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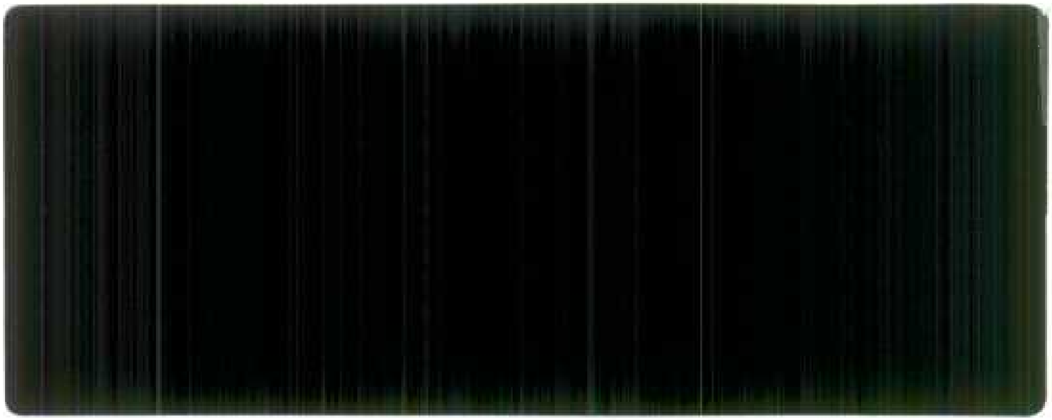

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WORKING PAPER #7

A Summary of Commodity Programs in the United States

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The responsibility for the analysis and interpretation of the data is that of the authors and not of Statistics Canada.

Preface

The Grain Marketing Unit of Agriculture Division continuously monitors international factors influencing the Canadian grain industry. International data are presented in the final section of the Cereals and Oilseeds Review (STC 22-007). Where applicable data are also included in the monthly market situation report.

One of the most pervasive factors in the international market is the status of American grain production and utilization. Commodity programs have become increasingly important in the United States hence on the world and Canadian scene. This document reviews these programs (as of May 15, 1984) to assist our users in their interpretation of the data.

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1. Introduction

The American grain situation is an important consideration in the international grain markets since the U. S. is the largest world producer of many agricultural commodities. The pervasive influence of the U. S. situation on the market, extends to Canada's grain marketing outlook.

This document summarizes key aspects of American grain commodity programs. Primarily there are two groups of programs: the first affects domestic supplies and prices (domestic programs) while the second class involves export stimulation (export programs).

2. Domestic Programs

Domestic programs involve both direct price support and indirect price support through supply reduction. Direct price support encompasses the Commodity Credit Corporation (C.C.C.) loan programs including the farmer owned reserve (F.O.R.), the target price mechanism and disaster relief programs. Supply reduction programs are the set aside, paid diversion, and more recently the payment in kind (P.I.K.) programs.

2.1 C.C.C. Loan Program

The C.C.C. loan program provides farmers with a mechanism to borrow against their current harvest, allowing them to defer marketings to periods later in the crop year, when prices are more favourable. On C.C.C. loans, farmers pay interest plus storage charges[1]. However, if commodity prices do not rise to sufficient levels to repay the loan plus interest and storage, the producer may forfeit the grain, receiving the loan rate. Alternatively, at the end of nine months the producer may roll the grain over into the F.O.R.

Minimum expected loan rates until 1986 were established under the omnibus 1981 Farm Bill. Table 1 shows C.C.C. loan rates in effect from 1982/83 to 1984/85 and the minimum expected rate for 1985/86.

Table 1
C.C.C. Loan Rates
$/bushel

	1982/83	1983/84	1984/85	1985/86[2]
Wheat	3.55	3.65	3.30	3.30
Corn	2.55	2.65	2.55	2.55
Oats	1.31	1.36	1.31	1.31
Barley	2.08	2.16	2.08	2.08
Sorghum	2.42	2.52	2.42	2.42
Soybeans	5.02	5.02	5.02	5.02

After the nine month C.C.C. loan period farmers who do not forfeit may either sell the grain on the market or place it in the F.O.R. at the prevailing loan rate for periods normally up to three years. The Secretary of Agriculture waives interest charges and pays farmers $.265 per bushel for storage. Generally F.O.R. loan rates equal C.C.C. loan rates, however, in 1982/83 F.O.R. loan rates were established at higher levels. The F.O.R. program is not available for soybeans.

1 The amount of interest plus storage charges differs depending on whether the grain is held in commercial elevators or on farms. Normally, it is $.26-$.30/bushel for wheat. The Secretary of Agriculture is expected to hold these rates at the 1984/85 level.

Table 2

F.O.R. Loan Rates

$/bushel

	1982/83	1983/84	1984/85	1985/86
Wheat	4.00	3.65	3.30	3.30
Corn	2.90	2,65	2.55	2.55
Oats	1.49	1.36	1.31	1.31
Barley	2.37	2.16	2.08	2.08
Sorghum	2.75	2.52	2.42	2.42
Soybeans	n/a	n/a	n/a	5.02

Loan rates may be reduced if the national average price of the commodity falls within 105% of the loan rate in a given marketing year. The reduction may be a maximum of 10%, with wheat remaining above $3.00/bushel and corn above $2.00/bushel. This is the case for 1984/85 with wheat set below the minimum expected level and coarse grains set at the minimum expected rate.

The release of grain from the F.O.R. is governed by the pre-established release (trigger) price. When the 5 day national average farm price (with subnational variations) is greater than the release price the grain is in 'release status'. At this time, the Secretary of Agriculture discontinues storage payments and may begin charging interest on the loans. Although the producer is not forced to redeem the loan he/she may do so and dispose of the grain. Related to the release price is the 'call price'. When the call price is reached, the C.C.C. 'calls' the loan thereby forcing its redemption. As well, penalties are imposed on farmers reluctant to redeem loans.

For grains placed under loan prior to 1981, prices and call prices changed yearly on the basis of current year loan rates. For wheat and barley the current release and call prices for the II and III reserve are determined by:

Release

	Wheat	Barley
II	1.50xcurrent loan	1.25xcurrent loan
III	1.40xcurrent loan	1.25xcurrent

Call

	Wheat	Barley
II	1.85xcurrent loan	1.45xcurrent loan
III	1.75xcurrent loan	1.45xcurrent loan

For crops placed in reserve in 1981 and thereafter, release and call prices are established at fixed levels.

Table 3 presents the release and call prices for various reserves. When five day national average prices reach 110% of these release price, the C.C.C. is also able to dispose of its grain holdings.

Table 3

Release and Call Price F.O.R.

$/bushel

	Reserve #	Release	Call
Wheat	II	5.48	6.21
	III	5.11	6.39
	IV	4.65	4.65
	V3	4.65	-
	VI3	4.45	-
Corn	IV	3.15	3.15
	V3	3.25	-
Oats	V	1.65	-
Barley	II	2.70	3.13
	III	2.70	3.13
	IV	2.55	2.55
	V3	2.65	-
Sorghum	IV	5.36	5.36
	V3	5.54	

II	1976-1979 Crops
III	1980 Crop
IV	1981 Crop
V	1982 Crop
VI	1983 Crop

Note: At the start of the 1984/85 marketing year the release and call prices for II and III reserves will be:

	Wheat		Barley	
	Release	Call	Release	Call
II	4.80	6.11	2.60	3.02
III	4.62	5.78	2.60	3.02

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[3] Call prices were not established for reserves V, VI since they are at the discretion of the Secretary of Agriculture. Currently, the policy is to set them equal to the release price when necessary.

2.2 Target Price Program

The second direct price support mechanism is the 'target price'[4] system. The target prices for wheat and corn are determined on an input cost basis and mandated via the 'Farm Bill'. Other coarse grain prices are determined in relation to feeding value compared with corn. Table 4 presents the target prices since 1982/83.

Table 4

Target Prices of Commodities

$/bushel

	1982/83	1983/84	1984/85	1985/86[5]
Wheat	4.05	4.30	4.38	4.38
Corn	2.70	2.86	3.03	3.03
Oats	1.50	1.60	1.60	1.60
Barley	2.60	2.60	2.60	2.60
Sorghum	2.60	2.72	2.88	2.80

When prices for the first five months of the grain marketing year are below the target price 'deficiency payments' are made to producers. The deficiency payment per bushel is the smaller of (target price - loan rate) or (target price - national average price). The deficiency payment depends upon a variety of factors, including the national program acreage (N.P.A.), the program allocation factor (P.A.F.), proven yields, and set aside and acreage reduction programs.

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[4] Target pricing superceded the former system of parity prices (basis 1916) in the 1978 Farm Bill.

[5] Target prices were frozen on April 13, 1984. Formerly the 1984/85 wheat and corn target was set at 4.45 and 3.03. The 1985/86 prices for wheat and corn was to be 4.65 and 3.18 respectively.

National program acreage is the number of harvested acres the Secretary of Agriculture determines necessary to meet export and domestic requirements. For wheat, the N.P.A. must be established by August 15 of the preceding calendar year and for feed grains by November 15. The N.P.A. may be adjusted as more information becomes available. The N.P.A. is not required when acreage reduction programs are in effect.

The program allocation factor (P.A.F.) specifies the percentage of farm acreage devoted to a commodity eligible for target pricing. The P.A.F. is the N.P.A. divided by the number of expected harvested acreages. The P.A.F. ranges between .8 and 1.0. Similar to N.P.A., when acreage reduction programs are in effect, the P.A.F. is unnecessary.

The payment yield for each farm is the previous year's yield of the farm adjusted to "provide a fair and equitable yield" . Where the farm's yield equalled zero the previous year, the Secretary of Agriculture determines yields on a historical basis. When disputing the payment yield the farmer may use 'proven yields'. That is, a farmer need not accept a reduction in payment yield if he/she can prove historical yields greater than the proposed payment yield. Table 5 presents an example of the target price system.

Table 5

Target Pricing System

Example 1:	N.P.A. Wheat	91,000,000
	Harvested Acres	100,000,000
	P.A.F.	.91

Farm A	Allotment	200 acres
	Planted	200 acres
Farm B	Allotment	200 acres
	Planted	250 acres

Payment Yield	40.0 bu/acre
Loan Rate	3.30/bushel
Market Price	3.95/bushel
Target Price	4.38/bushel

<u>Receipts, Farmer A</u>

Market Sales	200x40x3.95=$31,600
Deficiency Payment	200x40x.43= 3,440
Total	35,040

Returns/bushel $4.38

<u>Receipts, Farmer B</u>

Market Sales	250x40x3.95=$39,500
Deficiency Payment	200x40x.43= 3,440
Total	42,940

Returns/bushel $4.29

2.3 Disaster Relief Programs

In addition to the foregoing price support mechanisms several 'disaster' provisions are available for American farmers[6]. When natural disasters have created a financial emergency for the farmer and federal crop insurance is unable to alleviate the emergency, two types of payments may be made - the first is a prevented plantings payment and the second, a low yield payment.

6 These are in addition to the Federal Crop Insurance Act.

The first type of payment occurs if natural disasters prevent planting. It consists of 75% of the farm program payment yield times 33.3% of the target price times the smaller of intended acreage or the previous year's harvested acreage. The second type is made when actual farm production is less than 60% of payment yield times harvested acres. Payment is 50% of target price on all production below 60%. In either event, payments are not made for duplicate grain under the target price and disaster relief programs.

2.4 Set Aside Acreage Reduction Programs

During periods of excess supplies, the Secretary of Agriculture can implement acreage reduction programs. Set aside refers to the designation of a specified percentage of N.P.A. acreage to be used for conservation. Paid diversion involves paying producers not to use specific amounts of cropland acreage. Eligibility for the loan and target price programs depends on compliance with set aside programs. Generally, acreage the sign up deadline are near the end of March for acreage reduction programs. However for 1984/85 these were extended to May 4 for wheat. In addition, for the 1984/85 crop year,farmers were able to enroll acreage in the Payment In Kind (P.I.K.) program for wheat and receive grain for further acreage reductions.

When set aside is in effect, the Secretary of Agriculture announces the percentage of cropland devoted to a particular commodity to be set aside[7] countrywide. This percentage is applied uniformly to all farms based on either the previous years normal planted acreage or the average of the preceding two years normal planted acreages, where normal planted acreage is the total area planted to crops[8]. The option chosen is at the discretion of the Secretary of Agriculture. Monitoring of the programs is performed by the district Agricultural Stabilization and Conservation Service (A.S.C.S.).

For 1984/85 crop the voluntary set aside for coarse grains and wheat is 10% and 30% respectively of normal crop acreage. For wheat, 10% of the diversion will be paid at \$2.70 /bushel. Thus a wheat producer with 400 acres in 1984 and a yield of 40 bushels/acre setting aside 30 percent voluntarily and with a 10 percent paid diversion would receive a payment of:

$$.10 \times 400 \times 40 \quad \times 2.70 = \$4,320.$$

Coarse grain producers are not eligible for paid diversion for the 1984/85 crop.

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[7] By August 15 for wheat and November 15 for coarse grains.

[8] This is referred to as normal crop acreage.

As well, wheat producers will be eligible for a P.I.K. wheat program for the second year in a row. An additional 20% of a farm's normal acreage can be set aside and payment received in kind (with wheat) at 85% of normal yields. Whensigning up, the farmer receives a P.I.K. entitlement for either C.C.C. or F.O.R. stocks with the C.C.C. paying storage costs for up to 5 months if the grain was stored in commercial facilities and 7.5 months if the grain was held on farm following the normal harvest date. The farmer must take possession of the P.I.K. commodity within this time period. Coarse grains are not eligible for P.I.K. in1984/85.

For 1984, neither cross nor offsetting compliance is in effect for the acreage reduction programs. A farmer can participate for one commodity and not for others. The producer can also participate on a given farm but not on other farms he/she operates.

This range of possibilities and choices provides a comprehensive basis for managing the supply of American commodities and protecting incomes. The Secretary of Agriculture can also make use of several programs to increase export demand. These are discussed in the following section.

3. Export Programs

Export development consist of three types of programs. The first are 'aid' type programs encompassed in the Agriculture Trade and Assistance Act (P.L. 480). The second group are credit programs. Credit programs consist of the Export Credit Sales Program (GSM-5), the Export Credit Guarantee Program (GSM 102), and the 'blended credit' program. The third group consists of bilateral trade agreements between the U. S. and importer countries.

3.1 The Agriculture Trade and Assistance Act (P.L. 480)

P.L. 480 was designed to encourage the development of export markets, to combat hunger and malnutrition and to encourage economic development. It arose from the burdensome supply situation of the early 1950s and permitted the sale of surplus commodities to 'friendly' nations in exchange for local currency. From this initial form, the Act has evolved into a sophisticated aid program consisting of four titles.

Title I involves concessional sales. This title allows nations to buy American commodities for dollars, with payments stretched out for up to 40 years at lower than market interest rates. In many cases, grace periods of up to 10 years on principal repayment are granted. Importers must make cash down payments of 5% of the value of the commodities. Concessional sales may be used for stock

Appendix A

P. L. 480 Allocations - 1984

Total Available as of January 1, 1984

	-000 tonnes-	-$000,000-
Bangladesh	259.0	65.0
Bolivia	60.0	10.0
Congo (Brazzavile)	6.0	2.0
Costa Rica	142.0	20.0
Dominican Republic	125.0	20.0
Egypt	1 545.0	250.0
El Salvador	175.0	32.0
Guatemala	9.0	7.0
Guinea	6.0	2.0
Haiti	56.0	11.0
Honduras	49.0	8.0
Indonesia	133.0	30.0
Jamaica	96.0	20.0
Kenya	17.0	5.0
Liberia	36.0	15.0
Madagascar	24.0	8.0
Mauritus	14.0	3.5
Morocco	175.0	25.0
Pakistan	66.0	50.0
Peru	100.0	20.0
Senegal	26.0	8.0
Sierra Leone	14.0	3.0
Somalia	51.0	16.0
Sri Lanka	150.0	25.0
Sudan	304.0	50.0
Tanzania	15.0	3.0
Tunisia	65.0	10.0
Yemen	16.0	3.0
Zaire	58.0	10.0
Zambia	27.0	7.0
Total	3 819.0	738.5

Source: United States Department of Agriculture

building as well as current consumption. Concessional sales can not be trans-shipped to another country or used to displace local production which has been exported. U. S. cargo preference dictates that title I commodities be shipped on U. S. flag vessels. The C.C.C. absorbs any cost differences attributable to the flag requirement.

Title II provides outright gifts of foodstuffs to needy countries. A general condition of title II gifts is the food be used in food for work (or education) programs designed to develop infrastructure within the receiving country.

Title III, is food for development. Under this title foreign countries receiving food under the terms of title I, are permitted to resell the commodities in their own countries, if the proceeds are used to improve agri-food productivity. As the local currency derived from these sales is used an equivalent dollar value of the title I debt is eliminated.

Title IV describes the operational details of the Act and provides for 'farmer to farmer' assistance. Foreign currency earned from sales under the Act are used to spread U. S. agricultural expertise to recipient countries. This includes farm to farm exchanges, research and technical training.

P.L. 480 allocations for 1984 are summarized in Appendix A.

3.2 Credit Assistance

Credit assistance consists of three programs: - direct interest free credit (GSM-5); credit guarantees for exporters (GSM-102); and a combination of the two ('blended credit'). GSM-102 largely superceded GSM-5 prior to the blended credit program.

GSM-5 was originally designed to export surplus C.C.C. inventory. With the decline (through 1980) in C.C.C. inventories, the program was amended to include privately held stocks. The program finances 100 percent of the f.o.b. value of commodities determined to be eligible by the Secretary of Agriculture for a period of six months to three years.

GSM-102 (1980) also provides financing assistance for up to three years. However, rather than a direct credit program, GSM-102 is a credit guarantee program, insuring exporters against loan default on the part of a foreign government (or foreign bank). The guarantee (.33% per annum of outstanding debt) is purchased by the exporter from the C.C.C., covering up to 98% of the principal and the first 8% of interest from the date of export. GSM-102 applications are only available for nations enjoying 'most favoured' status.

Application for assistance under GSM-102 proceeds as follows:

i) a sale is made to a foreign buyer who finances the purchase. Either the exporter or importer applies through the Foreign Agriculture Service of the U.S.D.A. for GSM-102 financing. The cost of financing is set by U.S. banks usually at 1/2% above the U.S. prime or the London interbank offer rate.

ii) if approved, the sale is registered and a guarantee is purchased.

iii) the C.C.C. guarantee is assigned to the bank.

iv) the commodities are shipped.

v) the shipment documents are presented to the bank and payment is received.

vi) confirmation of the export is sent to the C.C.C.

Total GSM-102 credit available for 1984 is $4.0b. Appendix B presents lines of credit under GSM-102 as of April 30, 1984.

The blended program of a combination of interest free GSM-5 and regular GSM-102 credit. For 1984, the total amount of blended credit is limited by the maximum GSM-102 credit available ($4b.). The blending rate varies between 14-19% GSM-5, dependant on the importing nation, as the program is targeted to meet competition from the E.E.C. Blended credit, similar to GSM-5 and GSM-102 credit is available for 3 years. Letters of credit securing repayment for the GSM-5 portion will be issued to C.C.C., while letters credit for GSM-102 will be issued to the exporter.

Appendix C presents blended credit guarantees as of April 30, 1984.

3.3 Bilateral Agreements

The third export development procedure is the bilateral trade agreement. A list of current American bilateral agreements is included in Appendix D. Bilateral trade agreements provide an export minimum and often a maximum for commodity trade between two countries. Generally, the private trade in the U.S. has been against bilateral agreements since it limits their export role. However, the trade has been supportive of those with the U.S.S.R. and China since they often provide valuable import information.

4.0 Conclusions

The U.S. commodity system includes a variety of programs designed to stabilize and enhance farm income. On the supply side, there are loan programs and target pricing which 'guarantee' output prices. To support such prices during periods of burgeoning supplies, supply management programs such as set aside, paid diversion and payment-in-kind can be implemented. Demand stimulation programs are also available. These include aid programs such as P.L. 480, credit programs and bilateral agreements.

Appendix B

GSM-102 Commitments - 1984

GSM-102 CREDIT AS OF APRIL 1, 1984

Country	Total Guarantees: Wheat and Flour	Total Guarantees: Other Agricultural Products
	-$000,000-	
Brazil	445.0	15.0
Chile	75.0	0.0
Colombia	85.0	0.0
Dominican Republic	10.0	15.0
Ecuador	39.0	5.5
Egypt	.6	47.6
El Salvador	0.0	26.5
Guatemala	19.0	31.0
Haiti	5.0	0.0
Hungary	0.0	23.5
Iraq	155.0	245.0
Jamaica	13.0	57.0
Korea	130.0	207.6
Mexico	0.0	790.0
Pakistan	0.0	30.0
Peru	100.0	60.0
Philippines	75.0	125.0
Portugal	117.0	269.0
Turkey	24.0	26.0
Yugoslavia	0.0	125.0
Total	1,293.1	2,098.7

Source: United States Department of Agriculture

Appendix C

Blended Credit - 1984

BLENDED CREDIT AS OF APRIL 1, 1984

Country	Commodity	%GSM-5	%GSM-102	Total Committment
				-$000,000-
Algeria	Wheat	14.19	85.81	160.0
Egypt	Wheat	14.24	85.76	64.6
Morocco	Wheat	14.18	85.82	244.0
Tunisia	Wheat	19.05	80.95	132.8

Source: United States Department of Agriculture

Appendix D

Bilateral Agreements - 1984

Current American Bilateral Agreement

Country	Amount	Notes
	metric tonnes	
China	6.0-9.0	- 20% - includes wheat and coarse grains - expires 1984
U. S. S. R.	9.0-12.0	- expires September 30, 1988 - includes wheat, coarse grains and soybeans. - a million tonnes may be satisfied by soybeans.

Source: United States Department of Agriculture

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