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THE FOOD SECURITY ACT OF 1985:

WHEAT AND FEED GRAINS

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The Food Security Act of 1985, better known as the "Farm Bill" was signed into law December 23, 1985. The bill sets forth important new provisions for commodity programs. The purpose of this report is to discuss the wheat and feed grains provisions and provide some general analysis. An accompanying Current Report (#331) provides a budget worksheet to assist producers in the participation decision. Other forthcoming reports will detail other commodity provisions. County ASCS offices will also provide program assistance for sign-up, scheduled to begin in early March.

Discussion of Provisions

Target prices for wheat and feed grains are frozen at 1985 levels through 1987 and set for 2-5% reductions thereafter. Formula loan rates for 1986 will be $3.00 for wheat and $2.40 for corn. Market signals will come into play thereafter. Loan rates will be set at 75-85% of the average market price based on three of the past five years disregarding the highest and lowest years. Loans for other feed grains (grain sorghum, barley, oats and rye) will be set in accordance with their respective feed values related to corn.

While declines will normally be limited to 5% per year, the Secretary has discretion to apply the Findley Amendment. If last year's market price was less than 110% of the loan rate or if he feels such action is necessary to compete in world markets. He may further cut the rate up to 20%. Based on current supply conditions, the Secretary has made the maximum cut for 1986. Congress mandated a minimum 10% cut for 1986. A point to keep in mind is that such additional cuts do not affect the formula rate for the next year.

To illustrate, 1986 is used as an example (see Table 1). The formula loan rate for 1986 wheat is $3.00. The required 10% cut reduces the loan rate to $2.70 and the optional cut brings the rate down to $2.40. When consideration for the 1987 loan rate is made, the average market price for three years from 1982-86, dropping the highest and lowest year's prices, will be compared to the 1986 formula loan rate of $3.00, not the reduced rate.

Table 1: Summary of the 1986 Wheat and Feed Grains Programs

	Wheat	Corn	Barley	Sorghum	Oats
Target Price ($/bu.)	4.38	3.03	2.60	2.88	1.66
Loan Rate ($/bu.)	2.40	1.92	1.56	1.82	0.99
Acreage Reduction - ARP (%)	22.5	17.5	17.5	17.5	17.5
Paid Diversion - PLD (%)	2.5	2.5	2.5	2.5	2.5
PLD - optional (%)	10	-	-	-	-

The Secretary may allow repayment as low as 70% of the loan rate. Up to 5% of the total deficiency payment may be made with commodities. The portion of the payment that results from loan rate cuts below formula levels are exempt from payment limitations. Loans may also be made to producers who cut corn for silage or exchange corn for silage. Producers may receive deficiency payments on 92% of permitted acreage if at least 50% is planted to program crop and the 8% is devoted to conservation or nonprogram crops. Commodity program payments to a producer of wheat, feed grains, upland cotton, extra long staple cotton, and rice are limited to $50,000, excluding disaster payments which may not exceed $100,000. Advanced recourse loans may be made available to assure adequate operating credit, if necessary.

An acreage reduction program (ARP) is mandated if carryover stocks are expected to exceed 1 billion bushels for wheat and 2 billion bushels for corn. Wheat acreage for 1986 must then be reduced 22 1/2%. A payment in-kind land diversion of 2 1/2% is also required. Additionally, producers who planted the 1986 crop before announcement of the program and who reduce their acreage base harvested by another 10% must receive a paid diversion rate of $2.00 per bushel. The total program reduction in harvested wheat acreage for 1986 will be at least 25% and could be as much as 35%.

Corn acreage for 1986 must be reduced 17.5%. A land diversion payment-in-kind of 2 1/2% is also established for feed grains.

For excess wheat stocks in ensuing years, the ARP calls for: 1987, 20-27 1/2%; 1988 through 1990, 20-30%. Excess corn stocks mandate these reductions for 1987 through 1990: 12 1/2-20%.

The program allows the Secretary discretion if stocks are at or less than the 1 billion for wheat and 2 billion for corn. These allowed reductions for wheat are: 15%, 1986; 20%, 1987; 20%, 1988-1990. The allowed reductions for corn are: 12 1/2% and a land diversion program on a bid basis for 1986, 12 1/2%, 1987-1990.

Set aside acreage (ARP plus PLD) must be devoted to conservation uses. At the Secretary's discretion, such acreage may be planted to sweet sorghum, haying and grazing, guar, sesame, safflower, sunflower, castor beans, mustard seed, crambe, plantago ovato, flax seed, triticale, rye, or other approved commodity. At the request of a state ASCS, haying and grazing must be permitted for 1986 (except during a 5-month period), and grazing for 1987-1990. Such acreage may also be devoted to wildlife food plots or wildlife habitat.

The crop acreage base will be the smaller of the average of acreage planted and considered planted for harvest (to such program crop) for each of the five past crop years, the average for each of the most recent 2 years. The farm program payment yield for 1986 and 1987 will be the average of the farm program yields for 1981-1985, excluding the highest and lowest years. It is up to the Secretary to continue this practice in 1988-1990, or change to the average of actual harvested yield for the five years, excluding the highest and lowest years, and any crop year the crop was not planted on the farm.

The Secretary is required to conduct a mail poll by July 1, 1986, to determine if wheat producers favor mandatory limits on wheat production that will bring wheat prices at least 125% of production costs. No further action is required. However, for the 1987-1990 crops, the Secretary has the option to proclaim marketing quotas and conduct a referendum by August 1, 1986. If at least 50% of the producers favor quotas, the Secretary must institute the quotas for that period.

While marketing quotas are in effect, loan price supports will be determined in a different manner. The loan rate must be at least the higher of 75% of the national average cost of production or, $3.55 per bushel. The price must be at least the higher of the national average cost of production or, $4.65. Since the current administration fought against such a referendum and mandatory controls, it is not likely that such an option will be exercised. Another option unlikely to be exercised soon concerns wheat pricing without marketing quotas. The Secretary has the option with wheat to establish an alternate pricing strategy: pegging the price to the percentage of acreage reduction with which a farmer complies or, setting a graduated scale of production with payments varying accordingly and targeted for commercial family farmers who exceed annual gross sales of $20,000.

Additional information may be obtained from your county ASCS office.

Production costs were set at $85 per harvested acre and $25 per non-harvested acre. These costs do not include a land charge or fixed costs, since these costs would simply lower the net return of all three alternatives by an equal amount, causing the dollar difference to remain the same.

Oklahoma wheat harvest price is expected to be $2.30 per bushel with yields set at 32 bushel per acre by the ASCS. This is the same as the expected yield. Base acres were set the same as the planted acres.

Three alternatives were analyzed: 1) non-participation; 2) participation in the 22.5 percent acreage reduction and 2.5 percent PIK diversion; and 3) the required 25 percent plus the 10 percent paid diversion. Table 2 shows a breakdown of costs and returns. Again, a more detailed decision-making model can be found in CR331.

Table 2: Expected Wheat Yield, Returns, and Costs Per Acre.[a]

	Non-Participation	ARP[b]	ARP & 10% Diversion
Yield (Bushel/Ac)	32	33.6	33.6
Deficiency Payment	-	$49	$41
Diversion Payment	-	$ 2	$10
Grain Sales	$74	$58	$48
Total Income	$74	$109	$99
Costs			
Harvested Acres	$85	$66	$55
Non-Harvested Acres	-	$ 6	$ 9
Total Costs	$85	$72	$64
Net Return	$-11	$37	$35

[a] Costs do not include a land charge nor fixed costs.

[b] ARP includes mandatory 2 1/2% PIK diversion

Program Analysis

An alternative of not harvesting 50 percent of the permitted acres and receiving the deficiency payment on 92 percent of the permitted acreage is not included in this analysis. Results indicated net return from this alternative was substantially lower than with the other two alternatives analyzed. No income was included from haying or grazing which could change the results. The individual choices of alternative use of such land may have a significant impact on this decision.

Yields were 32 bushels for non-participation. Participation yields were 33.6 bushels, since lower producing acres are normally designated as part of the diverted acres. With non-participation, expected income per acre was $74 and expected cost was $85, indicating a net loss of $11 per acre.

Per acre income from participation in the ARP was a $49 deficiency payment and a $58 grain income (either loan or cash sale), and a 2.5% PIK diversion of $2 totaling $109. Total costs were $72 per acre, resulting in a net return of $37 per acre.

Per acre income from adding the 10 percent diversion to the ARP was $41 from deficiency, 10 from diversion, and $48 from grain. This is a total expected per acre income of $99. With total costs at $64 ($55 + $9), the per acre net return was $35.

This analysis does not include income from haying and/or grazing, which would make participation in the program more attractive. However, these alternatives must be profitable before being considered.

There is a payment limitation of $50,000. One provision of the 1986 wheat program is $0.60 of the potential $1.98 per bushel deficiency payment does not count against this $50,000. Thus, with a 32 bushel per acre program yield, a base acreage of 1,130 acres would be required to reach the $50,000 limit.

A producer with a program yield of 45 bushels would reach the $50,000 limit with approximately 805 acres. The acres required to reach the limit will also depend on the producers decision to participate in the optional 10 percent diversion program. Participation would lower the acres required to about 703 acres.

Higher expected harvest and program yields do not lessen the advantage of participation. Also, the program yield or base acreage has to be more than 50 percent below the expected yield or total production before non-participation should even be considered.

There are circumstances where a producer may choose not to participate, for example, if a base acreage is being established or if the expected harvest price is substantially higher than the loan. But for income with a lot less risk, participation in the 1986 government program is the only game in town.

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