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2018 Farm Bill Primer: ARC and PLC Support Programs

Background

The Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC) programs provide income support to covered commodities at levels above the price protection offered by the marketing assistance loan (MAL) program's loan rates. Participation is free for both ARC and PLC. However, a producer must sign up and elect ARC or PLC for the farm's historical base acres (described below).

Program Origins

ARC and PLC were first authorized under the 2014 farm bill (P.L. 113-79). The 2018 farm bill (Agricultural Improvement Act of 2018, P.L. 115-334) extended both programs with several modifications intended to increase producer flexibility in their use. See CRS Report R45525, *The 2018 Farm Bill (P.L. 115-334): Summary and Side-by-Side Comparison*.

Producer Election

Producers choose between PLC and ARC based on their preference for protection against a decline in either (a) crop prices (**Figure 1**) or (b) crop revenue (**Figure 2**), respectively. Furthermore, producers can elect ARC at either the county (ARC-CO) or individual farm (ARC-IC) level. PLC and ARC-CO choices can vary across "covered" crops (for a list of covered crops, see **Figure 3**), whereas ARC-IC includes all "covered" crops on a farm under a single farm-level revenue guarantee.

Price Loss Coverage (PLC)

PLC price protection is based on a statutorily fixed reference price. The 2018 farm bill added an escalator provision that could potentially raise a covered commodity's effective reference price (used to determine the PLC per-unit payment rate) to as much as 115% of the statutory PLC reference price based on 85% of the five-year Olympic average (OA) of the national market-year average farm price (MYAP). PLC makes a payment when the MYAP is less than the effective reference price (**Figure 1**).

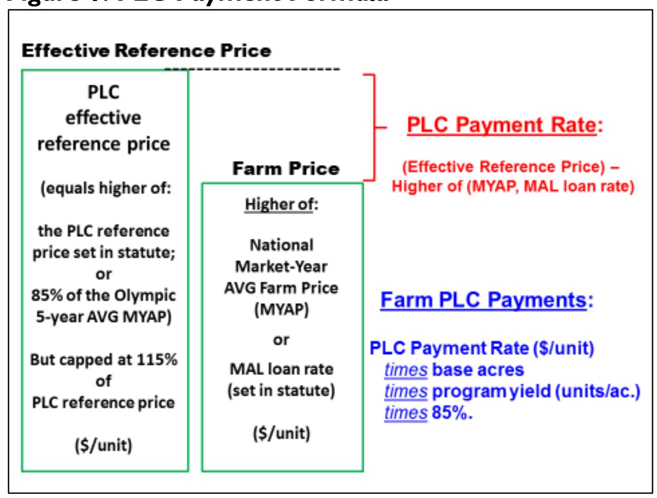
The PLC payment rate equals the difference between the effective PLC reference price and the higher of the MYAP or the MAL loan rate. The PLC payment rate times the program yield determines the per-acre payment rate. The PLC payment rate times 85% of base acres signed up for the respective covered commodity equals the total payment.

County-Level ARC (ARC-CO)

The ARC-CO crop revenue guarantee equals 86% of the benchmark revenue (**Figure 2**). The benchmark revenue is the product of the five-year OA of county yields and the five-year OA of national MYAPs. In calculating the five-year OA of national MYAPs, the effective PLC reference price is substituted for the MYAP in those years where it is larger.

A payment is made if the product of current-year county yield and MYAP is below the ARC-CO revenue guarantee.

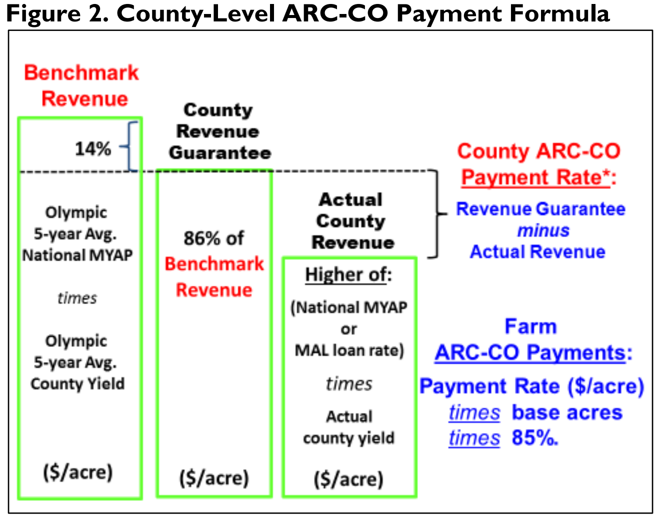
Figure 1. PLC Payment Formula



Source: CRS.

Notes: MAL = marketing assistance loan program. The Olympic average is calculated by removing the high and low years, then averaging across the remaining years. Program yields are historical farm-level yields used to determine per-acre payment rates.

Figure 2. County-Level ARC-CO Payment Formula



Source: CRS.

Note: The ARC-CO per-acre payment rate is capped at 10% of the ARC-CO county benchmark revenue per acre.

Under the 2018 farm bill, yield data from the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) is the primary source for county average yields for calculating the ARC-CO benchmark revenue. Where RMA data is not available, USDA is to determine the data source considering data from USDA's National Agricultural Statistical Service or the yield history of representative farms in the state, region, or crop-reporting district. Also, ARC-CO is to use a trend-adjusted yield to calculate the benchmark revenue, as is done by RMA for the federal crop insurance program. Finally, the five-year OA county yield calculations is to include a yield floor (equal to 80% of the 10-year average county yield) for each year where actual county yield is lower.

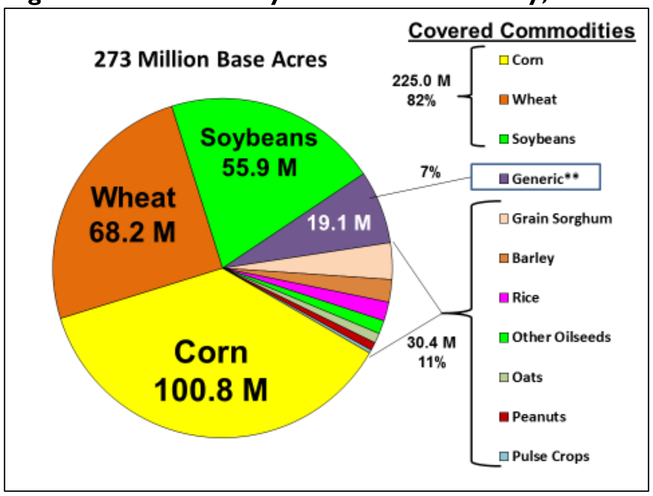
Individual-Level ARC (ARC-IC)

Instead of an ARC-CO revenue guarantee on a crop-by-crop basis, farmers could select a farm-level guarantee that includes all covered crops on a farm under one revenue guarantee. A single, whole-farm guarantee (and payment) is calculated as a weighted average for all crops.

Decoupled Payments Made on Base Acres

ARC-CO, ARC-IC, and PLC payments are decoupled—that is, payments are made on a portion of a crop's historical "base" acres rather than actual production (**Figure 3**). A producer does not have to plant a covered commodity to be eligible for payments. If ARC-CO or PLC program payments are triggered, then they are made on 85% of the producer's base acres that were signed up for that covered commodity irrespective of plantings. ARC-IC payments are made on a reduced 65% of base acres.

Figure 3. Base Acres by Covered Commodity, 2014



Source: Compiled by CRS from USDA, Farm Service Agency, data.
Notes: Base acres are historical average acres on a farm that have been planted to program crops defined under the 2002 farm bill (P.L. 107-171, §1101). Each base acre is associated with a particular program crop. However, not all base acres signed up for ARC or PLC. Other oilseeds include sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed. Pulse crops include dry peas, lentils, and small and large chickpeas.

**Generic base is former upland cotton base. Program participants reallocated their generic base acres to either seed cotton or other program crops under the Bipartisan Budget Act of 2018 (P.L. 115-123). Data on this allocation is not yet available.

Program Sign Up

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

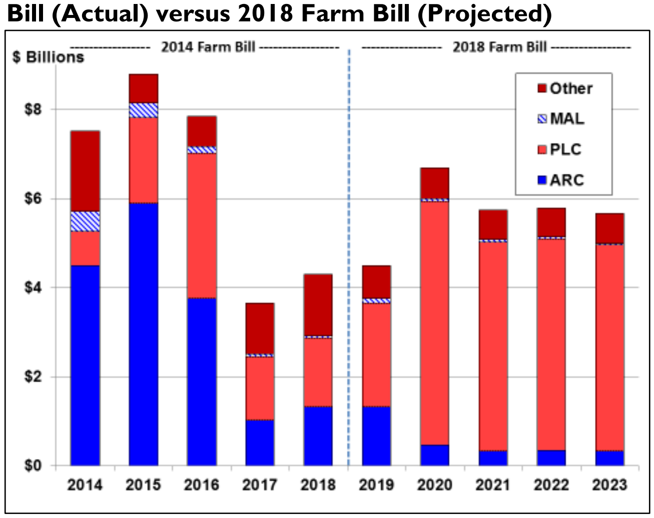
Participation Varies by Program Crop

Under the 2014 farm bill, most base acres for corn (93%), soybeans (97%), and wheat (54%) signed up for the ARC-CO program due to high commodity prices during the 2012-2014 period, which factored into the ARC-CO revenue guarantee formula. Other covered commodities largely favored PLC. However, because corn, soybeans, and wheat are the three largest crops grown in the United States (**Figure 3**)—accounting for 82% of eligible base acres—together they made ARC-CO the largest revenue program in terms of total enrolled base acres. Rice and peanut producers nearly unanimously selected PLC. Few producers—1% of base acres—selected ARC-IC.

Preference for PLC Under 2018 Farm Bill Expected

USDA and the Congressional Budget Office (CBO) expect producers to shift dramatically in favor of PLC under the 2018 farm bill (**Figure 4**), due largely to several years of weak commodity prices at or below PLC reference prices thus triggering PLC payments. CBO projects that the corn base-acre share enrolled in PLC will jump from 6.6% under the 2014 farm bill to 84.6% under the 2018 farm bill. Similarly, CBO projects the share of soybean base enrolled in PLC to rise from 3.1% to 64.1% and wheat from 42.5% to 76.9%. Thus, PLC is expected to replace ARC as the dominant revenue support program under the 2018 farm bill.

Figure 4. Commodity Program Outlays, 2014 Farm Bill (Actual) versus 2018 Farm Bill (Projected)



Source: Compiled by CRS; data for 2014-2017 are from FSA; projections for 2018-2023 are from CBO's January 2019 USDA baseline projections.
Note: Other includes dairy, disaster assistance, and miscellaneous programs. Market facilitation program data are not included.

Eligibility Criteria and Payment Limits

Producers must meet eligibility requirements to participate in PLC and ARC. Combined ARC and PLC payments are subject to annual payment limits of $125,000 per person. (For details, see CRS Report R44739, *U.S. Farm Program Eligibility and Payment Limits*.)

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