

COMMODITY PROGRAM PROVISIONS UNDER THE  
FOOD AND AGRICULTURE ACT OF 1977

by

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INTRODUCTION

The Food and Agriculture Act of 1977 (1977 Act hereafter) was signed into law by the President on September 29, 1977. The 1977 Act, more popularly known as the "farm bill," is an omnibus bill containing the following 19 titles:

Title I--Payment Limitations for Wheat, Feed Grains, Upland Cotton, and Rice

Title II--Dairy and Beekeeper Programs

Title III--Wool and Mohair

Title IV--Wheat

Title V--Feed Grains

Title VI--Upland Cotton

Title VII--Rice

Title VIII--Peanuts

Title IX--Soybeans and Sugar

Title X--Miscellaneous

Title XI--Grain Reserves

Title XII--Public Law 480

Title XIII--Food Stamps and Commodity Distribution Programs

Title XIV--National Agricultural Research, Extension, and Teaching  
Policy Act of 1977

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Title XV--Rural Development

Title XVI--Federal Grain Inspection

Title XVII--Wheat and Wheat Foods Research and Nutrition Education Act

Title XVIII--Department of Agriculture Advisory Committees

Title XIX--Effective Date

This report presents a nontechnical summary of provisions of the Act that relate to farm commodity programs. These provisions are contained in Titles I through XI and in sections of Title XV. For more technical analysis, the reader is referred to the Committee reports and, of course, to the language of the Act itself for details. 1/

Provisions in the Act provide a framework within which the Secretary of Agriculture will administer the food and agriculture programs. As with most previous food and agriculture legislation, the new Act gives the Secretary substantial discretionary authority to issue regulations and implement various provisions as he sees fit.

## DETAILS OF SPECIFIC COMMODITY PROVISIONS

### Payment Limitations

#### 1977 Crop Payments

Payment limits per person for 1977 crops will remain at \$20,000 for combined wheat, feed grain, and cotton payments. Excluded from the payment limits are payments for resource adjustment, public access for recreation, and loans and purchases. However, disaster payments are subject to 1977 payment limits.

#### 1978-81 Crop Payment Limits

Total deficiency payments to wheat, feed grain, and upland cotton producers will be limited to \$40,000 in 1978 and \$45,000 in 1979. Maximum payment limits for rice producers will be reduced from \$55,000 in 1977 to \$52,250 in 1978 and to \$50,000 in 1979. For both 1980 and 1981, the per-person payment limitation is set at \$50,000 for wheat, feed grain, upland cotton, and rice programs. 2/

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1/ U.S. Senate, 95th Congress, 1st Session, Food and Agriculture Act of 1977, Conference Report Number 95-418, Sept. 9, 1977.

2/ These limits will apply to producers who are "persons" as defined by the Secretary of Agriculture in regulations to be issued later. The rules for determining whether corporations and their stockholders may be considered as separate persons shall be in accordance with the regulations issued by the Secretary of Agriculture, Dec. 18, 1970.

## Exclusions

Beginning in 1978, payments for either prevented planting or low yield disaster loss are excluded from payment limits. Disaster programs expire with the 1979 crops. Payments for resource adjustment (which does not include land diversion payments), public access for recreation, and loans and purchases will continue to be exempt from the payment limit. Also, the 1977 Act excludes from payment limits any increase in payments that might result from use of the 105-percent clause.<sup>3/</sup> Neither extra-long staple cotton nor wool payments are subject to limits.

Payment limits will not apply to lands owned by States, political subdivisions, or agencies thereof, so long as these lands are farmed primarily in direct furtherance of a public function as determined by the Secretary of Agriculture.

## Study of Large Nonfarm Corporations

The Secretary is required by the 1977 Act to conduct a study and report to the Congress by January 1, 1979, on how prohibiting payments to large nonfarm corporations might affect (1) participation in the wheat, feed grain, cotton, and rice programs and (2) production of these commodities. The study will also assess the impact of extending the payments prohibition to tenants on land owned by corporations and other entities which would be excluded from payments.

## Report on Family Farms

A family farms provision requires the Secretary of Agriculture to provide Congress a written report on family farming operations by July 1 of each year. This report is to provide current information on trends in family farm operations and national and State-by-State data on nonfamily farm operations. In addition, the report is to provide information on how current programs are being administered to strengthen the family farm agricultural system as well as an assessment of how Federal law may promote the growth of nonfamily farms.

This section indicates the intent of the Congress to ensure that while agricultural programs are not to "... be administered exclusively for family farm operations, ... no such program be administered in a manner that will place the family farm at an unfair economic disadvantage."

## Wheat and Feed Grains

The 1977 Act amends and extends voluntary wheat and feed grain programs through the 1981 crops.

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<sup>3/</sup> "The 105 percent clause" is discussed later on p.6 .

## Continuation of Price and Income Support

The dual commodity price support system established in the 1973 Act is continued through the 1981 crop year. Income support is provided through the target price concept, which guarantees eligible producers a direct payment if farm prices received fall below established target prices. Price supports continue to be provided via the nonrecourse loan program.

## Target Prices and Price Support Loans for 1977 Crop

Target prices and loan rates for wheat and feed grains from the 1977 crop were originally announced by the Secretary under provisions of the 1973 Act. However, the 1977 Act adjusts the target price for the 1977 wheat crop and revises both the target price and minimum loan level for the 1977 corn crop. Announced and revised price and income supports are given in table 1.

## Support for Other 1977 Feed Grain Crops

A comparable target price will be set for the 1977 sorghum crop, and if designated, for barley and oats. The Conference Committee did not anticipate that the Secretary would make use of this authority for the 1977 crop of oats. <sup>4/</sup> The targets are to be at a rate that is "fair and reasonable" in relation to the rate established for corn. Loan levels for sorghum, barley, oats, and rye will also be established at a fair and reasonable level in relation to corn, with feed value and other factors to be taken into consideration. <sup>5/</sup> Average transportation costs to market must also be considered for sorghum.

## Target Prices and Loans for 1978 Crops

The target price for wheat from the 1978 crop will depend on the actual production level. If production is 1.8 billion bushels or less, the target price will be \$3.05 per bushel; however, if the 1978 wheat crop exceeds 1.8 billion bushels, the target price will be \$3.00 per bushel. For 1978, the corn target price is \$2.10 per bushel.

Target prices for sorghum and, if designated by the Secretary, barley and oats will be established at a level which is "fair and reasonable" in relation to the target established for corn. The Conference Committee

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<sup>4/</sup> U.S. Senate, 95th Congress, 1st Session, Food And Agricultural Act of 1977, Conference Report Number 95-418, Sept. 9, 1977, p. 159.

<sup>5/</sup> A detailed listing of the factors that the Secretary is to consider in establishing the level of price support for feed grains other than corn, as well as other agricultural commodities, can be found in Section 401(b) of the Agricultural Act of 1949.

Table 1--Target prices and loan levels for wheat and feed grains from the 1977 and 1978 crops

Item	1977			1978
	Announced	Revised <sup>1/</sup>	1977 Act	
	<u>Dollars per bushel</u>			
Loan levels:				
Wheat	2.25	2.25	2.25	<sup>2/</sup> 2.35
Corn	1.75	2.00	<sup>3/</sup> 2.00	<sup>3/</sup> 2.00
Grain sorghum	1.70	1.90	<sup>3/</sup> ---	<sup>3/</sup> ---
Barley	1.50	1.63	<sup>3/</sup> ---	<sup>3/</sup> ---
Oats	1.00	1.03	<sup>3/</sup> ---	<sup>3/</sup> ---
Rye	1.50	---	---	<sup>3/</sup> ---
Target prices:				
Wheat	2.47		2.90	<sup>4/</sup> 3.00 or 3.05
Corn	1.70		<sup>5/</sup> 2.00	<sup>5/</sup> 2.10
Grain sorghum	1.62		<sup>5/</sup> ---	<sup>5/</sup> ---
Barley	1.39		<sup>5/</sup> ---	<sup>5/</sup> ---
Oats	---		<sup>5/</sup> ---	<sup>5/</sup> ---

1/ As revised by the Administration on Aug. 31, 1977.

2/ The price support loan level may be adjusted downward by a maximum of 10 percent for the next crop year if the national average price received by producers is not more than 105 percent of the current year's loan.

3/ Set in fair and reasonable relation to corn, taking into account feeding value and other considerations.

4/ If 1978 wheat production is above 1.8 billion bushels, the target will be \$3.00 per bushel; if production is 1.8 billion bushels or below, the target will be \$3.05 per bushel.

5/ The target price for sorghum and, if designated, barley and oats, will be set in a fair and reasonable relation to corn.

added a consideration that "if target prices for the other feed grains are established using the same components of the cost of production, such target prices would be fair and reasonable in relation to the rate at which payments are made available for corn." 6/ The 1977 Act makes oats eligible for target price and disaster program protection for the first time (at the discretion of the Secretary).

Nonrecourse loans will continue to be available to wheat and feed grain producers. The minimum loan level for the 1978-81 wheat crops was set at \$2.35 per bushel. Corn's price support loan minimum for 1978-81 was established at \$2.00 per bushel. The maximum loan level for wheat cannot exceed 100 percent of parity.

#### Variable Loan Minimum

When necessary to maintain domestic and export markets, the Secretary is permitted to lower loan levels for wheat and feed grains. A maximum adjustment of 10 percent can be made for the next marketing year if the national average price received by producers for the commodity in the current marketing year is not more than 105 percent of the current year's loan level. While the maximum annual adjustment is 10 percent, the loan rate for wheat cannot in any event be less than \$2.00 per bushel and for corn, not less than \$1.75 per bushel.

If the Secretary invokes this variable loan provision, he is required to provide producers with emergency compensation by increasing deficiency payments by the amount necessary to provide the same total return to producers as they would have received if the loan adjustment had not been made. Any increase in deficiency payments resulting from the variable loan level provision will not be subject to payment limitations.

The Conference Committee also expressed its intent that if a reduction is made in the wheat or feed grain loan level for any year, the level would "snap back" to the stated minimum levels in the next year (to \$2.35 for wheat and \$2.00 for corn), unless the average price received by producers in the preceding year was less than 105 percent of the reduced loan. 7/

#### Target Price Adjustment, 1979-81

Under an adjustment provision in effect for 1979-81 crops, the target price for the previous year's wheat and feed grain crops will be adjusted to reflect any change in the moving 2-year average of variable, machinery ownership, and general farm overhead costs (table 2). 8/ Overhead costs

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6/ U.S. Senate, 95th Congress, 1st Session, Food and Agriculture Act of 1977, Conference Report Number 95-418, Sept. 9, 1977, p. 158.

7/ U.S. Senate, 95th Congress, 1st Session, Food and Agriculture Act of 1977, Conference Report Number 95-418, Sept. 9, 1977, p. 151 and p. 158.

8/ In establishing the target prices for 1978 crop wheat and corn, a return to land and management was included.

Table 2--Target price adjustment procedure

$$1. \text{ Cost } I(t) = \text{Variable costs } I(t) + \text{Machinery ownership costs } I(t) + \text{General farm overhead costs } I(t)$$

Where:

I = Commodity  
t = Crop year

$$2. \text{ Target price } I(t + 1) = \text{Target price } I(t) + \left[ \frac{\text{cost } I(t) + \text{cost } I(t - 1)}{2} - \frac{\text{cost } I(t - 1) + \text{cost } I(t - 2)}{2} \right]$$

Where:

Target price I(t) = target price for the current year (t)  
 Target price I(t + 1) = target price for the following year (t + 1)  
 Cost I(t) = unit costs of commodity I in the current year (t)  
 Cost I(t - 1) = unit costs of commodity I in year (t - 1)  
 Cost I(t - 2) = unit costs of commodity I in year (t - 2).

3. Using assumed cost data in table 3 and the 1978 target price for corn from table 1, the adjustment calculations would be made as follows:

Cost I(t) = \$1.58  
 Cost I(t - 1) = \$1.52  
 Cost I(t - 2) = \$1.55

$$\text{Target price } (t + 1) = \$2.10 + \left[ \frac{\$1.58 + \$1.52}{2} - \frac{\$1.52 + \$1.55}{2} \right]$$

$$= \$2.10 + [\$1.55 - \$1.53]$$

$$\text{Target price } (t + 1) = \$2.12$$

are allocated to individual crops on the basis of their proportion of the total value of production.

Variable costs include the cost of production items such as seed, fertilizer, chemicals, custom operations, labor, fuel and lubrication, repairs, drying, and interest charges. Machinery ownership costs include expenditures for interest, taxes, insurance, and replacement. Farm overhead includes costs of recordkeeping, utilities, maintenance, telephone, and other costs that are difficult to allocate to specific farm enterprises. <sup>9/</sup>

Table 3--Assumed production costs per bushel of corn, by cost item

Cost item	T	T-1	T-2
	Dollars		
Variable	1.08	1.05	1.10
Machinery ownership	.36	.35	.32
General farm overhead	.14	.12	.13
Total	1.58	1.52	1.55

#### National Program Acreage

The national program acreage for wheat and feed grains is the number of harvested acres (based on the weighted national average farm program payment yields) required to meet estimated domestic and export needs (less imports) plus any desired increase or decrease in carryout stocks. The national program acreage for wheat for a particular crop year is to be announced by the Secretary no later than August 15 of the preceding calendar year. National program acreages for feed grains must be announced by November 15 of the preceding year. The national program acreages may be adjusted at a later time, with the adjustment based on the most recent information, for purposes of calculating the program allocation factor.

#### Program Allocation Factor

The program allocation factor may range between 80 and 100 percent. The exact percentage will be determined by dividing the national program

<sup>9/</sup> Detailed cost estimates for major crops are available in Costs of Producing Selected Crops in the United States--1975, 1976, and Projections for 1977, Print 80-606, Senate Committee on Agriculture and Forestry, U.S. Congress, U.S. Government Printing Office, Washington, D.C., Jan. 21, 1977.



acreage by the number of acres that the Secretary estimates will be harvested in the current year. The allocation factor is used for determining the farm program acreage. In practice, the program acreage allocation factor will not need to be determined until the sixth month of the current marketing year.

### Farm Program Acreage

The individual farm program acreage for deficiency payment purposes will be determined by multiplying the allocation factor by the number of acres planted for harvest on the individual farm. The Secretary is required, however, to make deficiency payments, when price conditions mandate them, on no less than 80 percent of the wheat and feed grain acreage planted for harvest on the farm during the current year. This provision of the 1977 Act replaces historical farm acreage allotments authorized in prior law.

### Deficiency Payments

Deficiency payments will be made to producers of each wheat and feed grain crop if the national weighted average market price received by farmers during the first 5 months of the marketing year is below the established target price for that crop year. The payment rate is determined by the difference between the target price and the higher of the national weighted average market price or the loan level. Under this concept, deficiency payments would not be made if the average market price during the first 5 months is at or above the target price.

Payments for the 1977 wheat and feed grain crops will be determined by multiplying the payment rate times the farm allotment for the crop times the program yield established for the farm. For acreage planted to wheat within the wheat acreage allotment, the 1977 payment rate will be based on \$2.90 per bushel. For any part of the allotment not planted to wheat, the payment rate will be based on \$2.47 per bushel. A comparable adjustment will be made for sorghum and barley from the 1977 crop. Deficiency payments will not be made for corn from the 1977 crop, since the loan rate and target price are set at the same level.

Table 4 illustrates deficiency payment calculations for the 1977 wheat crop. In example A, the producer is assumed to have a wheat allotment of 100 acres and to have planted 100 acres of wheat. Given an average market price for wheat during the first 5 months of the marketing year of \$2.20 a bushel, a producer would receive a payment of \$1,950. This amount was calculated by multiplying the payment rate, \$0.65 ( $\$2.90 - \$2.25 = \$0.65$ ), times the program yield, 30 bushels per acre, times the number of acres planted for harvest within the allotment. The producer would receive the same total payment (\$1,950) had he planted in excess of the allotment.

Table 4--Examples of deficiency payment calculation for 1977 crop wheat

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Example A:

Situation: Full allotment planted

Wheat allotment : 100 acres  
Planted : 100 acres  
Target price : \$2.90 per bushel  
Loan level : \$2.25 per bushel  
Assumed market price : \$2.20 per bushel  
Deficiency payment rate : \$0.65 per bushel  
Assumed farm program yield : 30 bushels per acre

Total deficiency payment with no adjustment for disaster payment:

$$\$0.65 \times 30 \text{ bu./acre} \times 100 \text{ acres} = \$1,950.00$$

Example B:

Situation: Full allotment not planted

Wheat allotment : 100 acres  
Planted : 60 acres  
Target price : \$2.90 per bushel for acres planted within  
: allotment  
: \$2.47 per bushel on acres not planted within  
: allotment  
Loan level : \$2.25 per bushel  
Assumed market price : \$2.20 per bushel  
Deficiency payment rate : \$0.65 per bushel on acres planted within  
: allotment  
: \$0.22 per bushel on acres not planted within  
: allotment  
Assumed program yield : 30 bushels per acre

Total deficiency payment with no adjustment for disaster payment:

- (1) Payment on acres planted within allotment:  
 $\$0.65 \times 30 \text{ bu./acre} \times 60 \text{ acres} = \$1,170.00$
  - (2) Payment on acres not planted within allotment:  
 $\$0.22 \times 30 \text{ bu./acre} \times 40 \text{ acres} = \$264.00$
  - (3) Total deficiency payment: \$1,434.00
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Example B in table 4 illustrates the deficiency payment calculation for a producer who underplanted his 1977 wheat allotment. In this case, the producer receives deficiency payments based on \$2.90 for wheat acreage planted within his allotment and \$2.47 for any acreage not planted within the allotment. The deficiency payment rate would be \$0.65 per bushel on acres planted within the allotment and \$0.22 ( $\$2.47 - \$2.25 = \$0.22$ ) per bushel on allotment acres not planted to wheat. Thus, the producer receives target price protection on his entire wheat allotment for 1977.

For the 1978-81 wheat and feed grain crops, the total amount of deficiency payments will be determined by multiplying the payment rate in each year times the farm program acreage times the farm program payment yield established for the farm. During these crop years, deficiency payments will be paid on a factored percentage of a producer's acreage planted for harvest, with the allocation factor ranging between 80 and 100 percent.

The total quantity of any crop on which payments will be made to a producer on a farm will be reduced by the quantity on which a disaster payment is made. This means that a producer cannot be paid twice on the same bushel of production.

The first example in table 5 shows the calculation of total deficiency payments for corn when there is no adjustment for disaster loss. The second example illustrates the adjustment procedure in the event of disaster loss. For wheat and feed grains, the disaster payment is equal to the deficit in production below 60 percent of the farm's program yield times the acreage planted for harvest times one-half of the target price for the crop. This example results in a disaster payment of \$2,100.

In the second example, the producer is still eligible for a deficiency payment, but the number of bushels of grain for which he is eligible for deficiency payments must be adjusted to reflect the quantity of grain on which he received a disaster payment. This prevents the producer from receiving both deficiency and disaster payments on the same bushel of production. To make this correction, 20 bushels per acre are subtracted from the program payment yield. This is the amount by which his actual farm yield, 40 bushels per acre, fell below the 60 percent factor, which in this example is 60 bushels per acre. Deficiency payments were adjusted down from \$1,000 to \$800, but total disaster plus deficiency payments equaled \$2,900.

#### Recommended Voluntary Reduction

Producers who voluntarily reduce their acreage planted for harvest from the previous year in line with the percentage recommended by the Secretary when he announces the national wheat and feed grain program acreages will receive any required deficiency payments on 100 percent of their harvested wheat and feed grain acreage. Producers who voluntarily reduce planted acreage from the previous year would also have to meet set-aside requirements to qualify for program benefits. The 1977 Act requires the Secretary to provide equitable treatment to producers who do reduce their current year's wheat or feed grain acreage from the preceding year, but by an amount less than recommended.

Table 5--Deficiency payment adjustment when disaster payments are made

Example 1: No Disaster Adjustment:

Situation:

Acres of corn planted for harvest	:	100 acres
Target price for corn, 1978	:	\$2.10 per bushel
Loan rate	:	\$2.00 per bushel
Assumed market price	:	\$1.95 per bushel
Deficiency payment rate	:	\$0.10 per bushel
Assumed farm program yield	:	100 bushels per acre
Assumed allocation factor	:	100 percent

Total deficiency payment with no disaster payment adjustment:

$$\$0.10 \text{ per bushel} \times 100 \text{ bu./acre} \times 100 \text{ acres} = \$1,000.00$$

Example 2: With Disaster Adjustment, Low Yield (Drought):

Situation:

Same as Example 1 except for an actual corn yield of 40 bushels per acre

Disaster payment: Deficit in production below 60 percent of farm program yield times acreage planted for harvest times 50 percent of the target price

$$\begin{aligned}
 & (.60 \times 100 \text{ bu./acre}) - (40 \text{ bu./ac.}) \times 100 \text{ acres} \\
 & \times (.5 \times \$2.10 \text{ per bu.}) = \$2,100
 \end{aligned}$$

Deficiency payment adjusted for disaster payment<sup>1/</sup>

$$\$0.10 \text{ per bu.} \times (100 \text{ bu./ac.} - 20 \text{ bu./ac. disaster adjustment}) \times 100 \text{ ac.} = \$800$$

Total disaster plus deficiency payment : \$2,900

<sup>1/</sup> The total quantity on which payments would otherwise be payable shall be reduced by the quantity on which any disaster payment is made to the producer.

## Proven Yields

Proven wheat yields are continued and feed grain proven yields are now a part of the legislation. This ensures that no reduction in yield can be forced on a farmer who can prove a yield higher than his farm program yield.

## Cropland Set-Aside

Authority for the Secretary to require set-aside of cropland is continued. Set-aside acreage will be based on a percentage of the current year's planted acreage (the percentage is to be announced by August 15 and November 15 for the next year's wheat and feed grain crops, respectively). In previous law, set-aside requirements were based on a percentage of the farm's allotment.

The Secretary may also limit the acreage planted to wheat and feed grains. This limitation would be applied uniformly on all farms which produce wheat and feed grains and could be used as a condition of a wheat or feed grain set-aside program.

Generally, the set-aside acreage must be devoted to conservation practices in accordance with USDA regulations to assure weed control and protection from erosion. However, the Secretary may, at his option, permit haying, grazing, and the planting of certain designated crops for harvest if he determines that such production (1) is needed to provide adequate supplies, (2) is not likely to increase the cost of the price support programs, and (3) will not adversely affect farm income.

Another provision of the Act authorizes the Secretary to require producers, as a condition of eligibility for loans, purchases, and payments, to reduce acreage normally planted to crops designated by the Secretary, by the acreage of set-aside or diversion. 10/

The Secretary may make land diversion payments, whether or not a set-aside is in effect, to producers who devote to approved conservation practices cropland in addition to any required set-aside acreage. Amounts payable to producers under this program may be determined by bids submitted by producers for diversion contracts.

## Example Farm Organizations Under 1977 Act Provisions

Five hypothetical farm organizations are summarized in table 6 which illustrate set-aside, normal cropping acreage, and recommended voluntary adjustment concepts. The farm in table 6 is shown to have a "normal crop acreage" of 400 acres based on the 1977 corn, soybean, and oat acreage. Alfalfa acreage was not considered in developing the normal crop acreage for the example.

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10/ This provision is contained in Section 1001, Title X.

Table 6--Example of crop organizations with set-aside requirements

		Alternative 1978 organizations with 20 percent wheat and 10 percent feed grain set-aside and 20 percent wheat and 15 percent feed grain recommended voluntary reduction					
Corn farm (480 acres)		1977	A	B	C	D	E
		<u>Acres</u>					
Corn	160	364	0	136	136	150	
Soybeans	160	0	480	176	150	150	
Oats <sup>1/</sup>	80	0	0	68	68	50	
Wheat	0	0	0	0	26	25	
Alfalfa	80	80	0	80	80	80	
Set-aside	--	36	0	20	20	25	
Normal crop acreage <sup>2/</sup>	--	400	<sup>3/</sup> --	400	400	<sup>4/</sup> 400	
Subject to allocation	--	Yes	--	No		Yes	
Eligible for benefits	Yes	Yes	Yes	Yes	<sup>5/</sup> No	Yes	

<sup>1/</sup> In this example, oats is considered to be a program crop.

<sup>2/</sup> Set-aside plus acreage of crops designated as belonging to normal cropping acreage cannot exceed the normal cropping acreage established for the farm. In this example, alfalfa is not considered as being included in normal crop acreage. The normal crop acreage assigned to farms in 1978 was based on the 1977 planted acres as adjusted for abnormalities.

<sup>3/</sup> A normal crop acreage limit is not established since there is no set-aside crop planted.

<sup>4/</sup> Oats would not be subject to the program acreage allocation factor, since the acreage reduction exceeds the 15 percent recommended reduction.

<sup>5/</sup> The set-aside requirement for corn and oats is met. There is also a set-aside requirement for wheat that has not been met. In this situation, a producer would not be eligible for any Government program benefits, including those for feed grains and soybeans.

In the example, a 20-percent set-aside and a 20-percent recommended voluntary acreage reduction was assumed for wheat, and a 10-percent set-aside and 15-percent voluntary reduction was assumed for feed grains. To be eligible for program benefits, a producer must comply with set-aside requirements. Also, the sum of his current year plantings of crops included in his "normal crop acreage" plus set-aside and land diversion acreage, if any, cannot exceed the assigned normal cropping acreage.

The examples illustrate the flexibility producers have in planting crops within their normal crop acreage. Situation A shows that a producer would not be prevented from expanding corn acreage as long as the set-aside requirement was met and total corn and set-aside acreage did not exceed the normal crop acreage. The producer in situation A would be subject to the program acreage allocation factor as a result of not reducing corn acreage from the previous year by the recommended 15-percent reduction. However, the producer would be guaranteed target price protection on no less than 80 percent of his corn acreage planted for harvest (the percentage can vary between 80 and 100 percent).

Situation B illustrates that a producer could allocate the entire farm acreage, 480 acres, to soybean production. Since there is no set-aside crop planted, there would be no normal crop acreage limitation, and he would be eligible for the soybean loan and purchase program on his entire soybean production.

In situation C, the producer would be eligible for program benefits on all crops and would not be subject to the program acreage allocation factor on corn or oats. In this situation, the producer meets both the recommended voluntary reduction and the set-aside requirements, and the sum of the producer's corn, oat, soybean, and set-aside acreage would not exceed his normal crop acreage.

In situation D, the producer plants wheat but does not comply with the set-aside requirement; thus he would not be eligible for any program benefits, including feed grain and soybean benefits, even though he fully complied with the feed grain program. To be eligible for program benefits in the feed grain and soybean program, the producer would have to comply with the set-aside requirements of the wheat program, since he planted wheat. Any time a producer grows a crop which has a set-aside requirement, he has to meet that requirement in order to be eligible for benefits on other crops. The set-aside requirement could be avoided by not growing the crop.

In contrast to situation D, the producer in situation E would be eligible for program benefits on his feed grain, wheat, and soybean production. This producer complied with both the wheat and feed grain set-aside, and the sum of his acreage planted to corn, wheat, oats, and soybeans plus his set-aside did not exceed his normal crop acreage. Although complying with the 10-percent corn and 20-percent wheat set-aside, this producer did not reduce his 1977 planted acreage by the amount recommended. Thus, he would be subject to the allocation factor on his wheat and corn acreage. This producer's oat acreage receiving target price protection would not be subject to further reduction by the allocation factor because the reduction in acreage from the previous year exceeded the recommended 15-percent voluntary reduction.

## Disaster Program Provisions

The 1977 Act changes the prevented planting and low-yield disaster provisions which were initiated with the 1973 Act and extends the disaster program through the 1979 wheat and feed grain crops (table 7).

For 1978 and 1979, prevented planting payments will be made to producers who are prevented from planting wheat or feed grains or other nonconserving crops on the basis of the smaller of (1) the acreage intended to be planted to wheat or feed grains, or (2) the acreage planted for harvest of wheat or feed grains (including any acreage which the producer was prevented from planting to wheat, feed grains, or other nonconserving crops) in the immediately preceding year. The payment calculation is 75 percent of the projected yield for the farm times 33-1/3 percent of the target price for wheat or feed grains. Prevented planting provisions for the 1977 wheat and feed grain crops were not changed from current law and will be based on allotted acreage.

Low-yield disaster payment provisions are effective for the 1977 wheat and feed grain crops as well as for the 1978 and 1979 crops. For the 1977 crop, however, producers may elect to receive disaster payments for low yields with the payments computed on the basis of disaster provisions of the 1973 Act. Low-yield payments for the 1978, 1979, and, if elected, the 1977 crop will be made to producers if the total quantity of wheat or feed grains harvested on any farm is less than the potential production obtained by multiplying 60 percent of the farm program yield times the acreage planted for harvest. The payment calculation is 50 percent of the target price for the deficit in production below the 60-percent level.

Producers must comply with any set-aside program, if in effect, to be eligible for any prevented planting or low yield disaster payments.

## Grain Reserves

### Farmer-Held Reserve

The legislation requires the Secretary to administer a producer-held storage program for wheat and, at his discretion, a similar program for feed grains. This is to be accomplished through an extended price support loan program of 3 to 5 years duration. Producers will receive storage payments and the Secretary may adjust or waive interest charges on farmer-held reserves.

The quantity of wheat held is not to be less than 300 million bushels or more than 700 million bushels. The maximum amount may be adjusted upward, however, to meet any commitments assumed by the United States to an international agreement on grain reserves. For feed grains, reserve quantities were not specified.

When the market price is between 140 and 160 percent of the current price support level for wheat or a level determined by the Secretary for



Table 7--Disaster protection by commodity for 1978 and 1979 crops

	Acreage base	Production deficiency	Payment calculation
<u>Wheat and feed grains</u>			
Prevented planting	Smaller of (1) acreage intended to be planted to wheat or feed grains or (2) acreage planted (or prevented from planting) to wheat or feed grains or other nonconserving crops in the previous year.	---	75 percent of farm's projected yield times 33 1/3 percent of the target price
Low yield <sup>1/</sup>	Acreage planted for harvest	Deficit in production below 60 percent of the farm program yield times the acreage planted for harvest	50 percent of target price times production deficit below the 60 percent level
<u>Cotton</u>			
Prevented planting	Smaller of (1) acreage intended to be planted to cotton or (2) acreage planted (or prevented from planting) to cotton or other nonconserving crops in the previous year	---	75 percent of farm's normal yield times 33 1/3 percent of cotton's target price
Low yield	Acreage planted for harvest	Loss in production below 75 percent of farm's program payment yield on acreage planted to cotton	33 1/3 percent of the target price on the production deficit below 75 percent
<u>Rice</u>			
Prevented planting	Acreage affected within farm allotment	---	33 1/3 percent of the rice target times the farm program yield on the number of acres affected within the farm's allotment
Low yield	Acreage planted to rice within the allotment	Production loss below 75 percent of farm's normal yield on acres harvested within the farm's allotment	33 1/3 percent of the target price times the production deficit below 75 percent

<sup>1/</sup> Producers of the 1977 wheat and feed grain crops may elect to receive low yield disaster payments as calculated under the disaster provisions of either the 1977 Act or the 1973 Act. To be eligible for low yield disaster payments under the 1973 Act, a farm's production must be below that obtained by multiplying the farm's acreage allotment (adjusted for substitution or underplanting) times two-thirds of the farm's established yield. Payment would be calculated by multiplying the farm's established yield times its allotment and subtracting total production for the farm. The result is multiplied by the disaster payment rate, 33 1/3 percent of the target price.

feed grains, storage payments may be discontinued to encourage producers to redeem loans and market their grain. But if a producer redeems his loan before the market price for wheat reaches 140 percent of the current loan, he will be subject to penalty: the Secretary is required to recover storage payments and to assess penalty interest or other charges.

The loan may be called when the wheat market price reaches 175 percent of the current loan level. Again, the Secretary determines the level at which the feed grain loan will be called.

Whenever a 3- to 5-year extended loan program is authorized, the Commodity Credit Corporation (CCC) resale price for Government-owned stocks must be set at not less than 150 percent of the current loan level. Otherwise, the CCC resale price will be not less than 115 percent of the then current price support loan level.

### Disaster Reserves

The authority for the Secretary to maintain and dispose of disaster reserves was amended by the Act. If neither wheat, feed grains, nor soybeans are available through the price support program at a location where they may be economically used to lessen the impact of natural disasters, the Secretary may purchase these commodities and other livestock forages through CCC. Disaster reserves were initially authorized by the 1973 Act.

### Emergency Feed Program

An emergency feed program is authorized by the legislation. This program is designed to preserve and maintain livestock in any area of the United States in case of natural disaster.

To be eligible for assistance under this program, the person (1) must have suffered a substantial loss of feed normally produced on his farm; (2) must not have sufficient feed for his livestock for the projected period of the emergency; and (3) is required to purchase larger quantities of feed than he normally would.

Producers eligible for this program may be reimbursed for up to 50 percent of the cost of purchased feed during the period of the emergency.

### Farm Storage Facility Loans

The Secretary is required to make storage facility loans available to producers of dry or high-moisture grain, soybeans, rice, and high-moisture forage and silage. Loans would be in amounts of not less than 75 percent of total construction costs, including, but not limited to, the cost of structural and equipment foundations, electrical systems, grain handling systems, drying equipment, and site preparation. The maximum loan level is

limited to \$50,000. Loans will have a maximum repayment period of 10 years and an interest rate based upon the rate of interest charged the CCC by the U.S. Treasury.

The size of any storage facility for which a loan can be obtained will be based upon the amount of space required to store the quantity of the commodity produced by the borrower during a 2-year period.

Storage facility loans shall be deducted from the proceeds of price support loan or purchase agreements made between the farmer and the Commodity Credit Corporation.

### International Reserves

The Act encourages the President to enter into negotiations with other nations to develop and maintain an international system of food reserves. These reserves would be used to provide humanitarian food relief.

### Cotton

Title VI extends and amends cotton program provisions through the 1981 crop. No changes were made for the 1977 crop, which was covered by the 1973 Act. The 1977 Act also suspends marketing quotas, penalties, and acreage restrictions provided by permanent legislation.

### Target Prices for 1978-81 Crops

For 1978 and subsequent crop years, target prices for upland cotton will be adjusted by a cost of production formula to be calculated in the same manner as explained for wheat and feed grains. The target price for 1978 crop upland cotton cannot be less than 52.0 cents per pound, and the minimum target price for 1979 and subsequent crops of upland cotton cannot be less than 51.0 cents per pound.

The target price adjustment formula and a numerical example of its use can be found on page 7.

### Price Support Loans for 1978-81 Crops

Nonrecourse price support loan levels for cotton, beginning with the 1978 crop, will be set at the lower of (1) 85 percent of the preceding 4 marketing years' moving average spot market price for Strict Low Middling 1-1/16" (SLM 1-1/16") upland cotton at average U.S. locations or (2) 90 percent of the average adjusted price for the first 2 weeks of October of the "five lowest priced growths" of the growths quoted for Strict Middling 1-1/16" (SM 1-1/16") cotton, c.i.f. (cost, insurance, freight) Northern Europe. The Secretary must announce the loan level for any crop of cotton by November 1 of the year preceding the marketing year for which the loan is to be effective and cannot thereafter reduce it.

### Loan Maturity, Extension, and Rate of Interest

As under the 1973 Act, price support loans mature 10 months from the first day of the month when the loan is made. The rate of interest on loans is to be established quarterly by the Commodity Credit Corporation on the basis of the lowest current interest rate on ordinary obligations of the United States. In addition, this title provides for loan extensions, effective upon enactment. Producers may, during the tenth month of the loan period for cotton, extend their loan period for an additional 8 months. However, requests to extend the loan period will not be approved in a month when the average spot market price of SML 1-1/16" cotton in the preceding month exceeds 130 percent of such average price for the preceding 36-month period.

### National Program Acreage

The national program acreage for cotton represents the number of harvested acres needed (based on the weighted national average of the farm program payment yields) to meet domestic and export needs (less imports). The acreage may be adjusted for any desired increase or decrease in carryover stocks. Announcement of the national program acreage for cotton is to be made by the Secretary no later than December 15 of the year preceding the program year. While the Secretary may later adjust the national program acreage for purposes of computing the program allocation factor, such national program acreage cannot be reduced below 10 million acres. Previous legislation had fixed the base acreage allotment at a minimum of 11 million acres.

### Program Allocation Factor and Farm Program Acreage

A program allocation factor is determined by dividing the national cotton program acreage by the number of harvested acres as determined by the Secretary. The allocation factor may not exceed 100 percent. No minimum allocation factor was specified. A farm's program acreage for cotton is the product of the allocation factor and the acreage planted to cotton on the farm. This provision replaces the historical cotton allotment system and makes the cotton program comparable to that for wheat and feed grains.

### Farm Program Yields

Individual farm program payment yields for any year are to be determined on the basis of the actual yield per harvested acre on the farm for the preceding 3 years. Adjustments may be made in yields that are reduced by drought, flood, or other natural disaster. As with wheat and feed grains, producers may prove their actual yield.