls below the respective USDA loan rates. All MLP benefits are based on actual production. As a result, MLP outlays are fully coupled to market prices and planted acres. Like the PLC program, MLP does not require any producer premium or fee to participate, nor does it require any loss to receive a payment. However, it does require actual production, since payments are based directly on output.

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[37] REAP was originally classified as green box; however, in its 2011 notification to the WTO, USDA reclassified REAP payments as non-product-specific amber box spending. The SURE program expired in 2011 and was not reauthorized. CCP, DPPS, MILC, and ACRE were repealed in the 2014 farm bill.

[38] As implied by the Congressional Budget Office's (CBO's) March 2015 Baseline for Farm Programs, released March 9, 2015, at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44202-2015-03-USDA.pdf.

[39] This discussion is drawn from Carl Zulauf, "Market Distortion and Farm Program Design: A Case Examination of the Proposed Farm Price Support Programs," *farmdoc daily*, Department of Agriculture and Consumer Economics, University of Illinois Urbana-Champaign, June 7, 2013.

MLP operates like a price-deficiency payment. It uses statutorily fixed, commodity-specific loan rates to establish a floor price for all production of all qualifying program crops. When market prices fall below the loan rate, producers are eligible for amber box benefits, including loan deficiency payments and marketing loan gains (which pay the difference between the marketing loan rate and the local posted county price or a USDA-announced average world price in the case of rice and cotton).

The MLP for upland cotton was found by the WTO cotton-case panel to be market-distorting whenever the market price fell below the fixed loan rate. The panel recommended setting the loan rates by formula to capture current market conditions. As a result, the 2014 farm bill included an adjustment to the loan rate for upland cotton—it was lowered from $0.52/lb to a formula-based marketing loan rate that moves within a range of $0.52/lb to $0.45/lb. All other program commodities retain their previous statutorily fixed loan rates.

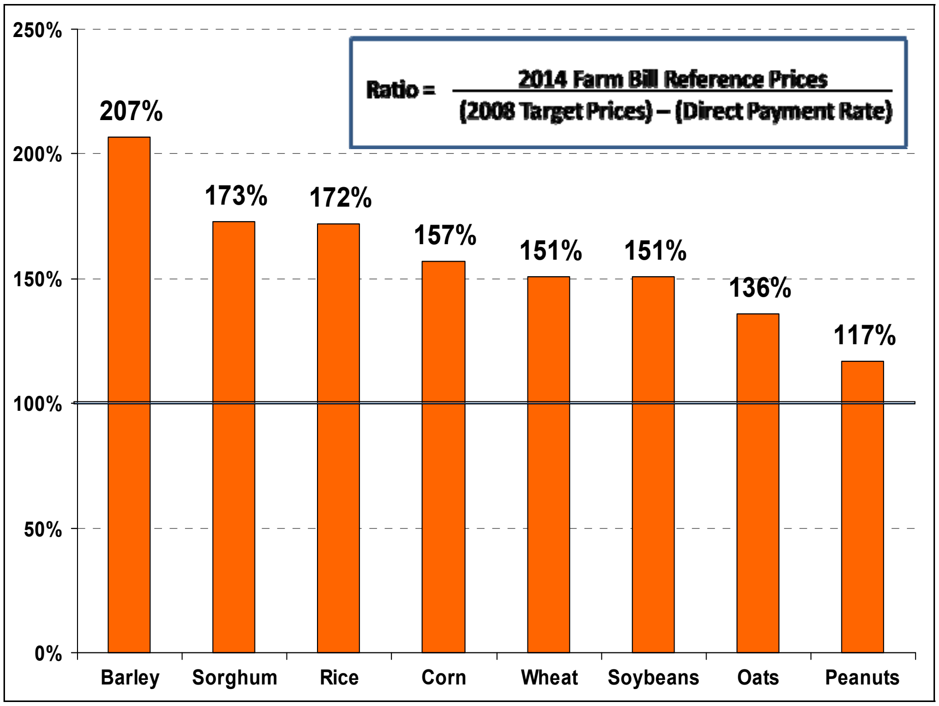
Price Loss Coverage (PLC)

The PLC program uses statutorily fixed reference prices (for each major program crop) for determining whether any deficiency payments should be made and how much those payments should be. The PLC program does not require any producer premium or fee to participate, nor does it require any loss or actual production to receive a payment.

Reference prices established in the 2014 farm bill were essentially agreed to during the farm bill debate in late 2012 and early 2013, when farm prices for most program crops were at or near record highs. As a result, lawmakers set support prices in the 2014 farm bill at levels well above the CCP trigger price (i.e., target prices adjusted for direct payments) of the 2008 farm bill (**Figure 2**). For example, the new reference price for barley ($4.95/bushel) is 107% above the previous price trigger ($2.39/bushel) under the 2008 farm bill. At that time (late 2012 and early 2013), reference prices appeared to provide support at levels below then-current market conditions, as exhibited by the ratio of reference prices to season-average farm prices (SAFPs) for the 2008-2012 period (**Figure 3**). However, if reference prices are compared to average farm prices for a longer historical period (e.g., 2000-2013), they appear to provide support at levels well above market conditions. For example, the rice PLC reference price of $14.00/cwt represented 95% of the average SAFP of $14.74/cwt during 2008-2012, but 131% of the average SAFP during the 2000-2013 period.

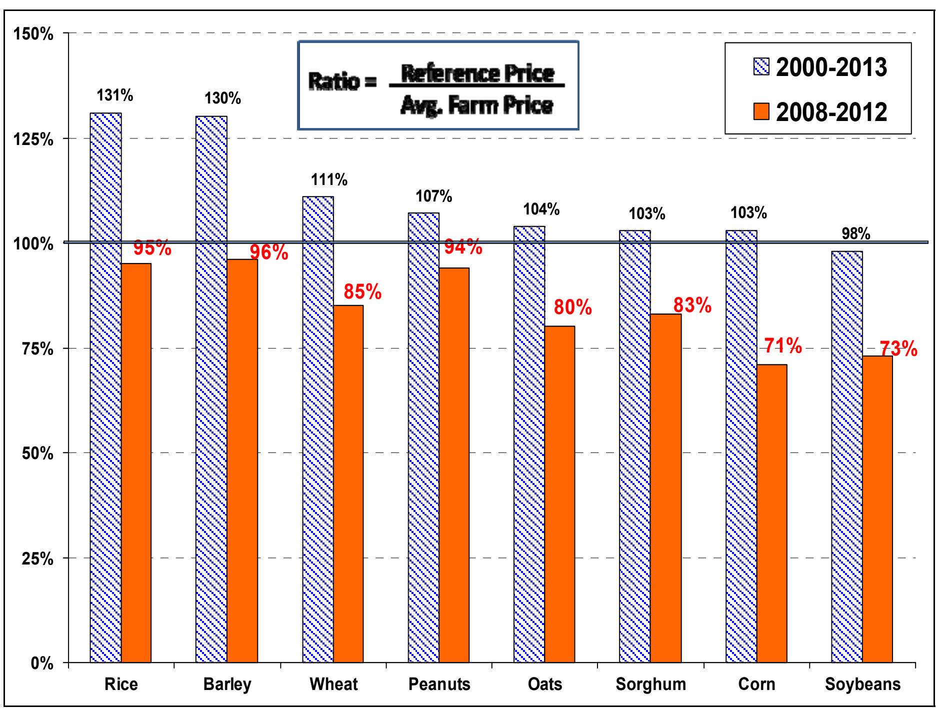
Fixed reference prices ignore market conditions and, when set near or above average market levels, have the potential to distort outcomes—especially during sustained periods of low market prices—by creating incentives to produce more than the market can absorb without additional price declines. Thus, the new, higher reference prices leave the United States vulnerable to sustained high product-specific amber box outlays (if notified as such) during extended periods of low market prices.

Figure 2. Ratio of Price Triggers: 2014 Farm Bill vs. 2008 Farm Bill



Source: Compiled by CRS from program provisions in the 2008 and 2014 farm bills.

Figure 3. Reference Prices Are Near or Well Above Average Farm Prices



Source: Season-Average Farm Prices Received (SAFPs) are from USDA, National Agricultural Statistics Service (NASS). Reference prices are from the 2014 farm bill. Average ratios compiled by CRS.

Notes: A ratio greater than 100% occurs when the reference price is greater than the average SAFP.

Shallow-Loss Support Programs

Shallow-loss programs are designed as supplements to current crop insurance programs. In other words, benefits are applied on top of federally subsidized crop insurance and are intended to cover part of the insurance contract's deductible (or so-called shallow loss). According to two prominent economists, "The problem with designing programs that cover the risks that crop insurance does not, is that they have the potential to influence farmer's planting decisions."[40]

Three general types of shallow-loss programs are included in the 2014 farm bill: the Agricultural Risk Coverage, Supplemental Coverage Option, and Stacked Income Protection Plan programs.[41]

Agricultural Risk Coverage (ARC)

The ARC program is an example of a revenue deficiency payment program—ARC makes a payment when the actual per-acre revenue (i.e., market price x per-acre yield) is less than the revenue target or guarantee. The ARC program has two versions—a county-level, crop-specific program (ARC-CO) and a farm-level, whole-farm-based program (ARC-ID).[42]

Like PLC and MLP, the ARC programs do not require any producer premium or fee to participate. In addition, ARC-CO does not require any actual farm-level production or loss to receive a payment, while ARC-ID requires production and a whole-farm revenue loss to occur at the farm level.

In contrast to the PLC program, both ARC programs use a five-year Olympic (excludes the high and low years) moving average of national SAFPs to calculate the revenue guarantee. However, an important provision in the calculation of the price component of the revenue guarantee for ARC is that the PLC reference price is substituted for the SAFP for any year when the SAFP is less than the reference price. As a result, the reference price acts as a floor price in the ARC revenue guarantee. Thus, ARC's moving-average price will only partially follow long-term (i.e., year-to-year) market trends—any downward trend will stop at the reference price. The requirement to use the reference price as a price floor artificially supports the five-year SAFP Olympic average during extended periods of low market prices. Thus, like PLC, ARC can distort planting incentives for program crops and generate large payments during extended periods of low prices.

Supplemental Coverage Option (SCO)

SCO supplements an existing crop insurance policy. SCO is available as either a county-wide yield or revenue loss policy. SCO pays an indemnity on county-level losses not to exceed the deductible percentage of the underlying crop insurance policy.[43] Like all crop insurance

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[40] B. Babcock and N. Paulson, *Potential Impact of Proposed 2012 Farm Bill Commodity Programs on Developing Countries*, Issue Paper No. 45, ICTSD, Geneva, Switzerland, October 2012.

[41] For program details, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)* and CRS Report R43494, *Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79)*.

[42] Whole-farm means that data for all program crops produced by the farm must be combined into a single calculation.

[43] The insurance guarantee is based on historical county yield data, and the insurance "actual" uses current-year county yield data. National SAFPs, historical and current, are combined with county yield data for revenue calculations.

programs, a producer must pay a premium to participate in SCO; however, the federal government pays 65% of SCO premiums.

Stacked Income Protection Plan (STAX)

Cotton was dealt with separately from the other major program crops in the 2014 farm bill in an attempt to resolve Brazil's long-standing WTO case against the U.S. cotton program.[44] In lieu of the PLC, ARC, and SCO programs, the 2014 farm bill enacted a new cotton program consisting of a stand-alone, county-based revenue insurance policy called the Stacked Income Protection Plan (STAX). Similar to SCO, STAX sets a revenue guarantee based on expected county revenue (but not revenue *or* yield as under SCO). Producers could purchase this policy in addition to their individual crop insurance policy or as a stand-alone policy.

SCO, STAX, Crop Insurance, and Risk-Market Distortions

WTO Compliance of Insurance Programs

Under the WTO Agreement on Agriculture (AoA), for an insurance program to be minimally market-distorting (whereby it would be included in the green box and excluded from counting against amber box spending limits), it must be based on whole-farm revenue, any revenue loss must exceed 30% of average gross income for the preceding three-year period (or the preceding five-year Olympic average), and indemnity payments may not compensate for more than 70% of any loss. By this measure, crop insurance fails to meet the green box criteria and has instead been classified as amber box. The new shallow-loss programs also appear to fail to meet green box criteria and their related federal subsidies will likely be notified as amber box outlays. WTO rules are less clear on when a subsidy is product- or non-product-specific.

Shallow-Loss Coverage Close to Market Average

Because shallow-loss payments are, by definition, made on losses that very nearly approach historical average revenues—potentially guaranteeing up to 86% of the historical average (STAX offers a 90% guarantee)—they have potential to be market-distorting. A primary concern for policymakers is that farmers could use a combination of government farm programs—e.g., PLC or ARC deficiency payments and crop insurance programs—to expand production of crops with high potential returns on marginal lands that otherwise would not be cultivated.[45]

Federal Subsidies Alter Actuarial Soundness of SCO, STAX, and Crop Insurance

An actuarially sound premium is priced to cover losses over the long run (i.e., expected indemnities), plus a margin to cover A&O expenses and a portion of insurance company profits. By paying for A&O expenses and a share of the underwriting risk, the federal government alters this equation away from equilibrium and in favor of insurance company profits, thus encouraging insurance companies to sell more crop insurance policies. Federal subsidies of an actuarially fair premium further alter the tradeoff so that farm operators may attain significant risk reduction at relatively low cost, while actually increasing expected (i.e., long-run) returns. As a result, a producer buying federally subsidized crop insurance incurs an incentive to expand plantings of the insured crop.

U.S. Crop Insurance

The federal crop insurance program has grown in importance over the years to become the preeminent farm safety net program. In 2014, federal crop insurance policies covered 294 million acres (about 88% of land planted to principal crops) and were available for over 130 different

[44] CRS Report R43336, *The WTO Brazil-U.S. Cotton Case*.

[45] For example, J. Ifft and T. Kuethe, "The Impacts of Insurance on Agricultural Land Values." *farmdoc daily* (4):231, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 3, 2014.

commodities.[46] For coverage beyond the catastrophic level, producers must pay a premium to participate; however, the federal government pays a substantial share of producer premiums. Subsidy rates range from 38% to 80%, depending on the coverage level and the policy selected, but have averaged about 62% since 2010. Federal crop insurance premium subsidies are notified to the WTO as amber box outlays—from 1995 to 2011 they were notified as non-product-specific amber box outlays, but in 2012 USDA notified them as product-specific outlays. Insurance underwriting costs and A&O expenses are also notified to the WTO but as green box outlays.

Crop insurance premiums are a function of both risk of loss and crop value; as such, both premiums and premium subsidies will fluctuate with participation, size of the insured crop, and market conditions. U.S. federal crop insurance premium subsidies have grown substantially in recent years as coverage has expanded to more acres and crops—rising from a low of $119 million in 1997 to $7.5 billion in 2011, according to official U.S. notifications to the WTO. By 2011, crop insurance subsidies were the largest single farm program cost, accounting for 53% of U.S. amber box outlays. In 2012, federal premium subsidies declined slightly to $7 billion. Insurance underwriting costs have varied over the years in relation to weather-related events (from $2.5 billion in 2008 to $0 in 2012), while A&O expenses have averaged about $1.6 billion annually since 2008.

According to CBO, federal outlays for crop insurance are projected to range between from $8.0 billion in 2015 to $9.0 billion in 2025—including roughly $6 billion in annual premium subsidies, $1.3 billion in delivery support (A&O), and $1.2 billion in underwriting support.[47]

Sugar and Dairy Programs

The sugar and dairy programs are perennially two of the largest contributors of amber box outlays notified by the United States. Both programs continue to rely on substantial import restrictions—through WTO-compliant TRQ formulas—to support internal market prices at levels that are generally above international market prices. To date, neither program has been challenged under the WTO dispute settlement process, in large part because the U.S. notification of support for both programs was negotiated as part of the final agreement of the Uruguay Round and subsequently included in the U.S. country schedule.

The U.S. sugar price support program was left unchanged by the 2014 farm bill[48] and is expected to continue to account for approximately $1.4 billion in annual amber box outlays, even though the sugar program is considered a "no net cost" program with respect to federal outlays. In contrast, the U.S. dairy program underwent dramatic changes—the Dairy Product Price Support (DPPS) program, the Milk Income Loss Contract (MILC) program, and the Dairy Export Incentive Program were all eliminated.

Notifications for DPPS averaged $4.2 billion annually during the 1995-2011 period (primarily the result of tariff rate quota protection), making it the single largest component of U.S. product-specific amber box notifications, even though federal outlays averaged only $443 million over the same period.[49] MILC program outlays were much smaller, due to their counter-cyclical design

[46] CRS Report R40532, *Federal Crop Insurance: Background.*

[47] CBO, "CBO's March 2015 Baseline for Farm Programs," March 9, 2015.

[48] CRS Report R42551, *Sugar Provisions of the 2014 Farm Bill (P.L. 113-79).*

[49] A modification to the DPPS program in the 2008 farm bill—switching the focus away from supporting the fluid milk (continued...)

and a strict per-farm cap on payments, averaging about $287 million per year during the 1995-2011 period.[50] Repeal of the DPPS and MILC programs frees up substantial space for new program spending under the $19.1-billion U.S. amber box limit.

The repealed dairy programs are replaced with a new insurance-like margin deficiency payment program—the Dairy Margin Protection Program (DMPP)—that makes payments to participating dairy producers when the national milk margin (calculated as the average farm price of milk minus a formula-based average feed ration) falls below $4.00 per hundredweight (cwt), with coverage at higher margin levels up to $8.00/cwt available for purchase.[51] Under this DMPP program design, payments are coupled to current market prices and recent historical farm-level production (i.e., the maximum annual output during 2011-2013), with no payment limit or cap on potential outlays at either the farm or national level.

Some economists have argued that the proposed margin program fails to follow sound insurance principles: (1) premiums do not reflect the anticipated risk environment in milk and feed markets; and (2) the proposed margin insurance program does not use a rating method to update premiums—instead, premiums are fixed for the life of the farm bill.[52] Another factor in determining WTO compliance and the degree of potential market distortion is the share of the premium paid by the federal government.[53] The lower the statutorily fixed premiums are relative to the expected indemnity (i.e., the less actuarially sound) or the higher the share of the premium paid by the federal government, the greater will be the incentive to increase milk production transmitted to producers by the program.

According to one economic analysis, if milk margins fall to levels that activate indemnity payments, then a weakened feedback process between producers and market price signals could (1) prevent normal market adjustment to milk production, prices, and margins (in other words, producers will not get the necessary market signal to cut back on production) and (2) result in persistent oversupply, lower margins, lower farm incomes, and larger federal expenditures than would have occurred under the previous suite of dairy price and income support programs.[54] The same study found that the program design—the provision that producers may purchase coverage on as much as 90% of their recent historical maximum output; and the $8.00/cwt maximum coverage option, which represents 93% of the national average milk margin during the 15-year period preceding DMPP implementation—could result in annual outlays of as much as $5 billion during low-margin periods, as experienced during 2009 and 2012.[55] However, current market

(...continued)

price and to directly supporting dairy product prices—had lowered the annual notification to an average of $2.8 billion during 2008-2011.

[50] MILC outlays ranged from a low of $0 in 2001 to a high of $1.8 billion in 2002.

[51] For program details, see CRS Report R43465, *Dairy Provisions in the 2014 Farm Bill (P.L. 113-79).*

[52] John Newton and Cam Thraen, "The Dairy Safety Net Debate of 2013 Part I: Questions and Answers," *farmdoc daily.com*, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 17, 2013.

[53] The fixed nature of the DMPP premium implies that the federal subsidy share is both indirect and varies with the underlying risk conditions.

[54] C. F. Nicholson and M. W. Stephenson, "Dynamic Market Impacts of the Dairy Margin Protection Program of the Agricultural Act of 2014," *Program on Dairy Markets and Policy Working Paper Series*, Working Paper No. WP14-03, May 2014.

[55] In contrast, the CBO April 2014 baseline projects DMPP net outlays of about $84 million per year through 2024.

analysis suggests that DMPP payments are unlikely to be triggered, due to strong dairy product prices and weak feed prices.[56]

In the initial sign-up for DMPP for 2015, over 50% of U.S. dairy farms elected to participate.[57] Of these, 55% elected to purchase coverage at levels above the $4 minimum margin. Since the first year of coverage, 2015, is still ongoing, final market conditions and program costs (and potential market distortions) are still uncertain.

Permanent Disaster Assistance Programs

The 2014 farm bill permanently authorized three disaster programs for livestock—the Livestock Indemnity Program (LIP), the Livestock Forage Disaster Program (LFP), and the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP)—and one program for fruit trees, the Tree Assistance Program (TAP).

Payments made under LIP, ELAP, LFP, and TAP are notified as product-specific amber box outlays and count toward the amber box limit, unless they qualify for a product-specific DM exemption. In 2011, a total of $314 million in disaster assistance payments were made to livestock—LFP, $264 million; LIP, $42 million; and ELAP, $8 million—and another $4 million under TAP. All payments under the four disaster programs qualified for a product-specific DM exemption. No payments were notified for these programs in 2012.

Payment Limits Under the 2014 Farm Bill

Per-operator program payment limits represent a potential tool for limiting or reducing total amber box outlays and concomitantly mitigating potential distortions. The 2014 farm bill set a $125,000 per-person cap on the total payments received for all covered commodities under the PLC, ARC, and MLP programs, with the exception of peanuts, which has its own separate $125,000-per-person limit. This represents a tightening of the per-person limit from the 2008 farm bill, where MLP benefits were unlimited. However, the payment limit is doubled by inclusion of the operator's spouse as co-operator.

There is no payment limit for the SCO, STAX, and crop insurance programs. NAP payments have an annual limit of $125,000 per person. The three livestock-related disaster assistance programs—LIP, ELAP, and LFP—have a combined limit of $125,000 per person. TAP has its own separate payment limit of $125,000 per person.

To qualify for any program benefits, a recipient's total adjusted gross income (AGI) cannot exceed $900,000 (using a three-year average). The effectiveness of program limits remains in dispute as some have argued that they may be avoided by subdividing a farm operation among family members.

De Minimis (DM) Exemptions

DM exemptions are amber box outlays that, when measured as a share of a defined total output measure (total or product-specific), are sufficiently small (i.e., less than 5%) as to be deemed benign. DM exemptions are identified as either product- or non-product-specific.

[56] Using CBO April 2014 baseline projections for the price of all-milk compared with the feed ration cost generated using the FAPRI November 2014 price projections, CRS estimates that the annual average margin stays above $8.00 through 2018. Actual margin payments are based on a moving two-month average, not the annual average.

[57] "USDA Provides Additional Data on Dairy Farms Enrolled in Margin Protection Program," news release, January 16, 2015, National Milk Producers Federation, http://www.nmpf.org.

Non-Product-Specific DM Exemptions

The non-product-specific exemption is the largest and most favorable in terms of its more generous spending limit—5% of the value of total agricultural output, inclusive of all crops and livestock products. Since 1995, U.S. agricultural production has ranged in total value from $184.7 billion in 1999 to a high of $396.6 billion in 2012. As a result, the U.S. non-product-specific DM exemption upper limit has ranged from a low of $9.2 billion in 1999 to a high of $19.8 billion in 2012.

During the first 17 years of U.S. notifications of domestic spending to the WTO (i.e., 1995 to 2011), non-product-specific DM outlays averaged $4.9 billion, including a high of $9.2 billion in 2011—all well within the DM limit. This category of U.S. program outlays saw considerable growth through 2011, driven largely by growth in U.S. crop insurance premium subsidies, which accounted for $7.5 billion of the $9.2 billion in non-product-specific DM outlays in 2011. This changed in 2012.

Crop Insurance Reclassification: Non-Product- to Product-Specific Support

Through 2011, U.S. crop insurance premium subsidies were notified as non-product-specific amber box outlays. As a result, despite their large size and importance as a share of domestic support outlays, premium subsidies were routinely exempted from counting against the U.S. amber box limit under the relatively high DM threshold for non-product-specific spending. Furthermore, this notification strategy by the United States has never been challenged despite the fact that individual policies are purchased for coverage of a specific commodity—for example, a corn revenue policy or a soybean yield policy.

In its most recent notification (2012), the United States changed its notification status for crop insurance premium subsidies to product-specific amber support. As such, any product-specific support is first evaluated against 5% of the value of that specific commodity. When a product-specific subsidy is in excess of its 5% product-specific DM exemption threshold, then the entire amount of subsidies for that commodity must be counted against the $19.1 billion amber box limit. As a result, instead of exempting the entire $7 billion in premium subsidies in 2012 under the non-product-specific DM exemption, $5 billion were exempted under product-specific DM exemptions. The remaining $2 billion in product-specific premium subsidies exceeded the individual product DM thresholds (for wheat, cotton, sorghum, canola, dry beans, dry peas, and flaxseed) and thus counted against the aggregate amber box limit of $19.1 billion.[58]

For example, in 2011 the United States was able to exclude $7.5 billion of crop insurance premium subsidies and $1.4 billion of SURE payments from counting against its $19.1 billion amber box limit under the non-product-specific DM exemption. In contrast, in its 2012 notification crop insurance premium subsidies were reclassified as product-specific support. As a result, the United States excluded a much-reduced $0.3 billion of potential amber box outlays under the non-product-specific DM exemption. Non-product-specific DM exemptions are likely

[58] This appears to be a strategy designed to facilitate compliance under a future successful Doha-Round-like agreement. For a related discussion, see CRS Report RS22927, *WTO Doha Round: Implications for U.S. Agriculture*.

to remain insubstantial going forward. In contrast, the product-specific DM exemption rose to $5.0 billion in 2012 after averaging under $0.4 billion annually since 1995.[59]

Other Non-Product-Specific Support Is Minimal

Apart from crop insurance premium subsidies, other U.S. farm programs that have been notified as non-product-specific DM outlays in the past have included CCP payments, irrigation and grazing subsidies, payments under the Supplemental Crop Revenue Assurance (SURE) program, and payments made under two bioenergy programs—the Rural Energy for America Program (REAP) and the Biomass Crop Assistance Program (BCAP).[60] Both the SURE and CCP programs no longer exist, while the REAP and BCAP programs are relatively small in terms of potential outlays.[61] Federal irrigation and grazing subsidies have been small (relative to crop insurance subsidies) and unvarying since 2008, at $200 million and $45 million per year, respectively.

Product-Specific DM Exemptions

Product-specific amber box outlays have included payments made under the following programs: the sugar program, DPPS program, MILC, CCP, MLP, ACRE, SURE, crop insurance subsidies, farm storage facility loans, and commodity loan interest subsidies. U.S. product-specific DM exemptions averaged $361 million annually during 1995-2011, including a low of $29 million in 1999 and a high of $1.6 billion in 2002. Every program commodity, with the exception of dairy and sugar, has claimed product-specific DM at some point during the past 17 years. In 2012, with the inclusion of crop insurance premiums, product-specific DM exemptions jumped to $5.0 billion, up from $0.5 billion in 2011.

Doha Round Implications

A consideration for U.S. policymakers is the potential for expanded domestic support programs to sidetrack or delay progress in multilateral trade negotiations.[62] From the U.S. perspective, a successful Doha agreement (under the current negotiating text) would significantly lower allowable spending limits for certain types of U.S. domestic support and eliminate export subsidies, while allowing U.S. agricultural products wider access to foreign markets. Key proposals with respect to new or revised disciplines on farm programs under the 2008 Doha Round texts include two objectives.[63]

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[59] This notification change is visible as the decline in the red bar between 2011 and 2012 in **Figure 1** and the concomitant increase in the yellow bar for those same years.

[60] REAP was originally classified as green box; however, in its 2011 notification to the WTO, USDA reclassified REAP payments as non-product-specific amber box spending.

[61] Under the 2014 farm bill, mandatory funding of $50 million per year and discretionary funding of $20 million per year were authorized for REAP, while BCAP funding was limited to mandatory funding of $20 million per year for FY2014-FY2018.

[62] For a full discussion of this issue, see CRS Report RS22927, *WTO Doha Round: Implications for U.S. Agriculture.*

[63] Although not formally approved by the entire WTO membership, the negotiating texts represent agreement among the three countries with the largest domestic support programs—the United States, the European Union, and Japan.

First, spending limits (total and product-specific) for the amber box and the two DM exemptions would be reduced substantially, while a limit would be established on the otherwise unbounded blue box.

- The total limit for U.S. amber box spending would be reduced to $7.6 billion (down from the current $19.1 billion limit), while new product-specific limits would be established at the average annual support received during the 1995-2000 period.
- DM exemption limits for non-product-specific outlays would be set at $4.85 billion (as compared to the current variable limit based on total U.S. production, which has averaged $16 to $20 billion), and for product-specific outlays at 2.5% of the average annual production value during the 1995-2000 period, thus establishing a historical base at a level substantially below current production values.
- Blue box limits would be established for non-product-specific outlays at $4.85 billion, and for product-specific outlays at 110% or 120% of the annual average during the 2002-2007 period.

Second, a global spending limit—referred to as the overall trade-distorting domestic support (OTDS)—encompassing the four categories of the amber box, the two DM exclusions, and the blue box would be established at a level substantially smaller than the sum of their individual limits. Finally, the criteria for exemption status in the green box would be tightened.

Potential program spending under the new suite of domestic support programs authorized by the 2014 farm bill might exceed the tighter spending limits proposed under the Doha Round draft modalities. For example, the proposed limits for amber box outlays of $7.6 billion are well below USDA's May 2014 projections for PLC and ARC outlays of $10.1 billion in crop year 2015 and $10.9 billion in 2016.[64]

Recap of Potential WTO Issues

Assessments of the potential effect of the new domestic support programs authorized by the 2014 farm bill (P.L. 113-79), and their compliance with WTO restrictions, are very preliminary at this time. Many of the new programs have yet to be fully implemented, producer participation is uncertain, and program outlays hinge on future market conditions. For example, under a relatively high price environment, as existed during the 2010-2013 period, U.S. program outlays would fall within proposed Doha Round limits with no or only modest changes. However, if market prices were to decline substantially below support levels for an extended period, then outlays could escalate and potentially exceed the proposed spending limits.

All of the new farm safety net programs—PLC, ARC, SCO, STAX, and DMPP—might be notified as amber box, although PLC, ARC, and SCO could be notified as non-product-specific amber box. Alternatively, PLC and ARC-CO might be notified as blue box. USDA is responsible for making this determination.

[64] "Final Rule: Agriculture Risk Coverage and Price Loss Coverage Programs," *Federal Register*, vol. 79, no. 187, September 26, 2014.

Of all the price and income support programs, MLP benefits alone are fully coupled to producer behavior, while PLC and ARC are paid on a portion of historical plantings and thus are decoupled from producer planting decisions, making them less vulnerable to WTO challenge. However, because both PLC and ARC would make payments when current market prices are low relative to historical market prices, both programs reduce producer risk associated with price variability and thus likely result in greater acreage and production than would occur in their absence. The new shallow-loss programs—SCO and STAX—could prove more problematic. Both programs provide revenue (or potentially yield in the case of STAX) guarantees that are very near to the market averages, in addition to reducing farm-level risk by protecting revenues when market prices are low. Accordingly, they may incentivize greater acreage and production than would occur in their absence.

Most studies suggest that, for U.S. program spending to exceed the $19.1-billion amber-box limit, a combination of worst-case events would have to occur, for example, low market prices generating large simultaneous outlays across multiple programs, in addition to the $1.4 billion of implicit costs associated with the sugar program. Such a scenario is unlikely, although not impossible, particularly since outlays under several of the programs (including the new dairy program, SCO, STAX, and crop insurance) are not subject to any per-farm subsidy limit.

Perhaps more relevant to U.S. agricultural trade is the concern that—because the United States plays such a prominent role in most international markets for agricultural products—any distortion resulting from U.S. policy would be both visible and vulnerable to challenge under WTO rules. Furthermore, projected outlays under the new 2014 farm bill's shallow-loss and counter-cyclical price support programs may make it difficult for the United States to agree to future reductions in allowable caps on domestic support expenditures and related DM exclusions as envisioned in ongoing WTO multilateral trade negotiations.

Table 3. 2014 Farm Bill Provisions: WTO Compliance Implications

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Title I Price and Income Support: Programs Eliminated					
Direct Payments (DP)	Fixed annual payments based on historical base acres and yields.	Notified annual avg. outlays of $5.3 billion during 1995-2011 (WTO).	Eliminated	Green box	Fully decoupled payments. Since green box outlays are unlimited, DP elimination has no WTO effect.
Counter-Cyclical Payment Program (CCP)	Payments triggered when annual national average market price or marketing loan rate, (whichever is higher) fell below a statutorily fixed target price (adjusted for DP); payments based on historical base acres and yields.	Notified annual avg. outlays of $2.1 billion during 2003-2008; $79 million during 2009-2011(WTO).	Eliminated	Non-product-specific amber box	CCP was decoupled from yield and acreage, but not from market prices. Elimination represents potential amber box savings; however, outlays were generally excluded under non-product-specific DM exclusion.
Average Crop Revenue Election (ACRE)	State-level, crop-specific, revenue-based counter-cyclical program that made payments on 85% of planted acres when state revenue for a commodity is less than 90% of a market-based moving average revenue guarantee. Participants give up 20% of DP, and get a 30% reduction in MLP loan rates.	Notified annual avg. outlays of $171 million during 2010-2013(WTO).	Eliminated	Product-specific amber box	ACRE payments were coupled to planted acres. Elimination represents reduction in amber box outlays.
Supplemental Revenue Assistance (SURE)	Compensated eligible producers for 60% of whole-farm (i.e., all crops grown by each producer) revenue losses relative to guarantee equal to sum across all crops of both (crop insurance guarantee + 15%) and (Noninsured Crop Disaster Assistance Program [NAP] guarantee + 20%). Crop insurance purchase required for eligibility. Expired at end of FY2011, was not reauthorized.	Notified annual avg. outlays of $1 billion during 2008-2011(WTO).	Not reauthorized	Non-product-specific amber box	SURE expiration represents potential reduction in amber box outlays; however, outlays were generally excluded under non-product-specific DM exclusion.
Dairy Export Incentive Program (DEIP)	DEIP provided cash bonuses to U.S. dairy exporters when certain international dairy market conditions were met.	DEIP had not been used since 2009 (USDA).	Eliminated	Scheduled	DEIP specified in U.S. Country Schedule, thus legal under AoA.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Dairy Product Price Support Program (DPPSP)	Supported milk, butter, and cheese prices at fluid-milk equivalent[c] price of $9.90/cwt via (1) USDA purchases and (2) an import TRQ. The implicit subsidy of the TRQ was measured by the difference between the U.S. domestic price support rate of $9.90/cwt and the international reference price of $7.42/cwt multiplied by the annual U.S. milk production.	Notified as $4.6 billion in annual amber box costs during 1995-2007; $2.9 billion annually during 2008-2011, although budget outlays were significantly smaller (WTO).	Eliminated	Product-specific amber box	Elimination of DPPSP reduces amber box outlays by nearly $3 billion.
Milk Income Loss Contract (MILC) Program	Supported milk producer incomes on first 2.985 million lbs. of annual production when Boston Class I price falls below a feed-adjusted $16.95/cwt.	Outlays averaged $182 million annually during 2010-2013; $359 million annually during 2003-2009 (USDA).	Eliminated	Product-specific amber box	Elimination of MILC represents about $200 million in annual amber box savings, thus freeing up space for new amber box program outlays.
Title I Price and Income Support: Programs Continued (with Adjustment)					
Marketing Loan Program (MLP) Benefits	USDA supports prices of eligible crops at statutory loan rates via nine-month, nonrecourse loan program. The crop is placed under loan and valued at the loan rate; if the market price rises above the loan rate, the producer reclaims the crop and pays off the loan. If the market price remains below the loan rate after nine months, the producer may forfeit the crop under loan or opt for alternate program benefits. Payments are based on actual production.	Notified annual avg. outlays of $2.6 billion during 1995-2011; including annual avg. of $8 billion during 1999-2001 when market prices were historically low (WTO).	Reauthorized	Product-specific amber box	Because payments are coupled to actual production and market prices, MLP outlays count directly against the amber box spending limit of $19.1 billion.
Loan Commodities	Establishes eligibility for MLP payments; includes all covered commodities plus upland cotton, extra-long staple cotton, wool, mohair, and honey.	—[d]	Reauthorized	—[d]	No change.
Upland Cotton Market Loan Rate Adjusted	USDA supports upland cotton prices via nine-month, nonrecourse loan program at a loan rate of $0.52/lb. Benefits may be triggered when a USDA-announced average world price (AWP) falls below $0.52/lb.	MLP benefits for upland cotton totaled $11.5 billion cumulatively during 1995-2013 (USDA).	Loan rate changed to floating range of 52¢/lb to 45¢/lb	Product-specific amber box	During 1995-2013, the monthly AWP was below the upland cotton market loan rate of 52¢/lb 113 of the 228 months, and below 45¢/lb 82 months; in each of these instances, MLP benefits could have been reduced by using the floating loan rate, thus resulting in lower total amber box outlays.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Sugar Price Support Program	Maintains previous sugar price supports through 2018 crop year—at 18.75¢/lb market loan rate for raw cane sugar; 24.09¢/lb for refined beet sugar—at no budgetary cost to federal government using three tools: flexible marketing allotments that limit the amount sugar processors can sell domestically, sugar import quotas that restrict foreign sugar imports, and the Feedstock Flexibility Program. USDA continues storage payments to processors that forfeit loans.	Notified annual avg. outlays of $1.2 billion during 1995-2011 (WTO).	Reauthorized	Product-specific amber box	Continuation of sugar price support program represents about $1.3 billion in annual amber box outlays.
Feedstock Flexibility Program (FFP)	Requires USDA to purchase excess domestic sugar production (equal to quantity of imports that USDA estimates exceeds U.S. food demand), and to resell such sugar as a biomass feedstock to produce bioenergy, to ensure that sugar price support program provisions (see above) operate at no cost and to avoid loan forfeitures.	In 2013, USDA used the FFP to purchase sugar to avoid loan forfeitures, then resold the sugar as biomass at a loss of $173 million (USDA). CBO projects $0 outlays under FFP for 2014-2018 (CBO-BL).	Reauthorized	Product-specific amber box	Outlays may be triggered if market prices fall below price support levels guaranteed by the U.S. sugar price support program; outlays count towards the U.S. amber box.
Adjustment to Covered Commodities	Establishes eligibility for DP, CCP, and ACRE under 2008 farm bill; PLC, ARC, and SCO under 2014 farm bill. Includes wheat, oats, and barley (including used for haying and grazing); corn, sorghum, long- and medium-grain rice, and pulse crops (dry peas, lentils, small chickpeas, and large chick peas); soybeans and other oilseeds (sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed); and peanuts.	—[d]	Upland cotton removed as covered crop	Product-specific amber box	From 1995 to 2011, over $17 billion in amber box program payments were made to upland cotton (about $1 billion annually); removal of upland cotton as covered commodity represents amber box savings.
Special Program Provisions for Upland Cotton—Import Quotas	Special import quota imposed on upland cotton when U.S. cotton prices exceed the world market price for four weeks. Limited global import quota is imposed on upland cotton when U.S. prices average 130% of the previous three-year average of U.S. prices.	No estimate of the implicit value of these provisions is available.	Reauthorized	Specific import quotas must be listed in Country Schedule	As long as the cumulative upland cotton import quota (i.e., sum of temporary special import quotas and any other import quotas in effect) remains within the quota limits defined in the U.S. Country Schedule, then it is WTO-compliant.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Special Competitiveness Program for ELS Cotton	Provides payments to domestic users and exporters whenever AWP for the lowest-priced ELS cotton is below prevailing U.S. price for four-week period; and lowest priced ELS cotton is less than 134% of MLP loan rate for ELS cotton.	CBO projects avg. annual outlays of $2 million during 2014-2018 (CBO-BL).	Reauthorized	Product-specific amber box	Any increases in outlays are likely to be notified as amber box.
Economic Adjustment Assistance to Users of Upland Cotton	Provides assistance (3¢/lb) to domestic users of upland cotton for uses of all cotton regardless of origin—domestic or foreign.	Avg. $80 million annually during 2009-2011 (WTO).	Reauthorized	Product-specific amber box	Because the payment is nondiscriminatory (i.e., all cotton, domestic or imported, is eligible for the payment), it appears to be SCM-compliant; however, outlays count toward the amber box.
Cotton Storage Payments Rate Reduction	Under the cotton storage incentive program, when domestic prices plus accrued interest plus storage costs for cotton being stored under USDA's MLP are above the AWP, then the CCC pays a portion of the storage costs.	No payments have been notified to the WTO under the cotton storage program since 2008 (WTO).	Reauthorized; the payment rate is reduced by 10%.	Product-specific amber box	The payment reduction lowers potential USDA outlays that outlays count toward the amber box. However, only minimal payments have been made under this program, such that this payment reduction is likely to have little effect.
Adjusted Gross Income (AGI) Limit	Maximum income that a person can earn and remain eligible for program payments. Under 2008 farm bill: a person is ineligible if income exceeds $500,000 non-farm AGI; $750,000 farm AGI. Under 2014 farm bill: single AGI limit of $900,000 using three-year average.	No estimate available.	New feature	—[d]	Difficult to interpret any WTO effect: lower overall limit, but potentially larger farm and non-farm-specific incomes.
Disaster Program Payment Limit	Combined payment limit is $125,000 per person for LIP, LFP, and ELAP; separate limit of $125,000 applies to TAP, and 500 acres limit continues.	No estimate available.	Limit expanded from $100,000	Product-specific amber box	The expanded limit increases potential for product-specific amber box outlays.
Title I Price and Income Support: New Programs					
Temporary Upland Cotton Transition Payments	For crop year 2014, upland cotton producers receive decoupled payment based on historical base acres equal to 60% of previous upland cotton DP, in compensation for loss of "covered" status while awaiting implementation of STAX in 2015.	CBO estimates 2014 outlays of $515 million (to be paid out in 2015) (CBO-BL).	New program	Green box*	Fully decoupled payments. Such green box outlays are unlimited.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Price Loss Coverage (PLC)	Payments triggered when SAFP falls below a statutorily fixed reference price for each covered crop; payments based on 85% of base acres and historical yields.	CBO estimates no outlays during FY2014-FY2015, then annual avg. outlays of $2.3 billion during FY2016-FY2018 (CBO-BL).	New program	Non-product-specific amber box*	Payments are decoupled from planted acres, but coupled to market prices. Fixed reference price ignores market conditions. Similarities to CCP suggest that PLC outlays are likely to be notified as nonproduct-specific amber box, making it eligible for the nonproduct-specific DM exemption.
Agriculture Risk Coverage—County (ARC-CO)	County-wide, shallow-loss program for each covered crop. Payments triggered when county revenue falls between 76% and 86% of a county revenue target (equal to product of five-yr. Olympic avg. of county yield times the national SAFP); payment based on 85% of base acres.	CBO estimates no outlays during FY2014-FY2015, then annual avg. outlays of $1.2 billion during FY2016-FY2018 (CBO-BL).	New program	Non-product-specific amber box*	Payments are decoupled from planted acres, but coupled to market prices and the PLC reference price (which sets an annual minimum trigger). The moving-average price trigger helps ARC-CO to reflect market conditions when prices are above the PLC reference price, but not when prices are below. Similarities to CCP suggest that ARC outlays are likely to be notified as non-product-specific amber box making it eligible for the non-product-specific DM exemption.
Agriculture Risk Coverage—Individual (ARC-ID)	Farm-level, shallow-loss whole-farm program (calculated as aggregate for all covered crops). Payments triggered when whole-farm revenue falls between 76% and 86% of a whole-farm revenue target (equal to sum for all crops of product of five-yr. Olympic avg. of yield times the national SAFP); payment based on 65% of base acres.	CBO estimates no outlays during FY2014-FY2015, then annual avg. outlays of $632 million during FY2016-FY2018 (CBO-BL).	New program	Non-product-specific amber box*	Payments made on a whole-farm basis; decoupled from planted acres and but coupled to market prices. The moving-average price trigger helps ARC-ID to reflect market conditions when prices are above the PLC reference price, but not when prices are below. ARC-ID outlays are likely to be notified as non-product-specific amber box, making it eligible for non-product-specific DM exemption.
Base Acre Option	One-time choice: retain current base or make a new allocation of base acres across program crops—may not increase base. Former cotton base acres may not be reallocated but become "generic" acres available for any use.	—[d]	New feature	—[d]	Reallocation to reflect recent market conditions is a partial form of recoupling across farm bill periods of program payments to producer planting choices. Producers will select the base that potentially maximizes their federal program payments.
Generic Base	Former cotton base acres are renamed generic base and added to producer's base acres for potential payments if at least one covered crop is planted on the farm.[e]	—[d]	New feature	—[d]	Recouples[f] former cotton base to current program choices and expands the potential base for covered commodity program payments.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Base Yield Option	Each producer has a one-time choice: retain existing CCC yields, or update to 90% of 2008-2012 average yields.	—[d]	New feature	—[d]	Likely increases the potential historic production base (base acres * historic yield) eligible to receive program payments under PLC and ARC.
Restriction on Planting of Fruits and Vegetables	Limits planting of fruit and vegetables on base acres to unpaid portion of base—i.e., 15% for farms in PLC or ARC-CO and 35% for farms in ARC-ID. Fruit and vegetable plantings above these limits will reduce payment acreage one-for-one.	—[d]	Revision of 2008 farm bill percentages of unpaid base acres.	—[d]	Provides flexibility to plant non-program crops on the % of base acres not receiving payments, but with no subsidy for those non-program crops. This restriction prevents producers from fully responding to market conditions; it was successfully challenged under the Brazil cotton case to show that DPs were not fully decoupled, but was not pursued further in terms of requiring any program change.
Price and Income Support Payment Limits	Designed to cap annual program payments to an individual farm operator. Under 2008 farm bill: $40,000 for DP; $65,000 for CCP and ACRE; a separate, additional limit applies for peanuts; limits effectively doubled with spouse; no limit on MLP benefit payments.	—[d]	Single limit of $125,000 for PLC, ARC, and MLB; doubled with spouse; separate limit for peanuts.	—[d]	Per-operator program payment limits represent a potential tool for limiting or reducing total amber box outlays, and concomitantly mitigating potential distortions. The effectiveness of program limits remains in dispute as some have argued that they may be avoided by sub-dividing a farm operation among family members.
Dairy Margin Protection Program (DMPP)	Provides price-deficiency-like protection for operating margin (difference between all-milk price and formula-based avg. feed ration); payments are based on historical production (HP); HP grows annually with growth in national milk production for participants; producers select margin coverage ($4.00/cwt to $8.00/cwt in $0.50 increments) and portion of HP protected (25% to 90%); premiums are statutorily fixed for FY2014-FY2018 with 25% reduction during calendar 2014 and 2015 for small operations. DMPP has no payment limits.[g]	CBO projects avg. annual outlays of $107 million during FY2015-FY2018 (CBO-BL).	New program	Product-specific amber box*	Outlays are likely to be notified as amber box. However, depending on market conditions, DMPP outlays are expected to be less than previous notifications under DPPSP.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Dairy Product Donation Program (DPDP)	DPDP requires USDA to procure certain dairy products when the margin falls below $4.00/cwt for two consecutive months; the dairy products are distributed immediately (i.e., not stored) to individuals from low-income groups and are not allowed for resale into commercial markets. DPDP purchases and distribution end after three months or if the U.S. price for certain dairy products is significantly above world dairy product prices.	CBO projects avg. annual outlays of $16 million during FY2015-FY2018 (CBO-BL).	New program	Green box*	DPDP outlays are likely to be notified as green box, where outlays are unlimited.
Crop Insurance Programs					
Stacked Income Protection (STAX)	Upland cotton producers are eligible for a county-level, shallow-loss revenue insurance program. Payments are triggered when county revenue falls between 90% to as low as 70% (but not lower than the coverage level of any underlying insurance policy) of a county revenue target (which equals product of 10-yr. trend-adjusted avg. county yield times expected price used for area-wide crop insurance policies, i.e., pre-planting-time average of harvest-time futures contract prices). Payments are based on insured acres. The program will start in 2015.[h]	Premiums will be subsidized at 80% rate; CBO projects avg. annual outlays of $261 million during FY2016-FY2018 (CBO-BL).	New program	Product-specific amber box*	Program prices are within-year, market-based such that they will move up and down with year-to-year changes in market conditions; county-wide parameters mitigate moral hazard; indemnity payments are coupled to planted acres. Premium subsidies are likely to be notified as product-specific amber box. Because indemnities cover shallow losses, they could potentially encourage greater program participation and expanded planting on marginal land.
Supplemental Coverage Option (SCO)	County-level, shallow-loss insurance program for covered commodities enrolled in PLC and insured with a traditional crop insurance policy (either yield or revenue); SCO rides on top of the underlying policy and covers a portion of the deductible; indemnity triggered when county losses greater than 14% and up to the deductible of the underlying insurance policy occur; program to begin for 2016 crop year.	Premiums will be subsidized at 65% rate; CBO projects avg. annual outlays of $223 million during FY2016-FY2018 (CBO-BL).	New program	Non-product-specific amber box*	Program prices are within-year, market-based such that they will move up and down with year-to-year changes in market conditions; county-wide parameters mitigate moral hazard; indemnity payments are coupled to planted acres. Premium subsidies are likely to be notified as non-product-specific amber box, thus qualifying for potential exemption under the non-product-specific DM exemption. Because indemnities cover shallow losses, they could potentially encourage greater program participation and expanded planting on marginal land.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Crop Insurance	More than 100 designated crops (livestock margins and pasture) are eligible for farm- or county-level insurance protection on yields or revenue for individual crops on up to 85% of the crop's value, based on trend-adjusted historic average farm yields (90% coverage available using county yields) and within-year market prices. Premiums are based on value of insured crop and risk of loss as determined by market-based price and volatility measures. Premium subsidy varies with coverage level but averages about 62%.[e]	Notified outlays averaged $5.9 billion during 2009-2011 (WTO). CBO projects avg. annual outlays for premium subsidies of $5.5 billion; underwriting costs of $1 billion; and A&O of $1.4 billion during 2014-2018 (CBO-BL).	Reauthorized	Premium subsidies: product-specific amber box. Under-writing costs and A&O: green box.	Outlays for premium subsidies (like rates) vary with market prices and yields; they are larger during periods of high market prices. Also, high premium subsidy rates detract from the actuarial soundness of the producer-paid premium and encourage greater program participation and expanded planting on marginal land. Notification as product-specific amber box makes it eligible for product-specific DM exemption, thus exemption status likely to vary across crops and market conditions.
Peanut Revenue Insurance	Based on common revenue insurance policy currently available for other crops, provides peanut growers with choice of yield, revenue, and revenue with harvest-time exclusion policies; coverage will range from 50% to 85%; premium will be subsidized at rates similar to other crops, i.e., about 62% on average.	CBO projects avg. annual outlays of $9 million during 2014-2018 (CBO-FB).	New program	Same as above.	Expanding current amber-box revenue coverage to peanuts will increase likelihood of higher amber box notifications to WTO for crop insurance.
Rice Margin Coverage	By the 2015 crop year, FCIC is required to provide margin coverage for rice producers.	CBO projects avg. annual increase in outlays of $3 million during 2014-2018 (CBO-FB).	New feature	Product-specific amber box	Expanding current amber box revenue coverage will increase likelihood of higher amber box notifications to WTO for crop insurance.
Actual Production History (APH) Adjustment	The farm-level APH is a critical parameter for calculating crop insurance guarantees, premiums, and indemnities; to be implemented starting with the 2016 crop year. APH adjustment allows exclusion of yield data for any year that county yield losses are 50% or greater.[e]	CBO projects avg. annual increase in outlays of $24 million during 2014-2018 (CBO-FB).	New feature	Product-specific amber box	Elimination of low-yield years raises the potential insurance guarantee, thus increasing (1) government premium subsidies, (2) the likelihood of receiving an indemnity payment, and (3) the potential level of amber box outlays.
STAX/SCO/Crop Insurance interaction	Limits total indemnity payments across STAX, SCO, and traditional crop insurance: they cannot exceed the total insured value of the crop.	—[d]	New feature	—[d]	Prevents double-payment for same loss; potentially limits amber box outlays under these programs.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
ARC-Crop Insurance Interaction	Producers are expected to purchase less crop insurance coverage when participating in ARC.	CBO projects avg. annual savings of $48 million during 2014-2018 (CBO-FB).	New feature	Product-specific amber box	Anticipated interaction expected to lower both federal crop insurance participation and total federal premium subsidies more than ARC subsidies, with effect of net savings of amber box outlays.
Catastrophic Yield Policy (CAT) Premium Adjustment	To reduce government costs of reimbursement to private insurance companies, the calculated CAT premium is reduced by a formula-based percentage.[i]	CBO projects avg. annual savings of $31million during 2014-2018 (CBO-FB).	New feature	Product-specific amber box	This adjustment in premium calculations would likely lower government premium subsidies notified to WTO as amber box outlays.
Enterprise Units for Irrigated and Non-irrigated crops	Under the 2008 farm bill, all land of a crop in a county was covered under a single enterprise unit. Starting in 2015 crop year, separate enterprise units are available for irrigated and non-irrigated acreages of a crop.	CBO projects avg. annual increase in outlays of $38 million during 2014-2018 (CBO-FB).	New feature	Product-specific amber box	Expanding current amber-box revenue coverage to irrigated and non-irrigated acreage will increase likelihood of higher amber box notifications to WTO for crop insurance.
Crop Insurance Policy Research and Development	Adds certain requirements governing FCIC review of and federal support for development of new crop insurance products.	CBO projects avg. annual increase in outlays of $3 million during 2014-2018 (CBO-FB).	New feature	Green box	Likely to be notified as green box.
Standard Reinsurance Agreement (SRA) and Risk-Sharing	The SRA between FCIC and private insurance companies defines A&O expense reimbursements and risk-sharing by government; FCIC may renegotiate the SRA once every five years.	No cost projections available on potential change in federal costs.	Requires any renegotiated SRA to be budget-neutral.	Green box	This provision may prevent federal government from obtaining a larger share of underwriting gains or a smaller share of underwriting losses. However, green box changes have no WTO effect.
Crop Production on Native Sod	Additional restrictions are added as penalty for cultivation on native sod—i.e., virgin soils untouched by cultivation or human activity.	CBO projects avg. annual savings of $7 million during 2014-2018 (CBO-FB).	New feature	Amber box	Lowers federal subsidies (as penalty) for producers who cultivate on native sod. The projected effect is to gain some savings of potential amber box outlays.
Conservation Compliance	Adds the federally funded portion of crop insurance premiums to list of benefits lost if a producer violates conservation compliance restrictions.[j]	No estimate available.	New feature	—[d]	Potentially lowers federal subsidies for producers who fail to comply with certain conservation requirements. The projected effect is to limit potential expansion of crop area onto marginal lands.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Coverage Level by Practice	Beginning with 2015 crop year, a producer who grows a crop on both dry land and irrigated land may elect a different coverage level for each production practice.	CBO projects avg. annual increase in outlays of $5 million during 2014-2018 (CBO-FB).	New feature	Amber box	Expanding current amber box revenue coverage will increase likelihood of higher amber box notifications to WTO for crop insurance.
Beginning Farmer and Rancher Provisions	Beginning farmers and ranchers are given additional support in the form of lower fees, higher premium subsidies, and adjustments for missing historical data or excluded yields.	CBO projects avg. annual increase in outlays of $17 million during 2014-2018 (CBO-FB).	New feature	Non-product-specific amber box	Expanding current amber box revenue coverage will increase likelihood of higher amber box notifications to WTO for crop insurance.
Crop Insurance for Organic Crops	By 2015, FCIC is required to offer price elections that reflect actual retail or wholesale prices of organic (not conventional) crops.	CBO projects avg. annual increase in outlays of $1 million during 2014-2018 (CBO-FB).	New feature	Non-product-specific amber box	Because organic prices tend to have a market premium, the associated insurance liability, premium, and premium subsidy will all be larger, thus increasing likelihood of higher amber box notifications to WTO for crop insurance.
Index-Based Weather Insurance	FCIC is authorized to conduct pilot programs to provide producers of underserved specialty crops and livestock commodities with index-based weather insurance; premium subsidy may not exceed 60%.	CBO projects avg. annual increase in outlays of $7 million during 2014-2018 (CBO-FB).	New feature	Non-product-specific amber box	Expanding current amber box revenue coverage will increase likelihood of higher amber box notifications to WTO for crop insurance.
Supplemental Agricultural Disaster Assistance Programs[k]					
Livestock Indemnity Program (LIP)	LIP provides disaster assistance payments to eligible livestock owners and contract growers at a rate of 75% of market value for livestock deaths in excess of normal mortality caused by adverse weather; LIP has no payments limit.	CBO projects avg. annual increase in outlays of $54 million during 2014-2018 (CBO-BL).	Reauthorized	Product-specific amber box	Outlays count against the amber box limit.
Livestock Forage Disaster Program (LFP)	LFP provides disaster assistance payments to eligible livestock producers who have suffered grazing losses on drought-affected pasture or grazing land, or on rangeland managed by a federal agency due to a qualifying fire; LFP has no payments limit.	CBO projects avg. annual increase in outlays of $434 million during 2014-2018 (CBO-BL).	Reauthorized	Product-specific amber box	Outlays count against the amber box limit.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP)	ELAP provides payments to producers of livestock, honey bees, and farm-raised fish as compensation for losses due to disease, adverse weather, and feed or water shortages; total outlays are capped at $20 million per year.	CBO projects avg. annual increase in outlays of $18 million during 2015-2019 (CBO-BL).	Reauthorized	Product-specific amber box	Outlays count against the amber box limit.
Tree Assistance Program (TAP)	TAP makes payments to orchardists/nursery tree growers for losses in excess of 15% to replant trees, bushes, and vines damaged by natural disasters; TAP has no payments limit.	CBO projects avg. annual increase in outlays of $10 million during 2014-2018 (CBO-BL).	Reauthorized	Product-specific amber box	Outlays count against the amber box limit.
Noninsured Crop Disaster Assistance Program (NAP)	NAP is available for crops not currently eligible for traditional crop insurance; payments are triggered for yield loss of at least 50% or prevented plantings on at least 35% of intended area; participants pay a $250 administrative fee; base premiums subsidized at 100% but buy-up coverage available with 94.75% subsidy rate; payments made on planted or intended plantings at 55% of avg. market price; NAP has no payments limit.	CBO projects avg. annual increase in outlays of $243 million during 2012-2014 (USDA).	Reauthorized, but enhanced with buy-up option from previous max of 50% up to 65%.	Green box	Green box outlays are unlimited, thus additional NAP would have no WTO effect; however, it remains to be seen if "buy-up" coverage is notified as amber box or green box.
Emergency Disaster (EM) Loans	When a county has been declared a disaster area by either the President or the Secretary of Agriculture, producers in that county may become eligible for low-interest emergency disaster (EM) loans for crop or physical loss of at least 30%; funding subject to appropriation.	Total EM loans made average less than $100 million per year; no data is available on the actual cost or subsidy portion of the loans made.	Reauthorized appropriations	Green box	Green box outlays are unlimited.
Miscellaneous Provisions (Outside of Title I): Potential Non-Green Box					
GSM-102 Export Credit Guarantees	The federal government guarantees repayment when U.S. banks extend credit to foreign banks to finance import purchases into foreign markets of U.S. agricultural goods.	Section 3101(b) of the 2014 farm bill authorizes $5.5 billion annually of CCC funding for the program; however, outlays are not included in U.S. notifications to the WTO.	Tenor (i.e., length of term) reduced to 24 months from 36 months	Contains implicit subsidies declared illegal by WTO in 2004[l]	When tenor reduction is added to previous USDA program changes, GSM-102 should no longer be providing an implicit export subsidy. The texts for the ongoing Doha Round negotiations would codify export credit tenor at a maximum of 180 days or approximately six months.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Reimbursement Transportation Cost Payment (RTCP) [Sec. 1606]	Provides payments to reimburse for higher costs of transporting a commodity or input faced by "geographically disadvantaged farmers" in insular areas, Alaska, and Hawaii; authorized under 2008 farm bill but first implemented in 2010.	Notified outlays of $2 million in 2011 (WTO).	Reauthorized for FY2014-FY2018 with $15 million in annual appropriations.	Non-product-specific amber box	Available funding is minimal relative to the amber box limit, and generally excluded under the non-product-specific DM exemption.
Biomass Crop Assistance Program (BCAP)	Provides financial assistance to establish, produce, and deliver biomass feedstocks under two categories of assistance: (A) establishment and annual payments and (B) matching payments to help eligible material owners with collection, harvest, storage, and transportation (CHST) of eligible material for use in a qualified biomass conversion facility.	Notified outlays of $8 million in 2009, $11 million in 2010, and $1.7 million in 2011 (WTO).	Reauthorized for FY2014-FY2018 with mandatory annual funding of $38.6 million.	Non-product-specific amber box	Available funding is minimal relative to the amber box limit, and generally excluded under the non-product-specific DM exemption.
Rural Energy for America Program (REAP)	Provides financial assistance of grants, guaranteed loans, and combined grants and guaranteed loans for the development and construction of renewable energy systems (RES) and for energy efficiency improvement (EEI) projects; grants for conducting energy audits and for conducting renewable energy development assistance; and grants for conducting RES feasibility studies.	Notified outlays of $83 million in 2011 (WTO).	Reauthorized for FY2014-FY2018 with mandatory annual funding of $68.2 million.	Non-product-specific amber box	Available funding is minimal relative to the amber box limit, and generally excluded under the non-product-specific DM exemption.
Miscellaneous Provisions (Outside of Title I): Green Box					
Supplemental Nutrition Assistance Program (SNAP) and Other USDA-Managed Nutrition Programs	USDA nutrition programs assist targeted populations—including children, pregnant or lactating women, and low-income households—to meet nutritional needs.	Notified outlays averaged $42 billion per year during 1995-2008.[m] More recently, 2009-2011, the annual avg. outlay was $92.3 billion (WTO).	Subject to budgetary spending reductions.	Green box	Green box outlays are unlimited.

Program	Function	Average Outlays[a]	Status Under 2014 Farm Bill	WTO Status[b]	Potential WTO Implications
Section 32	Section 32 permanently appropriates 30% of annual customs receipts to support the farm sector through a variety of activities. Most funds are used to supplement child nutrition programs and for emergency removal of surplus commodities, disaster relief, or other unanticipated needs.	About $8 to $9 billion per year, of which ~$7 billion annually is used for child nutrition programs, with the remainder available for other USDA programs.[n]	Authorized outside of farm bill.	Green box	Green box outlays are unlimited..
Conservation Programs	USDA currently administers about 20 programs and subprograms that are available to directly or indirectly assist producers and landowners who wish to practice conservation on agricultural lands.	Notified outlays averaged $2.3 billion per year during 1995-2008. More recently, 2009-2011, the annual avg. was $4.6 billion (WTO).	Reauthorized subject to consolidation and budgetary spending reductions.	Green box	Green box outlays are unlimited.
Specialty Crop Provisions	Individual specialty crop and organic producers do not directly benefit from price and income supports as traditional program commodities; instead, most support is indirect in the form of research; pest and disease control; food safety and quality standards; support for local foods and markets; generic market promotion; and nutrition programs favoring fruits and vegetables.	No direct specialty crop outlays; instead, support is indirect primarily through green-box-type programs.	Mandatory funding expected to average $773 million annually.	Green box	Green box outlays are unlimited.

Source: Compiled by CRS from various sources as cited.

a. Outlay estimates are from four sources: U.S. notifications to the WTO (WTO); USDA program data (USDA); CBO's score of the 2014 farm bill conference agreement of H.R. 2042, the Agricultural Act of 2014, as reported on January 27, 2014 (CBO-FB); and CBO's "April 2014 Baseline for Farm Programs," April 14, 2014 (CBO-BL). Outlays from both CBO sources were made using price projections that are substantially above current market conditions. As such, they likely (1) understate farm program outlays, since they do not include the substantial decline in farm prices that occurred through the spring and summer of 2014, and (2) overstate crop insurance subsidy outlays, since premiums are based on the underlying insured value, which declines with falling prices.

b. Potential WTO classification is based on previous U.S. program notifications or, if a new program, on CRS estimate of most likely notification. An asterisk is used to denote CRS estimates, i.e., * = CRS estimate of likely WTO classification for new U.S. farm programs.

c. The dairy products cheese, butter, and powdered milk are converted to a common unit—the content of fluid milk in the underlying product—to derive the support price in fluid-milk equivalents.

d. Program feature that does not involve specific outlays but may be relevant to payments made under other farm programs.

e. Specifically, for each crop year, generic base acres are attributed to (i.e., temporarily designated as) base acres to a particular covered commodity base in proportion to that covered crop's share of total plantings of all covered commodities in that year. However, if the total number of acres planted to all covered commodities on the farm does not exceed the generic base acres on the farm, only generic acres equal to the amount of acreage actually planted to a covered commodity are eligible for payment.

f. Federal payments made to historical base acres were decoupled from producer behavior by the 1996 farm bill (P.L. 104-127) which established the Direct Payments (DP) program. DP payments were made independent of producer planting choices. The new "generic base" recouples federal payments to producer crop choices.

g. For details on the DMPP and DPDP programs, see CRS Report R43465, *Dairy Provisions in the 2014 Farm Bill (P.L. 113-79).*

h. See CRS Report R43494, *Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79)*.

i. For details see CRS Report R43494, *Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79).*

j. For more information on conservation compliance, see CRS Report R42459, *Conservation Compliance and U.S. Farm Policy*.

k. For more information, see CRS Report RS21212, *Agricultural Disaster Assistance*.

l. USDA intended to operate the GSM-102 program in a subsidy-neutral manner with fees and charges covering any costs to USDA; however, in 2004 a WTO panel found that GSM-102 was being operated with an implicit illegal subsidy. USDA responded with several program changes, including a risk-based fee structure to increase user charges so as to ensure that they covered long-run operating costs. In the 2008 farm bill, Congress removed a 1% cap on user fees.

m. A large subset of USDA-managed nutrition programs—most notably, Supplemental Nutrition Program for Women, Infants, and Children (WIC)—are authorized outside of the farm bill; however, these programs are notified together under the general title of "domestic food aid."

n. For more information, see CRS Report RL34081, *Farm and Food Support Under USDA's Section 32 Program*.

Author Contact Information

Randy Schnepf
Specialist in Agricultural Policy
rschnepf@crs.loc.gov, 7-4277