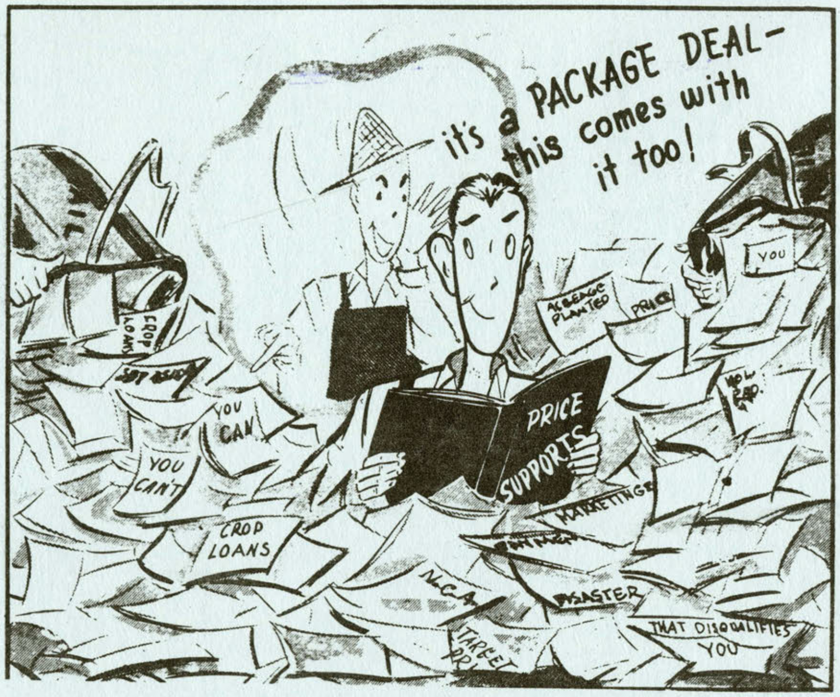
Wheat

ESS 563



1978 WHEAT AND FEED GRAIN SET ASIDE PROGRAM

DEPARTMENT OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY
COOPERATIVE EXTENSION SERVICE
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The Set Aside Program: Opportunities and Rules[1/]

by

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Producers may find it profitable to more carefully look at prices, costs and provisions of the new farm program to see whether some changes should be made in their cropping pattern for 1978.

The Food and Agricultural Act of 1977 offers three types of protection to grain producers -- non-recourse loans, deficiency payments and disaster protection. Eligibility requires compliance with a voluntary land set aside and a normal crop acreage. Total payments limitations have been increased and a grain reserve established. Corn and wheat are the program crops featured in this discussion. Other program crops include sorghum and barley. Producers of these latter crops should check with their local ASCS office to secure details.

Set Aside Requirements

Compliance with a set aside is required for price deficiency payments, commodity loans and disaster protection. For wheat, a 20 percent set aside is required. This means 2 acres are set aside for each 10 acres of wheat planted in 1978. To be eligible for corn program benefits, 10 percent of the 1978 planted acreage must be set aside. Deficiency price payments on both the crops will be available on 80 to 100 percent of the planted acreage so long as the set aside is observed.

Generally, farmers may set aside acreage that has been tilled within one or more of the last three years and must have a vegetative cover or an approved conservation practice on the acreage. The acres set aside to conserving uses need not be equal in productivity to those planted to corn or wheat. Harvesting of set aside acres is prohibited. Grazing is prohibited in the six principal growing months, but grazing in most counties is permitted from September 1 to March 1 each year.

1/ Correct as of March 8, 1978. Changes may alter the rules. Check with your local ASCS office.

Voluntary Acreage Reduction

To be eligible for guaranteed target price protection on 100 percent of the 1978 acreage for a set aside crop, a producer voluntarily reduces acreage planted below the 1977 acreage. For wheat there is a 20 percent voluntary reduction; for corn a 5 percent reduction. A reduced deficiency payment on the output on at least 80 percent of the acreage is met by abiding by the set aside and permitted NCA. Table 1 summarizes the set aside and voluntary reduction rules.

Table 1. SET ASIDE AND VOLUNTARY REDUCTIONS

Crop	Set Aside 1/ (% of 1978)	Voluntary Reductions 2/ (% of 1977)
Corn	10	5
Wheat	20	20
Barley	10	20
Sorghum	10	5

1/ Assures target price protection on 80 percent of the acreage.
2/ Guarantees target price protection on 100 percent of the acreage, if set aside is met.

Normal Crop Acreage

The normal crop acreage (NCA) consists of the 1977 acres planted to qualifying crops grown in Ohio: corn, barley, oats, rye, sorghum, wheat, soybeans, sugar beets, sunflowers, dry edible beans, potatoes, popcorn and sweet corn. Excluded are hay, cropland pasture, vegetables, and tobacco. To be eligible for 1978 program benefits the total acreage of the qualifying crops planted on a participating farm plus acres set aside cannot exceed the farm's NCA.

Each farm's 1977 plantings need to be reported to the county ASCS office. Failure to do so will result in the farm being assigned a zero NCA for 1978 and ineligibility for benefits in 1978. If the 1977 cropping pattern was unusual, adjustments may be made upon request to the county ASCS office. In this case, the 1975 and 1976 acreages will be used to help establish the NCA for the farm.

Double Cropping

Land that is double cropped in wheat and soybeans will be counted only once in the NCA. So if 100 acres is harvested for wheat in 1978 and then planted to soybeans, the acreage will be counted only once (i.e. 100 acres and not 200 acres). The wheat set aside requirement of 20 percent must be met, and the producer will need to keep within the permitted NCA to be eligible for program benefits.

Cross Compliance

Farmers producing both wheat and feed grains on a farm must comply with the set aside on both crops and the NCA to be eligible for a commodity loan, deficiency payments and disaster protection. To be eligible for loans or purchases on the soybean crop requires meeting the program set aside on wheat and corn and meeting the NCA requirement. If no set aside crops are planted, any acreage of soybeans can be planted and be eligible for loans. Farmers can participate in the set aside program and receive benefits on one farm and not another, provided that NCA is not exceeded on the non-participating farm when a crop subject to the set aside is planted on the non-participating farm.

Planted Acreage

The planted acreage of corn or wheat for 1978 harvest can exceed the 1977 acreage as long as the set aside and the NCA requirements are met on participant farms. In this case, producers are eligible for 1) loans on all the crop produced, 2) reduced deficiency payments if the market price is below the target price, and 3) disaster protection on the planted acreage. The table below shows a potential range of 1978 acreages for corn, soybeans and wheat on a 600 acre farm. The NCA is 500 acres since hay crops are excluded from the NCA.

Table 2. EXAMPLES OF 1978 CROP ORGANIZATION

	NCA (1977 Acreage)	1978 Organization 1/ A	B	C	D
Corn	200	190	200	454	0
Soybeans	150	145	150	0	550
Wheat	100	80	100	0	0
Other Qualifying Crops 2/	50	50	50	0	50
Set Aside	0	35 5/	0	46	0
Normal Crop Acreage (NCA) 3/	500	500	500	500	500
Alfalfa Hay 4/	100	100	100	100	0
Subject to Allocation	--	Yes	Yes	Yes	No
Eligible for Benefits	--	Yes	No	Yes	Yes

1/ Participation rules: 20 percent wheat and 10 percent feed grains set aside on the 1978 planted acreage and voluntary reduction below the 1977 acreage of 20 percent for wheat and 5 percent on corn.

2/ Other qualifying crops include oats, rye, soybeans, sugar beets, sunflower seed, popcorn, sweet corn, dry edible beans and potatoes.

3/ Total acreage of qualifying crops in 2/ plus corn, sorghum, barley and wheat.

4/ Not a qualifying crop thus not counted in the NCA. Rotated hay and pastureland, spelts, vegetables, and tobacco are "non qualifying crops".

Example A: This organization calls for participation with a cropping pattern similar to 1977. Compliance in the program is designed to receive 100 percent price guarantee. Corn and wheat acreage planted for 1978 harvest are voluntarily reduced 5 and 20 percent respectively from the 1977 acreage. The 35 acres set aside meets the 10 and 20 percent set aside requirement from the 1978 plantings of corn and wheat respectively. The producer adjusted his soybean acreage to meet the NCA requirement.

Example B: The producer chooses to farm the same as in 1977. No acreage is set aside. The producer is ineligible for crop loans, price deficiency payments and disaster protection. The farm income will be generated from market prices only.

Example C: The producer chooses to participate in the set aside program, stays within his 500 acre NCA, and grows the maximum acreage of corn. The set aside requirement is 10 percent of the planted acreage of corn or 46 acres. The producer is eligible for a commodity loan on the entire corn crop, a reduced deficiency payment and disaster protection.

Example D: The producer chooses to eliminate the wheat, corn and hay crops and grow only soybeans. No set aside is required. Since no set aside crop was planted there is no NCA limitation in 1978. A soybean loan may be obtained on the entire soybean crop.

Signup

Farmers voluntarily sign an intent to participate in both the wheat and feed grain program March 1 until May 1 at their local ASCS office. In the meantime, producers plant their corn and have acreage ready to designate as a set aside to an approved cover for both wheat and corn. Final designation of the set aside and participation is made in the summer. The program is voluntary and flexible. Plantings may vary from stated intentions and producers may withdraw from participation at any time.

Non-Recourse Loans

Loans and purchase agreements are available to participating producers for the entire production of each eligible crop. The U. S. loan rate for the 1978 wheat crop is $2.25 per bushel; corn is $2.00. The soybean loan at this writing is $3.50 per bushel, though consideration is being given to raising the loan rate. An important point for soybean producers is that eligibility for a soybean loan requires meeting both the wheat and feed grain set aside requirements and NCA rules. If no set aside is planted on a farm, a soybean loan can be secured on all acreage planted.

Loans may be terminated at any time either by repayment of the loan plus interest due or by surrender of the stored grain securing the loan to CCC at loan maturity. The maturity period has been reduced to 9 months from the date of the loan. This compares to 11 months for 1976 crops.

Yields

Program payment yields are assigned by the county ASCS. Some verification of total bushels produced, like sales slips over a three year period, will be useful in adjusting program payment yield levels. If the yields assigned or the NCA are out of line, they can be appealed at the local ASCS office.

Deficiency Payments

Wheat and corn producers complying with the set aside and NCA will be eligible for price deficiency payments. The acreages planted to set aside crops, farm program payment yields, and prices (market, loan, and target) all influence the amount of the deficiency payment.

The payment rate per bushel for a set aside crop will be the difference between the target price and the national average price for the first five months of the market year received by farmers, but it will not exceed the difference between the target price and the loan rate. For example, the maximum payment rate per bushel on wheat (if 1.8 billion bushels or more is produced in the U. S.) will be 75 cents ($3.00 - $2.25) per bushel. On corn, the maximum payment rate is 10 cents per bushel. If wheat prices for the first five months of the market year (June-October, 1978) average $2.75 per bushel, the payment rate will be 25¢. If the wheat price reaches or exceeds $3.00 per bushel for the first five months of the 1978 market year, no price deficiency payment will be made.

The price deficiency payment is made on the program payment yield times the planted acres, providing eligibility requirements are met.

There are two extreme levels of deficiency payments for both corn and wheat based on planted acreage.

> Example 1: 100 percent target price guarantee on all acreage of corn or wheat grown in 1978. To be eligible a producer 1) voluntarily reduces corn acreage 5 percent and wheat acreage 20 percent below the 1977 acreage, 2) sets aside 10 percent of the 1978 corn acreage and 20 percent of the 1978 wheat acreage, 3) meets the NCA, and 4) cross compliance requirements. The formula: 1978 planted acreage times farm program payment yields times (target price - higher of first 5 month national average market price or loan).
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> Farm organization A fits the description. We will use wheat as the example. The producer grows 80 acres of wheat and we assume he has a 40 bushel program payment yield and wheat prices will average $2.50 per bushel for the June-October period of 1978. Thus, 80 acres X 40 bushel yield X $.50 = $1600 price deficiency payment.
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> Example 2: 1978 plantings exceed 1977 plantings with reduced deficiency payments. Producers participate by meeting the set aside, NCA, and cross compliance rules. In this case, the corn and wheat acreage eligible for payments will depend upon an "allocation factor." This will be based on the share of the national farm wheat and corn acreage needed to meet normal domestic and export needs divided by the actual number of acres harvested in 1978. The designated acreage, in millions of acres, is 58.7 for wheat, 67.6 for corn, 13.7 for sorghum, and 7.4 for barley. The allocation factor cannot be less than 80 nor more than 100.

For 1978, we assume the wheat allocation factor at 80; corn at 95. For corn the reduced deficiency payment formula would be 95 percent of the 1978 planted acreage times the farm program payment yield times ($2.10 - higher of October, 1978 to February, 1979 market price of $2.00).

Let's use farm organization C with 454 acres planted to corn. The farm has been assigned a farm program payment yield of 100 bushels per acre, and we will assume corn prices average $2.05 per bushel for the period October, 1978 through February, 1979. The arithmetic would be 95% of 454 acres X 100 bushels per acre X $.05 = $2156.50 price deficiency payment.

Disaster Protection

Two types of disaster protection are available to participants in the set aside program. They are the production risks of prevented plantings and low yields.

The payment for low yields is 50 percent of the target price on the shortfall below 60 percent of the farm program payment yield for all acres planted to corn or wheat. For example, on farm organization C when the 1978 corn yields actually were 40 bushels per acre with a farm program payment yield of 100 bushels, the arithmetic would be 454 acres X 20 bushels X $1.05 = $9,534.00 low yield payment.

The prevented planting protection is based on the smaller of the 1978 acreage intended for planting that could not be planted, or the 1977 acreage planted to the set aside crop. The payment rate is 1/3 of the target price on 75 percent of the normal yield. On farm organization A let's assume that 30 acres of wheat were not planted because of wet weather and the farm program payment yield is 40 bushels per acre. The arithmetic would be 30 acres X 30 bushels X $1.00 = $900.00. Producers cannot receive both a disaster payment and price deficiency payment on the same acreage.

Payment Limitation

There is a limit of $40,000 that one farm operator can receive under the set aside program. This applies to the deficiency payments. Neither the loan or disaster payments are counted in the payment limitation.

Grain Reserves

A farmer owned grain reserve program is available for feed grains and wheat. These grains are placed under loan for the first year at the farmers expense in either farmer owned storage or in a warehouse. In the second year the grain is eligible for the grain reserve program. The length of the grain reserve loan is 3 years. An annual advance storage payment of 25¢ per bushel for corn and wheat will be made by CCC.

Rotation of grains is permitted to maintain quality providing prior approval is secured. See your local ASCS office about procedures.

The grain can be released from the reserve program when the national average market price reaches 125 percent of the then current loan rate for corn, or 140 percent of the then current loan rate for wheat. Using 1978 loan levels, the no penalty release prices are $2.50 and $3.15 per bushel for corn and wheat respectively. The Secretary of Agriculture can recall the grain when the national average market price for corn reaches 140 percent of the then current corn loan rate and 175 percent for wheat. The farmer does not have to deliver the grain to CCC at this time, but he does have to repay the loan and interest.

Early redemption of the grain prior to reaching the release levels of 125 percent for corn and 140 percent for wheat is possible but entails penalties. Repayment includes all advanced storage payments plus interest at 6 percent on these payments and the original loan plus 6 percent interest. The repayment must equal 140 percent for wheat or 125 percent for corn of the current loan rate times the quantity redeemed.

Farm storage facility loans for up to two years production are available. See your local ASCS office about the possibilities.

Conclusion

The set aside program is voluntary. Maximum flexibility is provided to permit farmers the opportunity to use their best judgment on the crops to be produced and the marketing strategies most appropriate for each operation. Actual crop plantings may vary from the intended plantings listed at the time of signing the intention to participate. Producers can withdraw from participation at any time.

The crop insurance or pro-uction risk phase of the program is free to those voluntarily participating in the set aside program. No fee or payment is necessary for participants to be eligible for prevented payments or for low yields. The opportunity to drain land is encouraged through assigning low yielding acreage to the set aside.

There are tradeoffs, particularly on prices, to be considered in a farmers decision to participate or not participate in the set aside program. If a producer chooses to stay out of the program, he is taking the risk that the loan rate will still support the market. For example, if few growers participate and thus are ineligible for corn loans at $2.00 per bushel, the loan rate may not be an effective price floor for the 1978 corn crop. On the other side, if corn output is lowered substantially because of high participation, drouth, unexpectedly large demand, etc. the market year price may esceed the target price of $2.10 per bushel. In this case no price deficiency payment is made even though acres have been set aside. This deficiency payment portion of the program is directed toward price risk.

The following farm example outlines a procedure that you can use to evaluate your situation and help to arrive at a decision on whether or not to participate. Major factors to consider are: 1977 cropping pattern, 1978 and future cropping patterns, prices and yields expected in 1978, NCA and program payment yields, the potential for using the less productive land for set aside purposes, need to avoid the risk of extremely low prices, and others.

Assumptions:

1. Farm of 600 acres with 100 acres of nonqualifying crops and 500 acres of normal crop acreage in 1977. The normal crop acreage includes 200 acres of corn, 150 of soybeans, 100 of wheat, and 50 acres of other qualifying crops.

2. Farm program payments yields have been established on the farm of 110 bushels of corn and 45 bushels of wheat.

3. Actual yields harvested in 1978 will be 110 bushels of corn, 45 bushels of wheat, and 35 bushels of soybeans.

4. Average annual market prices received by farmers for corn are assumed at $1.75 and $2.50 per bushel; wheat at $2.50, and; soybeans at $4.75 per bushel.

5. The average price for the first five months of the wheat market year (June-October) will be $2.25 per bushel and for corn $2.00 (October-February).

6. Storage facilities are available to handle all the corn and wheat produced.

Table 3: CROPPING PATTERN FOR A NON-PARTICIPANT AND A PARTICIPANT

CROPS	Non-Participant 1/ (Acres)	Participant 1/ (Acres)	My Farm
Corn	200	190	______
Wheat	100	80	______
Soybeans	150	145	______
Other qualify crops	50	50	______
Hay	100	100	______
Set aside	--	35	______
Total Acres in Farm	600	600	

1/ Crop organization A and B in Table 2

Table 4a: PARTIAL BUDGET FOR A PARTICIPANT AND NON-PARTICIPANT

CASH RECEIPTS	Non-Participant and Corn Prices of		Participant and Corn Prices of		My Farm
	$1.75	$2.10	$1.75	$2.10	
Corn					
200 AC. X 110 bu = 22,000	$38,500.00	$46,200.00	--	--	______
190 AC. X 110 bu = 20,900	--	--	$41,800.00 1/	$43,890.00	______
Wheat @ $2.50 per bushel					
100 AC. X 45 bu = 4,500	11,250.00	11,250.00	--	--	______
80 AC. X 45 bu = 3,600	--	--	9,000.00	9,000.00	______
Soybeans @ $4.75 per bushel					
150 AC. X 35 bu = 5,250 bu	24,937.50	24,937.50	--	--	______
145 AC. X 35 bu = 5,075 bu	--	--	24,106.25	24,106.25	______
Market Receipts on Corn, Wheat, and Soybeans	$74,687.50	$82,387.50	$74,906.25	$76,996.25	______
Deficiency Payment	None	None	$4,790.00 2/	$4,790.00 2/	______
Total	$74,687.50	$82,387.50	$79,696.25	$81,786.25	______

1/ Corn put under loan at $2.00 per bushel
2/ 190 AC. corn X 110 bu/A X ($2.10 target - 2.00 loan = .10) = $2,090
80 AC. wheat X 45 bu/A X ($3.00 target - 2.25 loan = .75) = $2,700

Table 4b: VARIABLE EXPENSES: PARTIAL BUDGET FOR A PARTICIPANT AND NON-PARTICIPANT (Fixed Costs excluded)

VARIABLE CASH EXPENSES 1/	Non-Participant		Participant		My Farm
Corn					
$110/AC. X 200 AC.	$22,000.00	$22,000.00	--	--	____
$110/AC. X 190 AC.	--	--	$20,900.00	$20,900.00	____
Wheat					
$67/AC. X 100 AC.	6,700.00	6,700.00	--	--	____
$67/AC. X 80 AC.	--	--	5,360.00	5,360.00	____
Soybeans					
$78/AC. X 150 AC.	11,700.00	11,700.00	--	--	____
$78/AC. X 145 AC.	--	--	11,310.00	11,310.00	____
Set Aside					
Weed control and seeding					
@ $15 per acre	None	None	525.00	525.00	____
Total	$40,400.00	$40,400.00	$38,095.00	$38,095.00	____

1/ Ohio Crop Enterprise Budgets for 1978, MM 377

Table 4c: SUMMATION: PARTIAL BUDGET FOR A PARTICIPANT AND NON PARTICIPANT

TOTAL RECEIPTS LESS CASH EXPENSES	Non-Participant		Participant		My Farm
Corn @ $1.75	$34,287.50		$41,601.25 1/		____
Corn @ $2.10	--	$41,987.50	--	$43,691.25 2/	____

1/ Corn under loan with deficiency payment

2/ Includes deficiency payment