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# Farm Bill Primer: Title I Commodity Programs

## Background

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

Provisions of Title I, the “Commodity Title,” of the 2014 farm bill (Agricultural Act of 2014, P.L. 113-79), authorize current commodity price and income support programs for crop years 2014 through 2018. (For details, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*.) U.S. Department of Agriculture (USDA) commodity programs are funded through the Commodity Credit Corporation (CCC). (For details, see CRS Report R44606, *The Commodity Credit Corporation: In Brief*.) Producers must meet eligibility requirements (see below) to participate in the Title I commodity programs and are subject to annual payment limits. (For details, see CRS Report R44739, *U.S. Farm Program Eligibility and Payment Limits*.)

## Two Tiers of Market-Based Support

For major program crops (**Table 1**), the principal commodity programs consist of two tiers of price or revenue protection.

### Tier I: Market Assistance Loan (MAL) Program

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

### Tier II: ARC and PLC Programs

A second, higher tier of support is available under the Price Loss Coverage (PLC) and the Agricultural Risk Coverage (ARC) programs. PLC provides price protection based on reference prices set in statute at levels above the MAL loan rates. ARC provides revenue protection based on the product of five-year moving averages of both historical county yields and the higher of national average annual

farm prices or PLC reference prices. (See **Table 1** for a list of MAL loan rates and PLC reference prices compared with average farm prices for eligible program commodities.) In contrast to MAL benefits, which are linked to current production, ARC and PLC make payments based on historical farm program acres—known as base acres—and are therefore decoupled from current producer production choices.

For each program crop, the 2014 farm bill gave eligible producers (those with base acres for program crops) a one-time choice between PLC and ARC depending on their preference for protection against a decline in (a) crop prices or (b) crop revenue, respectively. Alternately, rather than selecting between PLC and ARC for each covered commodity, a farmer could choose to combine all covered commodities into a single, whole-farm revenue guarantee under the farm-level “individual” ARC (ARC-IC) program. (For details, see CRS In Focus IF10711, *Farm Bill Primer: ARC and PLC Support Programs*.)

### Eligible Program Commodities

Commodities eligible for the MAL loan program include most major field crops as well as wool, mohair, and honey. A smaller subset of commodities—which excludes cotton, wool, mohair, and honey—is defined by the 2014 farm bill as “covered” commodities eligible for the ARC and PLC programs. (See **Table 1** for a list of covered commodities.) The mix of supported crops reflects historical policy goals and compromises that have evolved over the decades. Producers of specialty crops (e.g., fruits, vegetables, and tree nuts) and livestock have generally received little or no direct government price or revenue support through commodity programs.

### Cotton, Dairy, and Sugar Programs

Cotton is not eligible for the ARC and PLC programs. Cotton was removed from eligibility by the 2014 farm bill due to a ruling from a World Trade Organization dispute settlement case successfully brought by Brazil against U.S. cotton support programs. (See CRS In Focus IF10193, *The WTO Brazil-U.S. Cotton Case*.) Instead, cotton producers have been eligible for an insurance-like program—the Stacked Income Protection program—and several one-time payment programs, including Cotton Transition Assistance Payments during 2014 and 2015 and a cotton ginning cost-share payment program in 2016. For details, see CRS Report R44914, *Farm Safety-Net Payments Under the 2014 Farm Bill: Comparison by Program Crop*.

Title I authorizes separate programs for dairy and sugar—described in CRS In Focus IF10195, *U.S. Dairy Programs After the 2014 Farm Bill (P.L. 113-79)* and CRS In Focus IF10223, *Fundamental Elements of the U.S. Sugar Program*.

**Table I. Farm Prices, Market Loan Rates, and PLC Reference Prices**

Program Commodities	Unit	Farm Price <sup>a</sup>	Tier I: Market Loan Rate		Tier II: PLC Reference Price	
		\$/unit	\$/unit	% of SAFP <sup>b</sup>	\$/unit	% of SAFP
Corn	bu.	\$3.57	\$1.95	55%	\$3.70	104%
Soybeans	bu.	\$9.53	\$5.00	52%	\$8.40	88%
Wheat, all	bu.	\$4.93	\$2.94	60%	\$5.50	112%
Peanuts	cwt.	\$20.43	\$17.75	87%	\$26.75	131%
Sorghum	bu.	\$3.35	\$1.95	58%	\$3.95	118%
Barley	bu.	\$5.26	\$1.95	37%	\$4.95	94%
Oats	bu.	\$2.46	\$1.39	39%	\$2.40	98%
Rice, long grain	cwt.	\$10.97	\$6.50	66%	\$14.00	128%
Rice, medium grain	cwt.	\$15.37	\$6.50	66%	\$16.10	105%
Dry peas	cwt.	\$11.87	\$5.40	45%	\$11.00	93%
Lentils	cwt.	\$27.70	\$11.28	41%	\$19.97	72%
Chickpeas, large	cwt.	\$30.53	\$11.28	37%	\$21.54	71%
Chickpeas, small	cwt.	\$24.03	\$7.43	31%	\$19.04	79%
Cotton, upland	cwt.	\$63.83	\$52.00 <sup>c</sup>	99%	na	na
Sugar, refined beet	cwt.	\$32.05 <sup>d</sup>	\$24.09	75%	na	na
Sugar, raw cane	cwt.	\$24.89 <sup>e</sup>	\$18.75	75%	na	na
Wool, graded	cwt.	\$145.00 <sup>g</sup>	\$115.00	79%	na	na
Wool, nongraded	cwt.	\$145.00 <sup>g</sup>	\$40.00	28%	na	na
Mohair	cwt.	\$490.33	\$420.00	86%	na	na
Honey	cwt.	\$211.03	\$69.00	33%	na	na
Minor oilseeds <sup>f</sup>	cwt.	na	\$10.09	na	\$20.15	na
Sunflower	cwt.	\$19.57	\$10.09	52%	\$20.15	103%
Flaxseed	cwt.	\$17.17	\$10.09	59%	\$20.15	117%
Canola	cwt.	\$16.37	\$10.09	62%	\$20.15	123%
Rapeseed	cwt.	\$34.43	\$10.09	29%	\$20.15	59%
Mustard	cwt.	\$33.13	\$10.09	30%	\$20.15	61%
Safflower	cwt.	\$23.40	\$10.09	43%	\$20.15	86%

**Source:** USDA, National Agricultural Statistics Service (NASS), and Economic Research Service (ERS), Farm Income and Wealth Statistics.

**Notes:** na = not applicable, bu. = bushel, cwt. = hundredweight or 100 lbs. Commodities with market loan rates are loan crops. Crops with PLC reference prices are “covered” commodities. Tier II support also includes ARC revenue protection not listed in this table.

- a. The average for crop years 2014-2016 of season average farm prices (SAFPs); also used in the percentage calculations.
- b. Average adjusted world prices are used for comparison of upland cotton and rice MAL loan rates instead of farm prices.
- c. The loan rate for upland cotton is the average SAFP for the preceding two years but within a range of \$45/cwt. and \$52/cwt.
- d. U.S. wholesale refined beet sugar price, Midwest markets, Milling & Baking News, as reported by ERS.
- e. U.S. raw sugar price, Contract No. 14/16, duty fee paid New York, as reported by ERS.
- f. Minor oilseeds include the six listed oilseeds as well as crambe and sesame—but these two are excluded due to insufficient data.
- g. Average farm price received, with no distinction for graded or ungraded, as reported by NASS.

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