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ILLINOIS AGRICULTURAL ECONOMICS STAFF PAPER

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A Perspective for Food Processors

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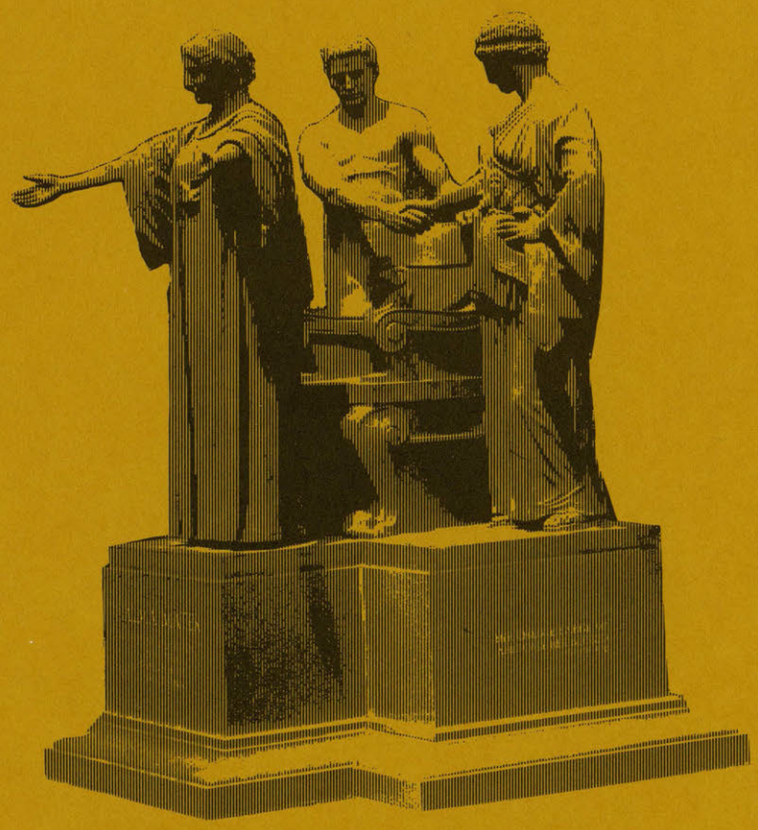
December 1986



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Agricultural and Food Policy Dimensions

Agricultural and food policy encompasses many phases of the farm and food system. These include:

1. production of specific crops and livestock including price and income support programs;

2. marketing of agricultural products including market regulation;

3. grades, standards, and safety of processed food products,

4. trade policies for agricultural and food products;

5. land use including conservation of soil and water;

6. research and educational programs relating to production, processing and marketing of agricultural and food products.

The Food Security Act of 1985

The most recent legislation to establish the current directions in agricultural and food policy was the Food Security Act of 1985 passed by Congress last year and signed by the President on December 23, 1985.

In its 18 titles, the Act is strongly commodity oriented with 10 titles related to commodity programs. The other titles deal with trade, conservation, credit, research, extension and teaching, food assistance, marketing, and miscellaneous matters and the effective date.

Major changes Act included a new formula by which commodity loan rates will be tied to market prices after several years of transition, a major new effort to reduce soil erosion with a long term conservation reserve and restrictions on planting crops on erodible crop land, and new programs to enhance agricultural exports. Some additional funding was also provided for food stamps in a compromise in which the House prevailed over the more conservative Senate plan

Overall, the new Act is really an evolution of past policies. Some new features are added. But the same instruments used to support prices and incomes--commodity loans, target prices, deficiency payments, and acreage reduction programs remain.

The willingness to permit a reduction in loan prices resulted from a feeling that lowering loan rates would reduce market prices and agricultural

exports would increase. To protect farmers from the lower market prices, Congress insisted on keeping target prices high. As a result, farmers will probably receive the largest deficiency payments they have ever received and a larger percentage will participate in the program than ever before.

As in past farm bills, the 1985 Act is strongly oriented to the major grain and fiber crops: wheat, feed grains, cotton, and rice, with continued support for dairy, wool and mohair, peanuts, soybeans, sugar and honey.

The 1985 Food Security Act provides the Secretary with many options to make decisions on future programs. A popular way to deal with a program provision when members of the bill writing committees could not agree was to make it discretionary with the Secretary of Agriculture.

Although the Act covers five crop years from 1986 through 1990, the Act as passed and signed last December has already been amended twice. Further changes can be expected as various programs are carried out.

Implications for the Food Processing Industry

Although this Act does not specifically cover the fruit and vegetable crops that Illinois food processors are buying and processing, certain features of the Act could have indirect implications for the food processing industry.

One of the first examples occurred early last year when farmers began to get an explanation of how the new Act would be implemented.

The 50-92 Provision

The 1985 Act permits participating producers who plant between 50 and 92 percent of that crop's permitted acreage to receive deficiency payments on the entire 92 percent. The 50 to 92 percent portion of the permitted base could be planted to any nonprogram crop. A program crop is any crop for which a price support program is available as written into the law.

Because of the possible switching of acreage out of the program crop under the 50-92 provision and planting a nonprogram crop, many possible problems were feared and producers of certain nonprogram crops rushed to call their Congressmen and trade organizations to complain. The producers of dry beans, pop corn, and hay, were among those who were concerned about this provision. Vegetable producers also feared unfavorable consequences if many farmers switched to compete with them.

Some changes were made under the Food Security Improvements Act of 1986 in an effort to protect nonprogram crop producers. Under the amendment passed, only conserving crops can be seeded on underplanted acres. The 1986 Act does allow production of sweet sorghum, guar, sesame, safflower, sunflowers, castor beans, mustard seed, crambe, plantago ovato, flaxseed,

triticale, rye, and commodities for which no substantial domestic production or market exists, but which could be imported for industrial or commodities grown for experimental use.

However, the 1986 Act permits the Secretary of Agriculture to allow production of the nonprogram crops listed above if he determines that the production will not be likely to increase government program costs. The Secretary would also have to ensure that it would not adversely affect farm income.

Producers who participate in the programs would also be allowed to plant the nonprogram crop on the permitted acreage if the production was needed to provide an adequate supply or, if its production would encourage domestic manufacture where none currently exists and would lead to an increase in the commodity's use.

Haying and grazing would be permitted on the underplanted acreage at the request of the State ASCS committee, unless the Secretary determined that there would be an adverse economic effect.

The potential problems and the pressure to change the 50-92 provisions illustrate a continuing dilemma in agricultural policy making. Members of Congress often propose amendments and pass them without fully understanding the consequences for other producers and the food marketing and processing industry.

Effects on Land Use and Crop Contracting

The 1985 Act and its implementation has resulted in a lower level of market prices for the major program commodities--wheat, feed grains, cotton and rice. The freezing of target prices in 1986 and 1987 at 1985 levels has created a situation in which a major part of many farmers' net incomes come from direct government payments. We don't have the data yet for 1985 and 1986 but we know that government payments comprised 92 percent of Illinois farmers' net income in 1984.

Beginning in 1987, the current law provides for a gradual reduction in the target prices for the major commodities. The high cost of farm programs, an estimated $26 billion in 1986, will place pressure to some way reduce the large expenditure and target payments to those smaller and medium size operations which many feel are most in need of assistance.

The squeeze on farm incomes and the financial pressures on many farm operators could cause many farmers to look for alternative sources of income. Vegetable production will be one of these alternatives considered.

For food processors, this could mean an opportunity to select those operators for production contracts or direct production operations that have shown the most management ability and are likely to perform most satisfactorily for your interests.

Land Values and Land Rents

Land values in Illinois have declined about 48 percent since their peak in 1981. Cash rents have declined but not as much as land values. The average ratio of rent to value in 1986 was 7.8 percent compared to 5 percent in 1982. Landowners are under pressure to reduce cash rents with the lower level of grain and soybean prices. The situation should be favorable for food processors who are contracting for production or leasing land for direct production.

The Farm Credit System has acquired farms under loan defaults which they are offering to sell at favorable terms since they do not want to be landowners. Their main function is to lend money. Other owners who bought when prices were high are facing financial problems that require liquidation of some land holdings. The opportunity to invest in productive crop land for vegetable production may be one of the most favorable in many years.

Export Enhancement

Under the trade title of the Act, a targeted assistance program authorized $2 billion (later reduced to $1 billion) to U. S. exporters, users, processors or foreign purchasers to encourage development, maintenance, and expansion of U. S. agricultural export markets. The goal of this program is to help make U. S. commodities more competitive by offsetting subsidies or other unfair trade practices, adverse effects of support levels, or fluctuations in exchange rates.

Competition between the United States and other major fruit and vegetable exporters has intensified with the emergence of the European Community's enlargement to 12 members and a net exporter position. The subsidized fruit, vegetable and product exports have been more attractive on world markets than non-subsidized U.S. exports and the EC and other producers have also had the advantage of more favorable exchange rates. The weakening dollar has improved the U.S. export picture in 1986 but competition in world markets remains strong.
Under the Targeted Export Assistance Program of the 1985 Act, fruits and vegetables, nuts, and wine have received $44.8 million in export assistance or 40.8 percent of all funds used during the 1986 fiscal year.

For a commodity to be eligible for this program, it must meet certain requirements:

1. They must have been hurt by unfair foreign trade practices
2. They must be in adequate supply;
3. If processed, they must be at least half of U. S. origin with preference given to those totally of U. S. origin.

Program participants will usually be nonprofit trade organizations with national or industry wide scope and the ability to share costs.

Success of these programs depends on the ability of U. S. fruit and vegetable growers to provide adequate supplies of targeted commodities at competitive export prices and second, on the success of foreign advertising and promotion campaigns in increasing demand.

Conclusions

U. S. agricultural and food policy is strongly commodity oriented. Vegetable producers may not be directly involved with the commodity programs but are indirectly affected. Your state and national trade groups could find it advantageous to make your views known on how farm programs affect your industry if current policies affect your business adversely.

Pressures to reduce farm program costs and make grain production more market oriented could spill over into pressures to increase vegetable production and shift more land out of grains and soybeans that seem to be in oversupply. However as long as government payments remain high as in 1986 and 1987, farmers will hesitate to shift production that would reduce their wheat and feed grain base acreages for program purposes.

Agricultural policies and programs are complex. The large number of discretionary features in the 1985 Act require constant monitoring of rules and regulations to keep abreast of how these will influence farmers decisions and affect the food processing industry.