



Sen. John Thune's Phase III Farm Bill Rollout – Commodity Title Changes

Background Information

Part I: Agriculture Risk Coverage (ARC) Payment Acres Based on Physical Location

The 2014 Farm Bill established the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs which were designed to provide a safety net for participating producers.

Approximately 76 percent of base acres are enrolled in ARC-County (ARC-CO) which provides revenue loss coverage at the county level

Issue:

The U.S. Department of Agriculture (USDA) made an administrative decision to calculate ARC-CO payments using the *administrative county*¹.

ARC-CO payments vary by county; therefore, when ARC-CO payments are determined according using the administrative county's payment rate for multi-county farms, ARC-CO payments may be higher or lower than if the payments were calculated using the payment rate for the county in which the land is physically located.

After implementation of the 2014 Farm Bill began, USDA made a subsequent administrative decision to allow ARC-CO participants with land physically located in a county with a higher ARC-CO payment than the administrative county to receive ARC-CO payments calculated according to the higher paying county payment rate.

USDA does not require ARC-CO participants with multi-county farms to be paid at the lower ARC-CO payment rate if any of the land in the farm is physically located in a lower paying county than the administrative county.

The intent of Congress was that ARC-CO payments are to be calculated using the payment rate for the county in which land is physically located.

Sen. Thune's Fix:

Sen. Thune's legislation requires that all ARC-CO payments shall be calculated using the ARC-CO payment rate for the county in which land is physically located.

¹ **Administrative County** – When land on a farm is physically located in more than one county, the farm will be administered in one county office, known as the administrative county.

Part II: Mandatory Base Update

Ongoing discussion during recent farm bill cycles has revolved around whether to use actual planted acres to determine Commodity Title payments or to continue use crop acreage bases determined according to a historical multiple year average of planted and considered planted commodity crop acreages.

After the 2014 Farm Bill signup 260 million base acres were determined 23 base acre crops. Corn, wheat and soybeans amount to 83 percent of base acres. Generic base (cotton base prior to the 2014 Farm Bill) is 17.6 million acres.

Base acres determined according to the 2014 Farm Bill are used to calculate Commodity Title payments.

Issue:

The 2014 Farm Bill bases are not an accurate reflection of most recent planted acres of commodity crops.

Bases established under the 2014 Farm Bill may reflect acres planted or considered planted 1991-1995, 1998-2001, or 2009-2012.

Farms may not have been planted to commodity crops for years, yet they are eligible to receive Commodity Title payments.

Linking Commodity Title payments to planted acres is likely to result in the U.S. violating the World Trade Organization agreement.

Commodity Title payments determined according to actual planted acres would likely result in farmers planting crops with highest expected payments, rather than planting according to market signals.

Sen. Thune's Fix:

Sen. Thune's legislation requires a mandatory crop acreage base update that would be determined by planted and considered planted acres on a farm for the year 2014, 2015, 2016 and 2017.

The mandatory base update will result in Commodity Title payments being determined by the most recent planting history, not planting history that could be a decade or more old.

- Bases would continue to be suspended for land enrolled in the CRP.
- Generic base would no longer exist.
- STAX does not expire, so it remains in effect for cotton producers.

Meaningful savings could have been realized if payments for the 2014-2016 crop years had been made on planted rather than base acres, as is generally done under the 2014 Farm Bill. Total payments are estimated to be approximately 10 percent, or \$0.5 to \$1.1 billion per year, less if made on planted acres.²

Sen. Thune's legislation would very likely result in a substantial savings as Commodity Title payments would be much more reflective of recent planted acres. (CBO score not available.)

² Zulauf, C. and G. Schnitkey. "Comparison and Assessment: Payments on Base vs. Planted Acres, 2014-2016 Crops." *farmdoc daily* (7):23. Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, February 8, 2017