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MINNESOTA farm business NOTES



Commodity Credit Corporation Grain Storage Operations

D. E. Anderson and R. P. Dahl

During the past decade government price support operations have brought sizable increases in government owned grain stocks. Therefore, more storage facilities have been needed. Grain storage capacity has been increased by both privately owned storage firms and the Commodity Credit Corporation (CCC).

This article discusses the history of government grain storage policies, methods through which the government acquires ownership of grain stocks, policies of CCC to insure adequate storage for government grain, and recent trends in the level of government owned stocks.

CCC is a federally chartered corporation. Through this agency the U.S. Department of Agriculture administers the agricultural price support programs involving acquisition, handling, and disposal of grain and other supported commodities.

CCC was created as a USDA agency by an executive order in 1933 with incorporation under the laws of Delaware. Congress provided a federal charter for CCC in 1948.

Since World War II, CCC has controlled and substantially influenced the marketing of large quantities of grain.

Acquisition of Grain by CCC

CCC acquires ownership of grain stocks primarily through takeover of grain placed under price support loan.

Government price supports on grain are made effective by nonrecourse loans to eligible farmers on grain stored in government approved facilities. These loans are, in effect, conditional sales because the farmer may repay the loan with interest at any time during the loan period. Otherwise, title passes to CCC. The farmer natu-

rally would not exercise his option unless he would receive a price advantage.

Trends in Government Owned Grain Stocks

Grain stocks acquired by CCC prior to World War II were depleted during the war period. CCC acquisitions began again in 1948 and continued until the Korean War. Following the Korean War, sizable quantities of grain stocks have been acquired by CCC.

Government ownership of grain more than tripled in the 10-year period after the Korean War. Total CCC owned stocks of grain increased from 816 million bushels in 1954 to 3.2 billion bushels in 1961 (table 1). They fell to 2.6 billion in 1963.

During this 10-year period wheat and corn stocks made up a large portion of CCC owned stocks. Over three-quarters of the total government owned grain on January 1, 1963 were wheat and corn.

CCC owned corn stocks rose from 362 million bushels in 1954 to 1.5 billion in 1961 and then declined to slightly under 1 billion in 1963. CCC owned wheat stocks rose from 448 million bushels in 1954 to 1.1 billion in 1961 and have since declined.

Commercial privately owned grain storage facilities have increased in response to CCC's storage needs. Total approved commercial storage facilities increased from 1.3 billion bushels in 1953 to 4.8 billion bushels in 1962 (table 2).

During this period the rate of expansion of approved storage facilities differed among states. Indiana, Iowa, Illinois, and Kansas had more than a 300-percent increase in approved storage space; Minnesota had a 95-percent increase and Wisconsin only a 46-percent increase. In 1962, 17 percent of the total approved storage space was lo-

cated in Kansas, 10 percent in Nebraska, 7 percent in Illinois, 7 percent in Iowa, and 6 percent in Minnesota.

Storage Facility Programs

To meet storage needs for the increased stocks of government owned grain, CCC has employed programs directed toward expansion of both farm and commercial storage facilities.

Whenever possible, CCC is expected to utilize privately owned facilities for storage of grain. When these were inadequate to meet storage requirements, CCC constructed or leased facilities.

CCC has encouraged farm storage of grain through storage payments for grain stored under loan and for ex-

Table 1. CCC owned corn, wheat, and total grain stocks in the United States, 1953-62*

Year	Corn	Wheat	Total grain
January 1			
millions of bushels			
1954	362	448	816
1955	606	749	1,411
1956	758	889	1,770
1957	1,010	833	1,982
1958	1,118	756	2,012
1959	1,146	774	2,317
1960	1,225	1,095	2,891
1961	1,448	1,109	3,176
1962	1,216	1,105	2,963
1963	958	1,030	2,627

* Includes grain in transit.

Table 2. Capacity of storage facilities approved for storing grain under CCC agreements, United States, 1953-62

Year	Storage capacity	Year	Storage capacity
billion bushels			
1953	1.3	1958	3.5
1954	1.9	1959	4.2
1955	2.0	1960	4.5
1956	2.6	1961	4.9
1957	2.8	1962	4.8

tended storage after loan maturity through reseal of grain under loan.

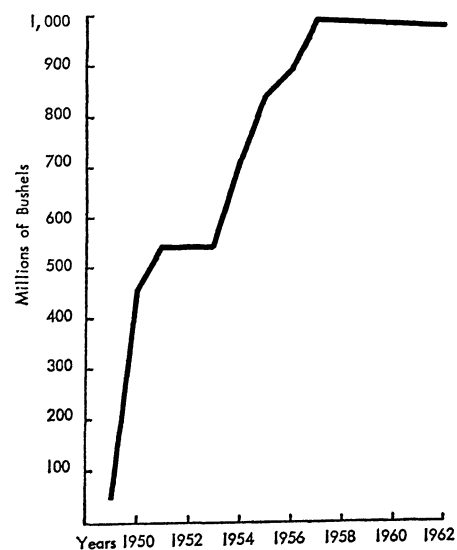
In addition to storage payments, CCC has made credit available for construction of new farm storage facilities. Under this program, loans are available for up to 80 percent of the structure's cost at 4-percent interest. The success of this program has been demonstrated by the fact that 704 million bushels of farm storage were constructed under the loan program from 1949 through 1962.

Facilities owned or leased by CCC have consisted primarily of flat bin-type storage without permanently installed equipment for elevating, weighing, or rail shipment. CCC owned storage structures have been most heavily concentrated in the Corn Belt.

In 1959 approximately 60 percent of CCC owned storage space was located in important producing areas of Iowa, Illinois, and Minnesota. CCC stocks provide a feed reserve for these areas during low production periods, so there is a more stable feed base for their livestock economies.

As shown in the figure, CCC owned bin capacity increased from 50 million bushels in 1949 to almost 1 billion bushels in 1957. It has declined slightly in recent years.

Commercial elevators and warehouses have provided the major part of storage capacity for increased government stocks of grain since the Korean War. Incentives for private grain storage firms to construct facilities to store government-owned grain stocks were provided through increased storage payments, occupancy agreements, and loans.



Total capacity of grain storage owned by CCC, 1949-62

CONTRACT DECISION FACTORS

Dale C. Dahl

The Contract

When a farmer contracts with an off-farm business, the result is a document that attempts to state the law governing their relationship. Most of these contracts are standard form, printed documents written and issued by the nonfarm company.

The well-constructed contract defines rights and duties of the parties in an effort to anticipate possible disputes. To the extent that the business relationship does not violate existing law, courts usually carry out the wishes of the parties as expressed in the contract.

Therefore, both parties should understand the meaning of each contract provision. Several provisions in vertical integration contracts are only of general legal significance.

However, many provisions are concerned with three major decision-making factors. These are provisions that: (1) affect total net income from the arrangement, (2) limit or fix management control, and (3) allocate farm-nonfarm risks.

Income

Total net income to the farmer from the arrangement is not easy to identify by casual reading of the written contract. Prices quoted in one contract frequently are difficult to evaluate with respect to contracts issued by other companies. Cost elements charged to the farmer in one arrangement may be assumed by the company in another. Further, prices are normally quoted in terms of quality grades but grading methods and grades themselves may vary between companies.

The farmer should study prices quoted in the contract in relation to the quality grade of product that he reasonably expects to produce. This provides a basis for his calculation of expected total revenue from the contract arrangement.

Moreover, the farmer must understand the grading method that will be employed, who will administer it, and whether he has arbitration recourse in case of dispute. Frequently, it is to the farmer's advantage if a disinterested third party determines product quality.

Minnesota farmers are entering into an increasing number of written production contracts with input suppliers and output processors. Many arrangements—frequently called “vertical integration” contracts—coordinate production activities of farm and nonfarm firms by a shift in managerial control.¹

When deciding about entering such an agreement, a farmer must read each provision and interpret how it affects his legal or economic position.

This article discusses three major decision-making factors as a guide to farmers and their advisors. These comments cannot replace legal counsel but it is hoped that they will encourage farmers to check with their local attorneys.

Storage rates paid by CCC to private grain firms more than doubled from 1946 to 1956; a reduction in the storage rate was made in 1960. In addition to higher storage rates, occupancy guarantees were provided to grain firms constructing new storage facilities. Under these contracts CCC guaranteed that a certain percent of the new storage space would be utilized for grain storage for 3 to 5 years after construction. Credit was also made available during the expansion period through the Bank for Cooperatives and the Small Business Administration.

Conclusion

The rapid expansion of government stocks and the large increase of storage facilities in the grain industry that have occurred may cause overcapacity in grain storage.

The problem in grain, especially wheat, is one of surplus output. The solution lies in adjustment of production resources assigned to grain. Production should not be maintained to make use of storage facilities. Alternative uses must be found for such facilities constructed for CCC stocks.

¹ Such contractual arrangements now exist in at least seven enterprise sectors of the state's agribusiness: (1) canning crops, (2) seed production, (3) broiler chickens, (4) turkeys, (5) hogs, (6) sugar beets, and (7) beef cattle feeding.

To evaluate expected net income from the contract, the farmer must identify all costs of production and know which of these he bears. Frequently, these costs are specified in the contract with special clarity. To identify these costs, the farmer can envision his production operation in chronological order, asking himself what costs are involved at each stage, including harvest and delivery.

Once he has calculated expected net income, the farmer must further evaluate the advantage afforded him by the **certainty** of this income. He can then match these pluses against any disadvantages he sees in the contract concerning management control and risk allocation.

Management Control

Basic management decisions by any firm or farm operator concern (1) production and (2) marketing. Production decisions include what to produce, what inputs to use, and what production process to follow.

Marketing decisions include when to market the product, who to sell to, and at what price. Vertical integration contracts normally alter the control of at least one group of production decisions.

The final product to be produced under contract may be specified in great detail—in such detail as to restrain the inputs used or the production practices followed. To the extent that this is true, the farmer must decide whether he wants to be so restrained. The contract may also prohibit the farmer from producing more of the same product specified in the contract. This is another restraining influence on normal farm production.

Control over inputs to be used may vary from determination of one to nearly all inputs employed in farm production. The extent to which inputs are designated is frequently guided by the extent of control deemed necessary to obtain the product quality desired by the off-farm firm.

Several legal methods are available for controlling or designating inputs. The farmer's attorney should identify these for him to help him in his decision-making.

The production process may be identified in the contract in a step-by-step manner. The contract may indicate the number and type of cultivation practices that must be employed, the spraying techniques if they are to be used, and other activities of this type.

Generally, the nonfarm party does

not designate or express control of production practices employed by the farmer. Considerable control over the production process itself by an off-farm firm may be construed by the courts as indication of an employee-employer legal relationship. Such interpretation would accordingly bring liabilities to the off-farm firm that it may not want to incur. More frequently, the contract specifies that good husbandry practices should be employed and that fieldmen will be available for consultation.

Specification of just one category of inputs or production processes or the final product places some restraints on the other two. The farmer must decide whether the final product to be produced is acceptable to him. And he must consider the restraints placed upon him in terms of production process and inputs employed in order to produce that final product.

Another aspect of management control involves marketing decisions. A farmer, of course, normally has to decide when to bring his product to market, who to sell to, and how much to sell at the going price. In most vertical integration contracts these decisions are made at the time of signing or are at the discretion of the off-farm firm. The farmer must also consider these decisions made in the contract as possible restraints upon the control of his normal decision-making process.

Overall, the farmer must decide whether he is willing to give up some control of his production or marketing decisions or to commit himself early in order to benefit by the price offered or by certainty of revenue.

Risk Allocation

The shifting of management decisions does not necessarily mean that risk shifts in the same process. Off-farm firms may in fact control production processes without assuming the risk of loss for some decisions that they make. Of course, considerable avoidance of risks associated with management decisions overtaken by nonfarm firms perhaps would not be allowed by a court. Nevertheless, risks are not necessarily located where management control is located. Risk may be shifted by off-farm firms to farmers in several ways. Among these are disclaimers of liability in case of crop failure or risk of loss due to production practices followed.

Disclaimers of liability may be set forth as provisions in the contract in-

dicating that the company is not liable for loss by fire or natural hazard. The contract may also specify that the company is not liable for losses arising from the farmer following the company's instructions. This may seem in direct contradiction to a fair and equitable interpretation of a shift in managerial risk. But because a farmer can read these provisions before signing, the court may uphold such a contract.

Other ways in which to shift risk from the off-farm to the farm firm are more subtle. It may be possible to shift risks that might otherwise be incurred due to contributory negligence on the part of the farmer by clearly and openly stating the legal relationship intended.

Another method of risk allocation open to the nonfarm firm is the right of rejection. Frequently, right of rejection of final product is held only by the nonfarm contractor. But right of rejection of price and quality standards by the farmer may not be equally allowed.

Provisions relating to risk allocation are difficult to evaluate. The farmer should gain the interpretation of his legal counsel in this as well as other matters.

Conclusion

Any farm or nonfarm party to a vertical integration contract must carefully study its provisions. It may also be advisable to obtain legal counsel before signing a vertical integration contract.

As a guide to interpreting contract provisions as they relate to the farmer, three decision-making factors appear to be most important: (1) net income, (2) management controls, and (3) risk allocation.

MINNESOTA

farm business

NOTES

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the outlook corner

Harold C. Pederson and Henry Hwang

Yearend carryover stocks in all positions of the major feed and food grains edged upward sharply from 1954 to 1961 and then declined. Wheat stocks also increased but less sharply and carryover stocks of oilseeds remained at comparatively low levels (see table).

Carryover grain stocks always have important marketing implications for the year ahead. So let us analyze the trend during the 1954-63 period for each major grain group and also consider individual grains or classes of grain in each group.

Feed Grains

Carryover stocks of major feed grains—corn, oats, barley, and sorghum—showed an uninterrupted upward trend. Stocks went from 32 million tons in 1954 to 85 million tons in 1961. But the amounts edged downward to 72 million tons in 1962 and 61 million tons by 1963.

Total disappearance or utilization of major feed grains was 152 million tons in 1963. Of this, 15.5 million tons were exported. The 1957-61 annual average disappearance was 127 million tons with around 13 million tons exported.

The increase in carryover stocks during the 1954-63 period was due more to certain feed grains than to others:

Corn carryover stocks increased the most of all—from 920 million bushels in 1954 to a high of 2,008 million bushels in 1961. Much of the decline since 1961 can also be credited to corn.

Sorghum grains also accounted substantially for the increased carryover of feed grain stocks. Stocks climbed almost without interruption from 22 million bushels in 1954 to 702 million bushels in 1961. Modest yearly declines occurred since then.

Oats showed a fluctuating trend. Stocks remained around 300 million bushels during the period with a low of 227 million bushels in 1954 and a high of 366 million bushels in 1963.

Barley carryover stocks slightly exceeded 71 million bushels in 1954 and then trended upward to 196 million bushels in 1959. A modest decline followed which was largely recovered again by 1963.

Wheat

Carryover stocks of all wheat were less than a billion bushels in 1954 but exceeded that amount for 7 of the remaining 9 years. The lowest annual carryover for this period was 881 million bushels in 1958; the highest was 1,411 million bushels in 1961. However, a downward trend occurred during the last 2 years.

The domestic annual disappearance of wheat for this period remained at around 600 million bushels. Annual exports varied from a low of 274 million bushels in 1954 to a high of 719 million bushels in 1961.

Wheat includes five different classes—hard red winter, hard red spring, soft red winter, white, and durum. Each class has unique characteristics and a different carryover situation:

Hard red winter wheat carryover stocks were 560 million bushels in 1954. Since then stocks increased to around 1 billion bushels by 1960 and have remained at that level. Government assisted exports played an important role in holding stocks to this level.

Hard red spring wheat carryover stocks varied no more than 51 million bushels above or below 200 million bushels throughout the 10-year period.

Yearly carryover stocks of both **soft red winter** and **white wheat** actually decreased. Soft red winter stocks started with a 70 million bushel carryover in 1954 and then fluctuated downward to a low of 5 million bushels in 1963. White wheat stocks, starting the 10-year period with a carryover of more than 100 million bushels, went down to

13 million bushels in 1963. The decrease was due mainly to disposals under P.L. 480 and similar programs.

The **durum wheat** situation presents an erratic trend. Carryover stocks were less than 10 million bushels in the early part of the period. But stocks almost doubled by 1957; they then remained between 18-27 million bushels until 1961 when they dropped to 5 million bushels. However, in 1963 stocks rose to a record high of 41 million bushels.

Oilseeds

Annual carryover stocks of oilseeds have never been burdensome. In only 2 years during the 1954-63 period did stocks exceed 2 million tons. Otherwise, carryover stocks remained around a million tons or less.

Factors causing increases in carryover stocks of feed grain and wheat during this period were improved technology and limited success in adjusting production in line with domestic and foreign market demand.

Factors preventing even larger carryover stocks were a strong domestic demand for feed grains, an increase in exports of both wheat and feed grains (P.L. 480 has assumed a major role), and supply adjustment programs in which many farmers participated.

U. S. carryover grain stocks, 1954-63

Year	Feed grains		All wheat		Oilseeds
	million tons	million tons	million bushels	(billion bushels)	million tons
1954	32	28	(0.93)		0.6
1955	39	31	(1.04)		0.9
1956	43	31	(1.03)		0.4
1957	49	27	(0.91)		1.0
1958	59	26	(0.88)		1.1
1959	68	38	(1.30)		2.4
1960	75	39	(1.31)		0.9
1961	85	42	(1.41)		0.5
1962	72	40	(1.32)		2.1
1963	63	36	(1.19)		0.9

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