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2014 Farm Bill: Making the Case for Looking at ARC-Individual Farm

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Overview

The Agriculture Risk Coverage - Individual Farm Coverage (ARC-IC) option in the 2014 farm bill has, in general, received less attention than the other 2 program options: ACR-CO (ARC - County Coverage) and PLC (Price Loss Coverage). A potential reason is that ARC-IC is operationally more complex and thus harder to explain and understand. However, this post argues that an operator who has a very risky Farm Service Agency (FSA) farm may wish to consider electing ARC-IC for that FSA farm.

ARC-IC

ARC-IC provides revenue loss coverage for all acres on the ARC-IC farm unit planted to covered farm program crops. The ARC-IC farm unit is the sum of a producer's share in all FSA farm units that he/she enrolls in ARC-IC in a state. Payments are made when the average per acre actual revenue of all program crops planted on the ARC-IC farm unit is less than 86% of the average per acre ARC-IC benchmark revenue for the ARC-IC farm unit. Coverage is limited to losses between 76% and 86% of the ARC-IC farm unit's benchmark revenue. Payment depends on the planting of covered crops, but payment is limited to 65% of the total base acres on the ARC-IC farm unit. In essence, ARC-IC is a whole farm program option based on the average experience of covered crops planted on the ARC-IC farm unit. In contrast, ARC-CO and PLC are simpler operationally because they are for an individual program crop on an individual FSA farm. Last, in many respects, ARC-IC can be viewed as the successor to the SURE (Supplemental Revenue Assistance) program in the 2008 farm bill.

Situations in which ARC-IC should be considered:

(1) From all accounts, ARC-IC was designed to address the situation in which a farm's yield is not correlated with its county yield. In other words, a farm's yield does not increase (decrease) when its county yield increases (decreases). In this situation ARC-CO provides little risk

assistance. A specific argument is that the farm-county yield correlation is likely to be near zero in counties located west of the Mississippi River due to the larger size of these counties. While not likely to be common, if the farm-county yield correlation is negative, ARC-CO may increase the variability of the farm's revenue as ARC-CO payments occur when the farm's revenue is high relative to county revenue.

(2) ARC-IC also is worth considering when crops, especially a single crop, is grown on a FSA farm for which production is highly variable from year to year. The probability of payment is high given the highly variable production, and no premium is paid. An operator could also create an ARC-IC farm unit by combining FSA farms whose yields are both highly variable and correlated with each other, provided the same crop is planted on all FSA farms in the ARC-IC farm unit.

Summary Observations:

- The appropriate farm program choice is about the production attributes of an individual FSA farm as well as the more discussed crop(s) grown on the farm. ARC-IC is designed for the production risk attributes of the farm.

- ARC-IC is an option to consider when (1) the farm's yield has a low correlation with its county yield and (2) when the FSA farm unit has highly variable production.

- Given that farm program decision are made for individual FSA farms, that many, notably larger, farm operations are composed of multiple FSA farms, and that FSA farms may have highly variable production; more operators than commonly thought may find it worthwhile to consider ARC-IC.

- A policy question is whether FSA will allow an existing FSA farm to be divided into the previous FSA farms combined to form it or allow new FSA farms to be created for election into ARC-IC?

- In summary, this post is not an argument for electing ARC-IC. It is, however, an argument for not dismissing ARC-IC without thinking about the individual FSA farm.

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