COMMODITY PROGRAM PROVISIONS UNDER THE FOOD AND AGRICULTURE ACT OF 1977

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ABSTRACT

Commodity program provisions of the Food and Agriculture Act of 1977 are summarized. Price support, loan level, disaster payment, program acreage, and other provisions of the legislation are discussed for wheat and feed grains, cotton, rice, peanuts, soybeans, sugar, dairy products, and wool and mohair. Miscellaneous provisions and those applying to grain reserves and to the beekeeper indemnity program are also summarized.

Keywords: Farm legislation, price supports, loan levels, program acreage, disaster payments, the Food and Agriculture Act of 1977, set-aside, wheat, feed grains, cotton, rice, peanuts, soybeans, sugar, dairy products, wool and mohair, grain reserves, beekeeper indemnity program.

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SUMMARY OF LEGISLATION

The Food and Agriculture Act of 1977 is a 4-year bill that becomes effective in 1978. Although directed toward the 1978-81 crops, the 1977 Act also makes some changes in the support and low-yield disaster programs for 1977 wheat and feed grain crops.

Target Price and Loan Program Continues

The 1977 Act continues the dual target price and loan rate system, providing price and income support protection to farmers. Target prices are used to establish a basis for providing deficiency payments to producers who participate in the wheat, feed grain, cotton, and rice programs. Deficiency, or target price payments vary inversely with market prices. No payments are made if the market price is at or above the target price; if the market price is below the target, payments are based on the difference, but in no case can the payment rate exceed the price support loan-target price differential. Payments will be made on the farm program acreage, a new concept which is explained later.

Nonrecourse loans continue to be a basic part of the farm program. With these loans, a producer complying with farm programs can commit any quantity of his crop as collateral for a loan from the Commodity Credit Corporation (CCC). The total amount that can be borrowed from CCC is equal to the quantity of the crop placed under loan times the loan rate. Nonrecourse loan contracts are written with an expiration date. Upon or anytime prior to expiration, producers may retain possession of their crop by repaying the loan amount plus any interest that has been incurred. If producers choose not to redeem their loan, the CCC takes title to the commodity as full payment for the loan, including interest payments.

The 1977 Act specifies target prices and loan minimums for wheat and corn from the 1977 crop (1977 crops were originally included under the 1973 Act); target prices for wheat and corn for 1978 and a target price adjustment formula for 1979-81 wheat and corn crops; a minimum target price for cotton for 1978 through 1981; the formula for setting the 1978-81 target price for rice; loan minimums for wheat, corn, and rice in 1978-81; and a formula for determining cotton loan prices.

A target price adjustment provision will apply to the 1979-81 wheat and corn crops. The adjustment provision will begin in 1978 for cotton and rice, with a minimum target price of $0.52 a pound specified for upland cotton in 1978. The 1979 target prices for wheat and feed grains will be the respective 1978 target prices adjusted to reflect changes in a moving 2-year average adjusted cost of production estimate, with the cost components being considered limited to variable, machinery ownership, and general farm overhead costs.

Downward Adjustment in Loans

Loan levels for wheat and feed grains may be adjusted downward in any marketing year if the average market price in the previous year falls to within 105 percent of the loan level. The adjustment is limited to 10 percent per year, or a lower limit of $2.00 a bushel for wheat and $1.75 a bushel for corn. This variable loan concept is included to maintain domestic and export markets for grain.

Program Acreages Instead of Allotments

National program acreages for wheat, feed grains, and upland cotton will be determined by the Secretary and will represent the estimated acreage needed to meet domestic and export needs (less imports) plus any desired adjustments in stocks. The national program acreage for each crop will be determined by dividing the estimate of projected utilization by a national average program yield to give the needed harvested acreage. Farm program acreages for deficiency payment purposes will be based on current plantings. This represents a significant departure from prior law, which based farm allotments and bases on historical planting patterns. The allotment system for the above crops is terminated beginning with the 1978 crop.

The Secretary is required to announce a tentative national program acreage by a specified date before the crop is planted. Before deficiency payments are made, a program acreage allocation factor will be calculated as the ratio of the final national program acreage to the Secretary's estimate of harvested acreage. Under terms of the Act, this allocation factor cannot be less than 80 nor greater than 100 percent, except for cotton, which has no lower limit for the allocation factor. Instead, for cotton there is a lower limit on the national program acreage of 10 million acres. A farmer's acreage eligible for deficiency payments will be determined by multiplying his acreage planted for harvest by the allocation factor. Under previous legislation, the national allotment was apportioned to the States, then to counties within the State, then to individual farms on the basis of a historical pattern. The historical farm allotment was the basis for production adjustment and payment programs.

Payment Limits

For wheat, feed grain, and upland cotton, the 1977 Act revised the payment limit upward. In the 1973 legislation, the limit on payments to wheat, feed grain, and upland cotton producers was $20,000. The limit is now $40,000 for the 1978 crop and $45,000 for the 1979 crop. For rice producers, the payment limit was decreased from the present $55,000 to $52,250 in 1978 and $50,000 in 1979. For 1980 crops, the payment limit for wheat, feed grain, upland cotton, and rice combined will be $50,000. Payments for disaster loss will be excluded from the payment limitation beginning in 1978.

Set-Aside

Paralleling changes in the allotment system are changes in the provisions for set-aside programs. As in previous legislation, the new law extends to the Secretary of Agriculture the authority to implement set-aside if he determines supplies are likely to be excessive. However, instead of being based on a percentage of historical allotments, set-aside in any year will be based on a farmer's acreage planted for harvest in that year.

The 1977 Act authorizes the concept of a normal crop acreage for an entire farm. Agricultural Stabilization and Conservation Service county committees will designate normal crop acreages for farms within a county within guidelines specified by the Secretary. When set-aside requirements for a crop planted on the farm are in effect, a farm's acreage planted to designated crops plus any set-aside cannot exceed the established normal crop acreage in order for the farm to be eligible for program benefits.

The concept of the normal crop acreage is the inverse of the conserving-base requirement that had been a part of the voluntary land diversion and set-aside programs during the 1961-73 period. Under these programs, diverted or set-aside acreage was an addition to the farm's soil conserving base. The producer was required to maintain this total acreage of soil conserving uses.

Disaster Program Extended 2 Years

The disaster payment program was extended with revisions for 2 additional years to allow more time to develop an alternative which may be an expanded and effective Federal crop insurance program. Prevented planting and low-yield provisions were extended through the 1979 crop year and revised to be more equitable among crops and among producers.

Other Provisions

Other legislative provisions in the 1977 Act also affect commercial agriculture. Food stamp and P.L. 480 program provisions will influence farm prices and incomes to the extent that changes in these programs change the demand for farm commodities. Providing food stamps with no purchase requirement is a significant change in the food stamp program. There is no consensus agreement on the impact that this change may have on food consumption and, thus, the demand for agricultural products. Changes in income levels for recipient countries under P.L. 480 programs may alter the number of countries receiving aid as well as the quantity of farm products shipped. On the supply side, the emphasis placed on agricultural research, extension, and education, as well as required small farm research, will indirectly affect agricultural production and rural communities through changes in technology and education.