No. 30

PN ABJ233

How To Set Up and Operate a Commodity Program

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It is a pleasure and a privilege to be part of these proceedings, the purpose and scope of which is so important to us all.

I base my remarks today on the premise that agricultural policy, and the commodity programs that go with it, must be an integral part of overall national policy, that agricultural program intent must be correlated closely with a nation's goals and objectives, and that commodity programs must not only benefit the farmer, but must serve the general welfare and further the national interest.

In discussing commodity programs in the context of this general premise, I think it best to take a minute to distinguish between policy and programs. When a desirable standard or course of action based on known facts and problems is reasoned out, policy is being stated. When the ways and means to follow the course of action is developed, then programs are being stated.

I think none of us disagree with the fact that an abundant supply of food, feed, fiber and forest products contributes materially to national purpose and progress. The farmer's role in the development of a nation's economy cannot be overstated.

Agricultural Policy Course, Washington D. C., August 2-27, 1971.

However, the setting up of a commodity program must be undertaken with great forbearance and responsibility -- first, that it meets the policy it seeks to put into effect; second, that it is both directed to, and is responsive to, the particular needs of the producer segment, and third, that it is for the continuing public good.

If I may digress a moment, I would like to observe that the purpose of these seminars -- an open and objective discussion of the need for greater attention to the formulation of sound, national agricultural policies -- is of infinite value to all involved.

A nation's agriculture is a dynamic and ever-changing entity that responds, sometimes in a subtle manner and sometimes with explosive suddenness, not only to changing market demands, but to the changing needs and priorities of a society.

The establishment and operation of a commodity program is predicated upon many factors, including statutory mandates in effect; the basic purpose of a program; the type of program to be undertaken; the level of price support to be set; the level and extent of direct subsidy, if this approach is to be utilized; the operational procedures and facilities to acquire, handle, store, process and dispose of inventories as, and if, acquired; and the administrative organization required to carry out an efficient and economic commodity operation.

In addition, if the program intent is also to balance production with all needs, then production adjustment or marketing control authority, may be a pivotal part of program application.

In setting up a commodity program, the first consideration is its purpose. This consideration would include, singly or in combination, such factors as whether the program is to be designed and administered to stabilize or increase farm income; to stimulate or increase production; to roll back excessive production to more desirable levels; or to maintain an existing production level that meets market demand and the maintenance of adequate reserve stocks.

When the decision on program purpose has been made, either by legislative mandate or within discretionary authorities, then the type of program to carry out the overall directive must be established.

American programs for price supported commodities, as you know, are based primarily upon the Agricultural Adjustment Act of 1938, as amended; the Agricultural Act of 1949, as amended, and the Agricultural Act of 1970. Additional authorities are contained in the Charter Act of the Commodity Credit Corporation, as amended. There are also the Sugar Act of 1948, as amended and extended, and the National Wool Act of 1954, as amended and extended.

Under these authorities, commodity price support is basically carried out, singly or in combination, under loan, purchase or payment type programs. Wheat producers receive a portion of their support through wheat certificates -- a per bushel certificate payment on each producer's pro rata share of wheat used for domestic consumption as food.

The level of price support necessarily varies with the commodity produced, but must tie in directly with established national policy and the specified program purpose.

If the purpose is to increase production of a commodity, then a high support level would achieve the objective. However, unless there is some means to even off production after all needs are met, then the problems of market glut, surplus and undue costs can reach critical proportions.

An extremely low support level may result in curtailed production but it may result also in decreased farm income.

In effect, then, support levels must be realistic and practical and, within statutory limitations, be established so that benefits of farm output accrue to both producer and consumer, markets are not jeopardized, traditional channels of trade are not disrupted, and the nation's agricultural plant maintains its capacity to gear operations to changing needs.

For the purpose of this seminar today, I will discuss six general types of programs that we administer for commodities under legislative authorities.

The first are the low loan-direct payment programs, with conditional acreage adjustment -- such as those for wheat, feed grains and upland cotton.

The programs for these commodities are set forth in the Agricultural Act of 1970, approved November 30, 1970, which initiated a cropland set-aside approach for participating producers in the wheat, feed grain and upland cotton programs for the 1971-73 crop years.

Marketing quotas and acreage allotments for wheat were suspended for the three year period. A cropland set-aside, equal to an announced percentage of the farm domestic wheat allotment, was established. Wheat farmers, to be eligible for loans, payments, and marketing certificates on wheat grown for domestic food, are required to set aside or divert from the production of wheat or other crops an acreage determined for each crop year by the Secretary.

The Act provided domestic marketing certificates for farmers participating in the program in an amount equal to U.S. food consumption, but not less than 535 million bushels annually. The face value of the certificates is set at the difference between the wheat parity price as of July 1 and the average price received by farmers during the first five months of the wheat marketing year beginning with July.

Under the Act, the 1971 set-aside would be not more than 13.3 million acres. The 1972 and 1973 set-aside could not exceed 15 million acres. Additional diverted acreage and public recreational access payments were authorized, if the Secretary determines that these provisions are to be applied.

The program authorizes the Secretary to set the national average loan rate to participating wheat farmers from $1.25 per bushel to 100 percent of the parity price for wheat as of July 1 of each marketing year. For 1971 the loan rate has been set at $1.25 -- the rate in effect each year since 1965.

Under the 1970 Act, a voluntary feed grain program (corn and grain sorghum -- and barley, if designated by the Secretary) is established for the 1971-73 crop years, with a cropland set-aside program under which participating farmers are required to set aside an announced percentage of the farm's feed grain base.

Set-aside payments are received by participating farmers for diverting the specified percentage of the corn or grain sorghum base (barley is not included in the 1971 program). The payments are equal to the difference between the national average price received by farmers during the first five months of the marketing year (beginning October 1) and the guaranteed total support price.

The program gives producers more options on what and how much to plant, provides for the shifting of feed grain bases from farms which do not plant feed grains to those that do, and, in setting loan rates for feed grains, places heavy emphasis on export prices and relative feeding values.

As with the wheat program, additional acreage set-aside and public recreational access payments are authorized, if determination is made by the Secretary that they are needed.

Under the cotton program, a voluntary program was established under which marketing quotas and penalties are suspended for the three year period, and provision is made for a cropland set-aside program, not to exceed 28 percent of the cotton allotment, as a condition for benefits under the program.

The Act provides for set-aside payments on the estimated production from 11.5 million acres for the 1971 crop. In 1972 and 1973, the base acreage allotment will be set by the Secretary, and total payments will be adjusted to maintain the same level of total payments.

The payment to participating cotton farmers will be the difference between the higher of 65 percent of parity, or 35 cents and the average market price for the first five months of the marketing year (beginning August 1), but the payment can not be less than 15 cents per pound.

The price support loan rate is established for the 1971-73 crop years at 90 percent of the average world price for the two previous years.

As with the wheat and feed grain programs, additional diverted acreage and public recreational access payments are authorized, if the Secretary determines that such are necessary.

The cropland set-aside approach and the specific programs for the 1971-73 crop years of wheat, feed grains and cotton are based on a philosophy of market-oriented programs designed to encourage production for the market and to encourage market expansion.

The second general type program is the high-loan and marketing quota-allotment type -- such as carried out for peanuts, rice and most kinds of tobacco -- if quotas are approved by at least two-thirds of the producers of each crop voting in referendum.

In the peanut program and for most types of tobacco, national marketing quotas are proclaimed each year, regardless of the supply situation.

For rice the proclamation of a marketing quota is related to prescribed conditions under law that relate, in general, to adequate and normal supplies.

The national quota, by quantity, is converted to national acreage allotments apportioned to the States, counties, and farms on the basis of yield standards per acre that will produce the quantity deemed appropriate to meet the national quota.

For flue-cured tobacco, the national quota is converted to an acreage-poundage basis.

Legislative minimum acreage allotments have proven serious handicaps to sound programs in a number of instances -- particularly on wheat, peanuts, and burley tobacco.

The third general type of price support program is for perishable commodities that is carried out through product purchases -- such as those for milk and cottonseed.

In the dairy program, the Secretary announces the support price for manufacturing milk before the beginning of each milk marketing year, and also the prices at which the Commodity Credit Corporation will buy butter, cheese, and nonfat dry milk throughout the marketing year to effectuate the announced support price for milk.

The purchases maintain market prices of dairy products at levels which enable dairy processing plants to buy milk from farmers at average prices which reflect the announced support level.

For cottonseed, CCC contracts to purchase cottonseed oil to carry out announced support prices for cottonseed.

A fourth general type of price support program is that in which low levels of support are set and there are no acreage adjustment or marketing controls --

such as those we presently have for soybeans, oats, rye and flaxseed.

These programs, again, are predicated upon a market-oriented approach that places great reliance upon the producer being able to produce for and to expand his market outlets.

A fifth general type of support program is that of direct payments. Loan programs are no longer used for wool, since our market prices are dominated by the price of imported wool. Payments are authorized under the National Wool Act for producers of wool and mohair at a rate determined by the difference between average prices received by producers and announced incentive price.

A sixth type is illustrated by our sugar program where price support is accomplished through restrictive marketing and import quotas. Loans and purchases are not used. Conditional payments are made to producers of sugar beets and sugarcane who comply with certain requirements. These relate to compliance with acreage allotments if they are in effect, nonemployment of child labor, payment of fair and reasonable prices for sugar beets and sugarcane purchased from other producers, and payment of fair and reasonable wages.

Under commodity price support programs, certain requirements and services also must be carried out.

Grading services must be provided because CCC loans apply to those quantities of an eligible and pledged commodity that meet specified quality standards. Purchases also come under grading standards. The support rate, in most instances, varies for various qualities of a commodity, with premiums and discounts applicable for qualities above or below the announced standard.

When commodities are pledged or mortgaged to secure price support loans, or purchased by CCC, it is vital that they be kept in safe storage until they can be moved into useful consumption. The CCC storage program is designed (1) to make maximum use of commercial and farmer-owned facilities in the storage of commodities owned by it or subject to its price support programs; (2) to provide Government facilities for storing CCC-owned commodities, primarily grain (CCC-bins), when private facilities are inadequate, and (3) to help farmers finance storage facilities on their own farms.

Most Government-owned price support commodities, except corn, are stored in commercial facilities. Government-owned and loaned grain, flaxseed, and soybeans in country, subterminal and terminal elevators are stored under the terms of a Uniform Grain Storage Agreement entered into between CCC and the warehouseman. For services performed, CCC pays charges at the rates specified in the agreement. These include receiving, loading out, and storage charges.

CCC also uses commercial facilities in the storage of other loan commodities, including cotton and dry edible beans. In the case of tobacco, peanuts and naval stores, arrangements for warehousing are handled by cooperative associations of producers. All warehouses must meet CCC standards.

Insurance is a matter on which policies vary. As a general rule, CCC self insures on its owned and farm-stored loan commodities.

CCC, however, requires insurance on all Government-owned grain and that pledged as collateral for price support loans in commercial storage against loss from fire, windstorm, and other causes normally covered by casualty insurance.

Up to this point, my discussion has been directed to various facets of operational procedures and provisions as they affect producers and the acquisitions of commodities.

How stocks, and Government-owned (CCC) commodity inventories, are moved into domestic and foreign markets, however, is an extremely important part of overall commodity operations.

The Commodity Credit Corporation must consider many factors in making stocks available for movement into use, and in determining the pricing policies to be in effect.

In this country we have legal pricing restrictions which must be observed. As a matter of general policy, CCC does not sell commodities at less than market price and, in some cases, sets minimum sales prices above those required by law.

Section 407 of the Agricultural Act of 1949 directs CCC, in determining domestic sales policies for basic and storable nonbasic commodities, to give consideration to the establishment of sales policies with respect to prices, terms, and conditions as it determines will not discourage or deter manufacturers processers and dealers from acquiring and carrying normal inventories of the commodity of the current crop.

With certain exceptions, Section 407 also provides that CCC shall not sell any basic or storable commodity domestically at less than 5 percent above the support price for the commodity, plus reasonable carrying charges. For upland cotton, domestic sales can not be at less than 110 percent of the loan rate, based on Middling one-inch, adjusted for current market differentials, other value factors the Secretary determines appropriate, plus reasonable carrying charges.

A 115 percent level of the current national average loan rate sales policy, adjusted for current market differentials and other value factors determined by the Secretary, applies to CCC stocks of wheat, corn, grain sorghum, barley, oats and ryc.

Commodities in CCC inventory in danger of loss or waste through deterioration or spoilage are exempt from the legal minimum price restriction. However, CCC has followed a consistent policy of pricing these commodities at not less than market price for comparable quality.

Dairy products, being considered nonstorable under legal authority, are exempt also from the minimum pricing requirements of Section 407. However, sales of dairy products for domestic unrestricted use are made at prices moderately above the current support price.

CCC also moves some stocks domestically under various donation and transfer authorities -- primarily for food and nutrition programs and under distress, disaster or emergency situations.

It is the policy of the Department in the sale of stocks in export markets to endeavor to maintain export markets for U.S. agricultural commodities. This does not mean that all CCC stocks are offered for export sale at all times. As a general rule, they are offered for export sale when privately owned stocks are not sufficient to meet export requirements, or occasionally when world price levels are below the price at which CCC can sell for unrestricted use.

Care is taken to assure that sales are made in a manner and at prices which will not unduly disturb world price levels. In recent years less emphasis has been placed on exports from CCC stocks, more on exports from private holdings.

This policy directs more of the export demand to current production and helps strengthen farm prices. It reduces the amount of commodities that would otherwise be delivered to CCC. It also makes a wider range of grades and qualities available for export throughout the year.

Since 1956, CCC has conducted also an Export Credit Sales Program under which it finances commercial export credit sales by U.S. exporters of agricultural commodities from private stocks. Commodities purchased from CCC inventories may be exported under this program as private stocks. The usual period for which these transactions are financed is 12 months, but a maximum of three years may be approved in special situations.

Commodities, both CCC-owned and privately owned stocks, are also bartered abroad in exchange for materials, goods, and services from offshore sources. In recent years, barter exports have been used almost exclusively to generate funds for the procurement abroad of goods and services for use overseas by U.S. agencies.

Substantial quantities of agricultural commodities have been sold abroad under Title I of Public Law 480, as amended -- also cited as the Agricultural Trade Development and Assistance Act of 1954.

There are two types of sales programs under Title I of P.L. 480: Sales under Government-to-Government Agreements, and Sales Under Private Trade Agreements.

In some instances, CCC makes export payments on specified commodities to make it possible for these commodities to compete in foreign markets and to help the U.S. balance of payments.

Food commodities in excess of estimated domestic requirements, adequate carryover, and anticipated dollar sales may be supplied also for foreign donation programs. These commodities are supplied to nonprofit voluntary agencies registered with the Advisory Council on Voluntary Foreign Aid, to foreign governments, and to intergovernmental organizations.

These donations are to meet famine or other urgent relief requirements; to combat malnutrition; to promote economic and community development in friendly developing areas; and for needy persons and nonprofit foreign food programs.

To summarize my remarks, may I say that the establishment and operation of a commodity program must be a part of national policy; it must be tailored to the particular needs of a producer segment; it must be for the public good, and it must be administered in the most efficient and economic manner possible.

Man, land and food -- the human and physical resources mandated for a society to exist and to survive -- must be viewed and protected in the national interest.

The purpose, type and operational provisions of a commodity program, if such is legally mandated or undertaken under discretionary authority, must be responsive both to the needs of a nation's agricultural producers and to the common good.

Suggested materials (20 sets) to be available for distribution at the seminar:

-- Commodity Fact Sheets on 1971 programs.

-- Pertinent Background Information Bulletins.

-- Revised Agricultural Handbook No. 345, "Farm Commodity and Related Programs," if available.

-- CCC Monthly Sales List Release.