Provisions of the Food Security Act of 1985

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INTRODUCTION

The Food Security Act of 1985 (P.L. 99-198) provides a 5-year framework for the Secretary of Agriculture to administer various agriculture and food programs. Several of the commodity programs were started decades ago under the Agricultural Adjustment Acts of 1933 and 1938 and the Agricultural Act of 1949 (commonly referred to as permanent legislation).

More recent legislation created USDA's food stamp, credit, and research programs. All of the programs have been modified over time to meet changing economic needs and various domestic and international conditions. The 1985 Act is the latest piece of legislation in this series; it replaces the Agriculture and Food Act of 1981, which expired with the 1985 crops.

The Food Security Act of 1985 was passed by Congress December 18 and signed by the President December 23, 1985. Public Law 99-253, making technical corrections in the 1985 Act, passed Congress on February 19 and was signed by the President on February 28, 1986. These corrections made cross compliance for wheat and feed grains discretionary instead of mandatory, changed the formula for calculating crop acreage bases, and changed the election procedure for local Agricultural Stabilization and Conservation (ASC) committees. The Food Security Improvements Act of 1986 was passed by Congress on March 12 and was signed by the President on March 20.

This report summarizes the act's 18 titles and compares it with previous legislation where applicable. The Secretary referred to throughout the text is the Secretary of Agriculture, unless otherwise noted. This report concludes with a table of the commodity program levels 1982-86, a short list of agricultural legislation from 1933 to 1986, a glossary of agricultural terms, a list of additional readings, a summary of the Food Security Improvements Act of 1986, and an index.

How the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), commonly referred to as Gramm-Rudman-Hollings, will affect the agricultural programs authorized in this act is not yet known. Gramm-Rudman-Hollings mandates across-the-board spending cuts in nonexempt Federal programs, including agriculture if the President and the Congress fail to agree on specified budget spending levels until a balanced Federal budget is achieved by 1990. USDA's Food Stamp Program is exempt from the cuts.

TITLE I: DAIRY

The 1985 Act continues the reduction in milk price supports and mandates a milk production termination program. The Secretary must establish a National Commission on Dairy Policy and has the authority to establish a National Dairy Research Endowment Institute. Changes are made in the provisions governing milk marketing orders. Commodity Credit Corporation (CCC) stocks will be made available for the manufacture of casein and for use in a dairy export incentive program.

Price Support

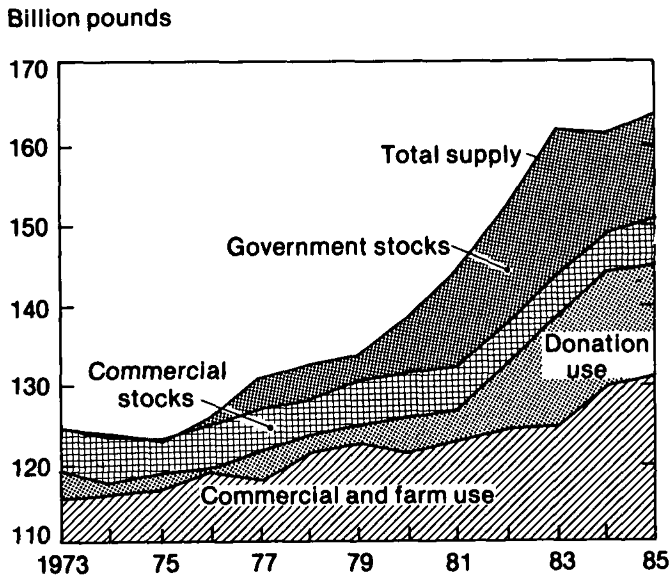
Title I specifies the support price for milk for January 1, 1986, to December 31, 1990. For calendar year 1986, the support level remains at $11.60 per hundredweight (cwt) for milk containing 3.67-percent milk fat. The support price drops to $11.35 per cwt for January 1-September 30, 1987, and $11.10 per cwt for October 1, 1987-December 31, 1990. However, the Secretary must adjust the support rate in calendar years 1988, 1989, and 1990, based on the estimated amount of net CCC price support purchases for each year. The price of milk is supported through the purchase of butter, cheese, nonfat dry milk, and other dairy products. If annual purchases are estimated to be 2.5 billion pounds or less (milk equivalent), the rate increases by 50 cents per cwt on January 1. If net CCC purchases are estimated to exceed 5 billion pounds, the rate decreases 50 cents per cwt. The support price, however, cannot be lowered after 1987 unless the milk production termination program decreases milk production by at least 12 billion pounds during the 18 months of the program or unless the Secretary certifies to Congress that reasonable contract offers were made under the program but not accepted by a sufficient number of producers to achieve the targeted reduction.

The 1981 Act specified minimum support levels for milk, a change from previous legislation where rates were based on a percent of parity. The initial support price was $13.10 per cwt for December 1981-September 1982 with further increases scheduled for fiscal years 1983-85. The Omnibus Budget Reconciliation Act of 1982 eliminated the scheduled increases and continued the support level at $13.10 per cwt through fiscal year 1984. Also, if CCC purchases remained high, the Secretary could reduce the effective returns to producers during fiscal year 1983-85. The 1982 Act authorized a 50-cent-per-cwt deduction on October 1, 1982, if net CCC purchases were projected to be more than 5 billion pounds (milk equivalent) for the next 12 months. A further 50-cent deduction was allowed on April 1, 1983, if projected net annual purchases exceeded 7.5 billion pounds. The deductions were made beginning April 16, 1983, and September 1, 1983, and ending November 30, 1983.

The Dairy and Tobacco Adjustment Act of 1983 significantly changed the existing dairy program by lowering price supports, instituting a 15-month voluntary milk diversion program, and requiring a dairy products promotion order. The price-support level dropped to $12.60 per cwt on December 1, 1983. The Secretary was authorized to further reduce the support price by 50 cents per cwt on April 1, 1985, if net CCC purchases were estimated to exceed 6 billion pounds (milk equivalent), and another 50 cents on July 1, 1985, if net purchases were estimated to exceed 5 billion pounds. Both reductions were taken. Figure 1 shows that milk supply and stocks have increased dramatically in the last few years.

Figure 1

Milk Supply, Use, and Stocks, 1985



1985 forecast. Stocks as of December 31.

Milk Production Termination Program

During the period April 1, 1986, through September 30, 1987, the Secretary must operate a milk production termination or "whole-herd buy-out" program. Under the whole-herd buy-out, producers will receive payments from USDA, based on bids submitted to the Secretary, for the purpose of stopping milk production. All dairy cattle which the producers own must be sold for slaughter or export. For 3, 4, or 5 years (as determined by the Secretary) after such sale, producers may not acquire interest in dairy cattle or milk production, nor acquire or make available to others facilities not used because of this program. Program participants must provide evidence of their milk marketing history and the past and present size and composition of their herds. A producer who began marketing milk in the 15-month period ending March 31, 1986, is ineligible to participate, except if the entire herd and facilities were transferred to the producer as the result of a gift or inheritance from a family member. Participants violating their contracts are subject to marketing and civil penalties.

To help offset the cost of the milk production termination program, the price of milk received by producers will be reduced by 40 cents per cwt during April 1-December 31, 1986, and 25 cents during January 1-September 30, 1987. This deduction will be collected by handlers and remitted to the CCC and is applicable to all milk marketed for commercial use in the contiguous 48 States. The Secretary must issue regulations specifying marketing procedures to ensure that the greatest number of cattle are slaughtered during April-August 1986 and March-August 1987 and that such sales follow historical seasonal marketing patterns. The total number of dairy cattle marketed for slaughter under this program is limited to 7 percent of the national dairy herd in addition to the normal culling rate per calendar year.

A milk diversion or a milk production termination program may be established by the Secretary in 1988, 1989, or 1990 as necessary to avoid burdensome excess stocks of milk or milk products. To minimize the effect of the 18-month program on beef, pork, and lamb producers, the Secretary must purchase 400 million pounds of red meat in addition to those normally purchased and distributed. Two hundred million pounds will be available for distribution through domestic programs and 200 million pounds for export programs and military commissaries located outside the United States.

The Dairy and Tobacco Adjustment Act of 1983 authorized a 15-month milk diversion program for January 1984-March 1985. Participation in the program was voluntary. Producers signed contracts to reduce their marketings by 5-30 percent from the base period and, in return, received payments of $10 per cwt. After November 8, 1983, participating producers could only sell their dairy cattle for slaughter or to another producer in the program. Idle facilities and equipment were not to be used by other producers. To partially offset the cost of the program, the Secretary deducted 50 cents per cwt from the price received by producers for milk marketed commercially in the contiguous 48 States during December 1983 through March 1985.

Casein

The CCC must maintain surplus stocks of nonfat dry milk of not less than 1 million pounds annually to sell to individuals or entities for the manufacture of casein. Bids may be accepted at lower than resale price in order to promote a domestic casein industry. The Secretary must determine whether imports of casein interfere with USDA's milk price-support program and report to Congress by February 21, 1986.

National Dairy Research Endowment Institute

The Secretary may establish within USDA a National Dairy Research Endowment Institute to aid the dairy industry in implementing a dairy products research order. The institute would establish permanent funding of scientific research to expand U.S. markets for milk and dairy products. The research goals would be to increase the knowledge of human nutritional needs and the relationship of milk and dairy products to those needs; to improve dairy processing technologies, particularly those appropriate to small- and medium-sized family farms; to develop new dairy products; and to appraise the effects of this information on the marketing of dairy products. The institute would be headed by a board of trustees, composed of members of the National Dairy Promotion and Research Board. If the institute is established, a Dairy Research Trust Fund of $100 million would be established in the U.S. Treasury. The money would be invested by the Treasury Secretary in various interest-bearing obligations, accounts, or certificates. The interest, dividends, and other payments that accrue would be available to the institute for authorized activities.

Milk Marketing Orders

The 1985 Act specifies minimum class I differentials for the 44 milk marketing orders administered by the Agricultural Marketing Service (AMS). (See table 1.) These differentials are the dollar amounts added to the price of manufacturing grade milk in the Minnesota-Wisconsin marketing area to determine the minimum class I (bottling) milk price that handlers must pay under each of the marketing orders.

Table 1—Minimum class I milk differentials 1/

Marketing order area	Minimum differential (per cwt of milk having 3.5 percent milk fat)	Marketing order area	Minimum differential (per cwt of milk having 3.5 percent milk fat)
	Dollars		Dollars
New England	3.24	Greater Kansas City	1.92
New York-New Jersey	3.14	Tennessee Valley	2.77
Middle Atlantic	3.03	Nashville, Tennessee	2.52
Georgia	3.08	Paducah, Kentucky	2.39
Alabama-West Florida	3.08	Memphis, Tennessee	2.77
Upper Florida	3.58	Central Arkansas	2.77
Tampa Bay	3.88	Fort Smith, Arkansas	2.77
Southeastern Florida	4.18	Southwest Plains	2.77
Michigan Upper Peninsula	1.35	Texas Panhandle	2.49
Southern Michigan	1.75	Lubbock-Plainview, Texas	2.49
Eastern Ohio-Western Pennsylvania	1.95	Texas	3.28
Ohio Valley	2.04	Greater Louisiana	3.28
Indiana	2.00	New Orleans-Mississippi	3.85
Chicago Regional	1.40	Eastern Colorado	2.73
Central Illinois	1.61	Western Colorado	2.00
Southern Illinois	1.92	Southwestern Idaho-Eastern Oregon	1.50
Louisville-Lexington-Evansville	2.11	Great Basin	1.90
Upper Midwest	1.20	Lake Mead	1.60
Western South Dakota	1.50	Central Arizona	2.52
Black Hills, South Dakota	2.05	Rio Grande Valley	2.35
Iowa	1.55	Puget Sound-Inland	1.85
Nebraska-Western Iowa	1.75	Oregon-Washington	1.95

1/ A minimum class I milk differential is the dollar amount added to the price of manufacturing grade milk in the Minnesota-Wisconsin marketing area to determine the class I (bottling) milk price in each of the marketing areas.

The minimum differentials will be in effect for the 2 years beginning May 1, 1986, and will continue in effect unless an order is amended by AMS. The Minnesota-Wisconsin price is an estimate of the average price paid for manufacturing grade milk used to make butter, nonfat dry milk, and cheese at plants in most of Minnesota and Wisconsin. Under Federal milk marketing orders, milk is priced according to how it is used at processing plants. Milk sold for drinking is in the highest price class, while milk used in manufactured products is in lower price classes.

The 1985 Act also authorizes milk marketing orders to include payments to handlers and marketing cooperatives for services of marketwide benefit. These services include, but are not limited to, providing facilities to furnish additional milk supplies needed by handlers and to dispose of excess milk supplies, and transporting milk to fulfill requirements for milk of a higher use classification or to provide a market outlet for milk of any use classification. AMS would also have to amend the marketing orders to incorporate such provisions.

National Commission on Dairy Policy

Title I establishes a National Commission on Dairy Policy to study the future operations of the Federal milk price support program. The commission will have 18 members, appointed by the Secretary, who are engaged in the commercial production of milk in the United States. At least 12 must be appointed from nominations made by Congress. The membership of the commission should reflect, as much as possible, the geographical distribution of milk production volume throughout the United States with each member representing a milk-producing region.

The commission will examine the current Federal price-support program for milk, alternatives to the program, the future functioning of the program, technologies that will become a part of the milk production industry before the end of this century, the effect that developing technologies will have on surplus milk production, and the future structure of the milk production industry.

The commission must submit its findings and recommendations to the Secretary and Congress not later than March 31, 1987. The commission will dissolve 30 days after the report is submitted.

Dairy Products for Veterans Administration Hospitals and the Military

The 1985 Act continues the transfer of dairy products (butter, cheese, and other items) acquired by the CCC to Veterans Administration hospitals and the military through December 31, 1990. The dairy products available under this program are limited to those acquired by the CCC under price-support operations and not disposed of through foreign donations.

Dairy Indemnity Program

The dairy indemnity program will be continued through September 30, 1990. Under this program, the Secretary is authorized to compensate dairy farmers for lost production, if they are directed to remove their milk from commercial markets due to nuclear radiation or fallout, inadvertent chemical residues, or toxic substances.

Dairy Export Incentive Program

From February 21, 1986, to September 30, 1989, the CCC must operate an export incentive program for dairy products. The CCC will pay, on a bid basis, individuals or businesses that export U.S. dairy products. Bids will be accepted or rejected under criteria the Secretary deems appropriate. The Secretary must issue regulations that ensure that payments made under this program are for sales in addition to, not in place of, those that would normally be made and that such payments will not displace commercial export sales. The payments can be made in cash, in kind, or through the issuance of certificates redeemable for commodities. The payment rates must reflect the type of dairy product to be exported and the domestic and world prices of dairy products, among other things.

TITLE II: WOOL AND MOHAIR

The 1985 Act extends the National Wool Act of 1954 through December 31, 1990. The Secretary must support the price of wool and mohair through loans, purchases, payments, or other operations. The support rate for shorn wool, rounded to the nearest full cent, remains at 77.5 percent of:

$$\$0.62 \times \frac{\text{average parity index for 3 previous calendar years}}{\text{average parity index for 1958, 1959, and 1960}}$$

A parity index is the index of prices paid by farmers for commodities and services, including interest, taxes, and farm wages. The support prices for pulled wool and mohair must maintain normal marketing relationships between pulled and shorn wool and maintain approximately the same percentage of parity for mohair as for shorn wool.

TITLES III and IV: WHEAT AND FEED GRAINS

The 1985 Act continues price and income supports for wheat and feed grain producers through the 1990 crop year. Nonrecourse loans provide price support; target prices and deficiency payments provide income support. The 1985 Act authorizes the Secretary to implement several optional programs, including "marketing loans," loan deficiency payments, the "target option program," and inventory reduction payments. Wheat marketing quotas are also discretionary.

Target Prices and Price-Support Loans

Minimum target prices for wheat, unless a marketing quota is in effect, decrease from $4.38 per bushel for the 1986-87 crops to $4 per bushel for the 1990 crop (table 2). The 1981 Act specified minimum wheat target prices that increased from $4.05 per bushel for the 1982 crop to $4.65 per bushel for the 1985 crop. The

Table 2—Minimum wheat and corn target prices and loan rates, crop years 1986-90

Item	1986	1987	1988	1989	1990
			Dollars		
Wheat:					
Target price	4.38	4.38	4.29	4.16	4.00
Basic loan rate	3.00	1/	1/	1/	1/
Corn:					
Target price	3.03	3.03	2.97	2.88	2.75
Basic loan rate	2.40	1/	1/	1/	1/

1/ The rate is to be 75-85 percent of average market price (see text).

Agricultural Programs Adjustment Act of 1984 lowered the levels for the 1984-85 crops to $4.38 per bushel (app. 1).

Minimum target prices for corn decrease from $3.03 per bushel for the 1986-87 crops to $2.75 per bushel for the 1990 crop (table 2). The minimum levels for corn target prices for crop years 1982-85 set by the 1981 Act increased from $2.70 per bushel to $3.18 per bushel. The 1984 Act, however, held the 1985 rate at the 1984 level of $3.03 per bushel (app. 1). Payment rates for grain sorghum, oats, and barley, if designated by the Secretary, must be fair and reasonable in relation to the payment rate established for corn.

The 1985 Act continues loans and purchases for the 1986-90 crops of wheat and feed grains. Loan rates must encourage wheat and feed grain exports, not create excessive stocks, and reflect production costs, supply and demand conditions, and world prices of wheat and feed grains. The 1986 basic loan rate (prior to any discretionary reductions) is $3 per bushel for wheat and $2.40 per bushel for corn. For 1987-90, the basic rates will be 75-85 percent of the simple average of the season prices received by producers during the 5 preceding marketing years, dropping the years with the high and low prices. This rate may not be lowered by more than 5 percent from the basic rate in the previous year.

Loan levels may be further reduced from the basic rate by up to 20 percent if the average market price was 110 percent or less of the announced loan rate during the previous year or if the reduction is necessary to maintain domestic and export markets. For the 1986 crops of wheat and feed grains, the Secretary must reduce the basic rates of $3 and $2.40 by at least 10 percent. Any reduction made under this authority may not be used in determining the basic loan rate in subsequent years. For example, the basic loan rate for the 1987 crop of wheat will be calculated using the formula, but it may be set at no lower than $2.85 per bushel, a 5-percent reduction from the 1986 basic rate of $3. The $2.85 level can then be dropped by up to 20 percent to determine the final loan rate for 1987. Similar provisions for wheat and feed grains were contained in the 1981 Act, except that the trigger level was 105 percent of the announced loan rate and the reduction was limited to 10 percent annually, with a floor of $3 per bushel for wheat and $2 per bushel for corn.

Loans will once again be available for the 1986-90 crops of grain sorghum, barley, oats, and rye at levels that the Secretary determines are fair and reasonable in relation to the level for corn and that reflect such factors as relative feed values.

The 1981 Act established the minimum basic loan rates for wheat and corn at $3.55 and $2.55 per bushel, respectively, for the 1982-85 crops. The Omnibus Budget Reconciliation Act of 1982 raised the minimums, for the 1983 crop only, to $3.65 for wheat and $2.65 for corn. The Secretary used discretionary authority in 1984 and 1985 to reduce the loan rates for wheat by 25 cents (7 percent) to $3.30 per bushel. See appendix 1 for the target and loan levels, crop years 1982-86.

Loan Repayment

The Secretary has the option to offer wheat and feed grain producers a marketing loan. If market prices are below the loan rate, producers may repay their loan at the world market price, as determined by the Secretary, or 70 percent of the basic loan rate, whichever is higher. Loans may not be repaid at a level higher than the announced loan rate. If a marketing loan program is used, the Secretary must issue a formula defining the world market price and a mechanism for periodic announcement of such price.

Under a similar provision, the Secretary may offer loan deficiency payments to producers who, although eligible to obtain loans, agree not to. The loan deficiency payments for the 1986-90 crops of wheat, corn, grain sorghum, barley, oats, and rye would be determined by multiplying the loan payment rate by the amount of commodity eligible for loan. The payment rate per bushel is the announced loan level minus the repayment level used in the marketing loan. The amount of commodity eligible for this payment is determined by multiplying the individual farm program acreage for the crop by the farm program payment yield.

National Program Acreage

The 1985 Act continues to set the national program acreage (NPA) for wheat and feed grains at the number of harvested acres (based on the weighted national average of farm program payment yields) the Secretary determines is required to meet estimated domestic and export needs (less imports). The acreage may be adjusted for any desired increase or decrease in carryover stocks. The Secretary must announce the NPA for wheat for a particular crop year by June 1 (August 15 under the 1981 Act) of the preceding calendar year. The NPA for feed grains must be announced by September 30 (November 15 in the 1981 Act) of the preceding calendar year. The 1985 Act specifies a program allocation factor of 80-100 percent, arrived at by dividing the NPA for the crop by the estimated number of total acres that will be harvested. The program allocation factor is a ratio used in determining farm program acreage. As with the 1981 Act, the announcement of the NPA and the calculation of the program allocation factor are not required whenever an acreage reduction program (ARP) is in effect.

Farm Program Acreage

Individual farm program acreage continues to be determined by multiplying the allocation factor by the number of acres planted for harvest on the individual farm. If an ARP is in effect, then the individual farm program acreage is the acreage planted on the farm for harvest within the permitted acreage (the crop base less the percentage reduction specified by the ARP) with the following exception. If producers plant between 50 and 92 percent of the crop's permitted acreage when an ARP is in effect and devote the rest to conserving uses or nonprogram crops (any agricultural commodity other than wheat, feed grains, Upland cotton, extra long staple cotton, rice, or soybeans), then the individual farm program acreage equals 92 percent of the permitted acreage for the purposes of calculating deficiency payments. Any acreage considered planted under this provision may not also be used as conserving acreage under any acreage reduction, set-aside, or land diversion program.

Title X establishes the formulas by which crop acreage bases and farm program payment yields are calculated under a new acreage base and program yield system for wheat, feed grains, Upland cotton, and rice.

Deficiency Payments

Like the 1981 Act, the 1985 Act authorizes deficiency payments if the national weighted average market price received by farmers during the first 5 months of the marketing year is lower than the established target price for that crop year. The payment rate for wheat and corn is the difference between the target price and either the national weighted average market price or the basic loan level, whichever is higher. The payment rates for grain sorghum, oats, and barley, if designated by the Secretary, must be fair and reasonable in relation to corn. Payments for the 1986-90 crops will again be determined by multiplying the payment rate times the individual farm program acreage times the farm program payment yield established for the farm. Deficiency payments will not be made for any quantity on which a disaster payment was made.

If the Secretary exercises discretionary authority to reduce the basic loan rate by up to 20 percent, USDA must make additional payments to producers to provide the same total return as if there had been no reduction. The payment rate is the basic loan level minus the national weighted season average farm price for the marketing year or the announced loan level, whichever is higher. These payments would not be subject to the $50,000 payment limitation. Title X specifies that payments received under the wheat, feed grain, Upland cotton, extra long staple (ELS) cotton, and rice programs are limited to $50,000 per person per year with certain exceptions.

Up to 5 percent of the deficiency payments (including payments made because the basic loan was reduced) may be made as payments-in-kind (PIK).

The Secretary may offer wheat producers a target option program (TOP), where producers choose from a schedule of target prices and corresponding acreage reduction levels. The Secretary also may vary the rate of wheat deficiency payments based on the quantity produced, with such payments being targeted to commercial family farmers with annual gross sales over $20,000.

Disaster Payments

As under the 1981 Act, the 1985 Act does not automatically entitle producers to disaster payments if they can obtain crop insurance under the Federal Crop Insurance Act. However, even if crop insurance is available, the Secretary may make disaster payments to producers when all of the following conditions have been met: (1) producers have suffered substantial farm production losses as the result of drought, flood, other natural disasters, or other conditions beyond the producers' control that either reduced yields or prevented planting of wheat, feed grains, or other nonconserving crop; (2) such losses have created an economic emergency for producers; (3) Federal crop insurance indemnity payments and other forms of assistance made available by the Federal Government are insufficient to alleviate the economic emergency; and (4) additional assistance must be made available to such producers to alleviate the economic emergency.

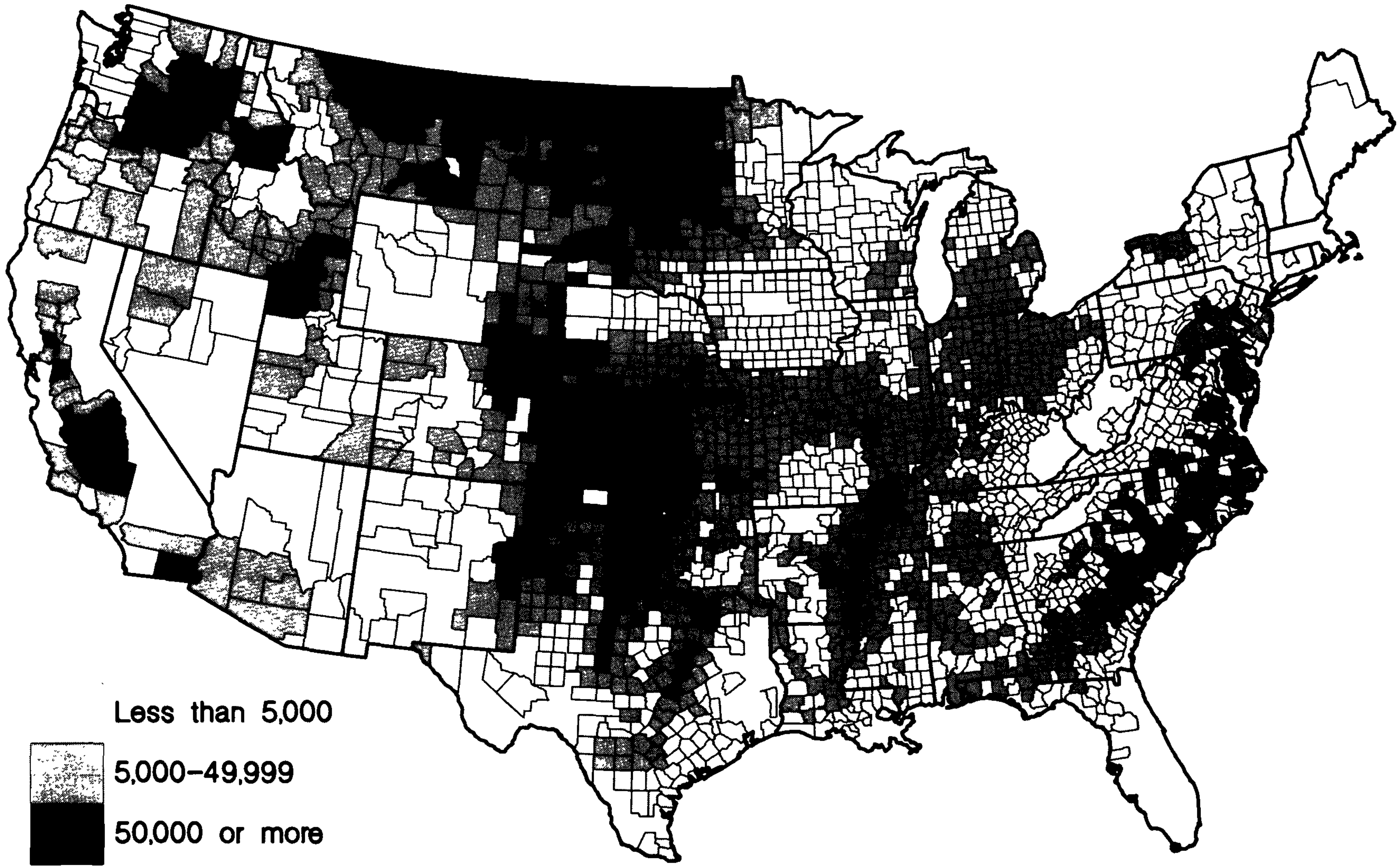
If these conditions are met, prevented planting payments will be made on the smaller of either the acreage intended to be planted to wheat or feed grains or the acreage planted for harvest in the preceding year of wheat or feed grains (including any acreage which the producer was prevented from planting to wheat, feed grains, or other nonconserving crops). The payment calculation is 75 percent of the farm program payment yield times one-third of the target price for wheat or feed grains. Payments may be made in cash or in-kind. Reduced-yield payments will be made 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 by 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.

Acreage Reduction

The 1985 Act continues the authority of the Secretary to require reductions in the acreage planted to wheat and feed grains. Acreage limitation, set-aside, or paid land diversion programs may be implemented if total supplies will be excessive. An acreage limitation program is commonly called an acreage reduction program or ARP. Figures 2 and 3 indicate the areas where wheat and corn are produced in the 48

Figure 2

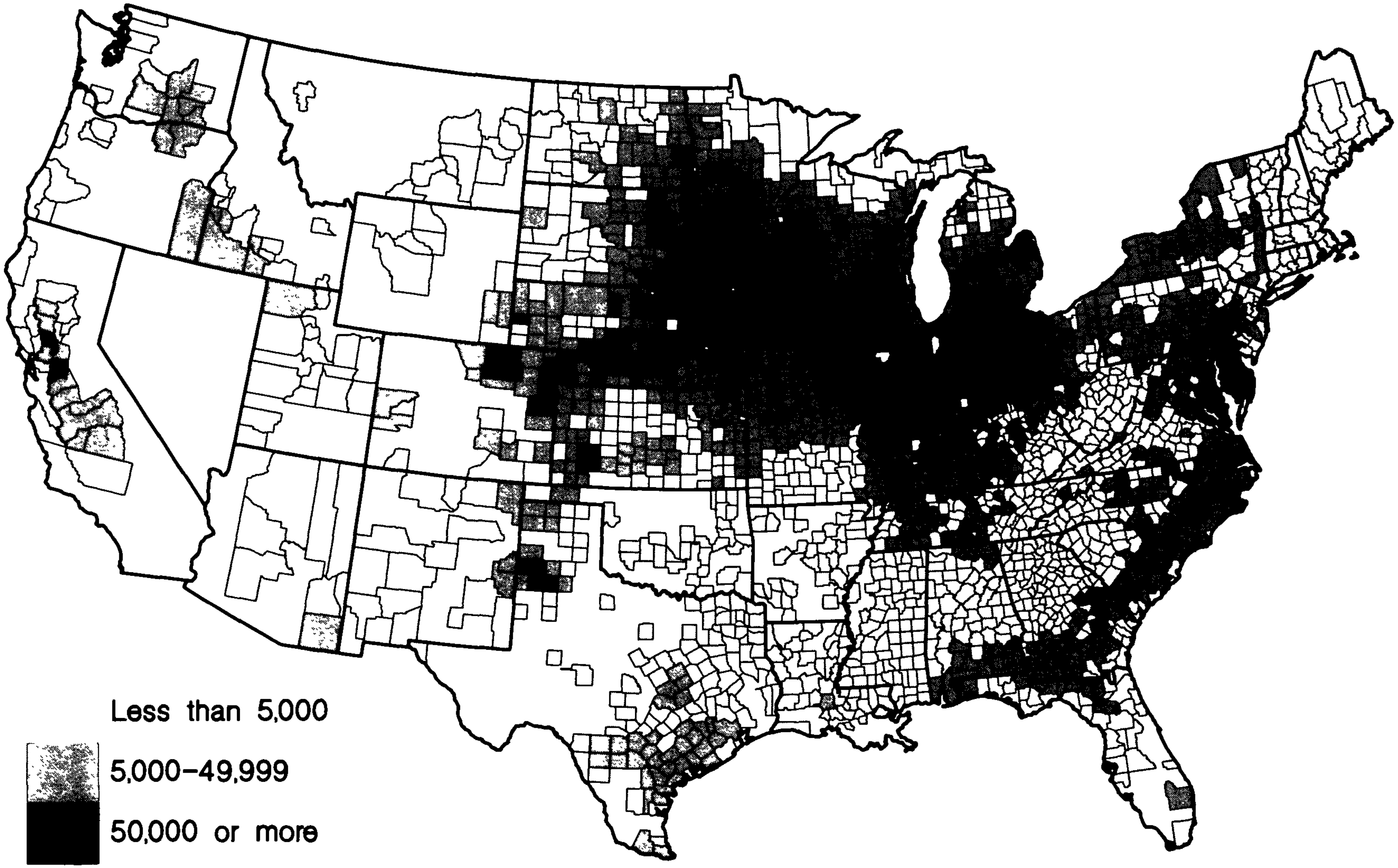
Harvested Acres of Wheat for Grain, by County, 1982



U.S. Total: 51,212,930 acres

Figure 3

Harvested Acres of Corn for Grain or Seed, by County, 1982



U.S. Total: 69,707,035 acres

contiguous States. When determining an ARP or set-aside, the number of acres placed in the conservation reserve must be considered. If an acreage reduction or set-aside program is in effect, producers must participate in the program as a condition of eligibility for wheat and feed grain loans, purchases, and payments.

USDA must announce an acreage reduction or set-aside program by June 1 for wheat or September 30 for feed grains prior to the calendar year in which the crop is harvested. Adjustments in the program can be made until July 31 for wheat or November 15 for feed grains if there has been a significant change in total supply since the program was first announced. Under the 1981 Act, the announcement dates were August 15 for wheat and November 15 for feed grains.

When an ARP has been announced, USDA determines the acreage that may be planted to the crop (permitted acreage) by uniformly reducing the crop acreage base of each farm. The percentage reductions for the 1986-90 crops of wheat and feed grains range from 0 to 30 percent for wheat and from 0 to 20 percent for feed grains, depending upon the amount of carryover stocks (tables 3 and 4). Under an ARP, a percentage of each farm's acreage must be devoted to conservation uses. The amount is determined by multiplying the number of acres required to be withdrawn by the ratio of the number of acres actually planted to the number of acres authorized to be planted under the reduction. Malting barley may be exempt from any acreage reduction requirements.

The Secretary may also operate a set-aside program rather than an acreage reduction program. If announced, producers must set aside and devote to conserving uses acreage equal to a specified percentage of the current year's acreage planted for harvest to that crop. The Secretary may adjust individual set-asides to correct for crop rotation practices and abnormal factors affecting production. If a set-aside program is established, the Secretary may also limit the acreage planted to wheat or feed grains or both.

All or part of reduced or set-aside acreage may be devoted to certain designated crops for harvest (sweet sorghum, haying and grazing, guar, sesame, safflower, sunflower, castor beans, mustard seed, crambe, plantago ovato, flaxseed, triticale, rye, or other commodities), if the Secretary determines that such production is needed to provide adequate supplies, will probably not increase the cost of price-support programs, and will not adversely affect farm income.

Table 3—Wheat acreage reduction program

Crop year	Allowable reduction: With carryover stocks of 1 billion bushels or less	Allowable reduction: With carryover stocks greater than 1 billion bushels
	Percent	
1986	0 - 15	1/ 15 - 22 1/2
1987	0 - 20	20 - 27 1/2
1988-90	0 - 20	20 - 30

1/ A 2 1/2-percent paid land diversion is also required with in-kind payments, if carryover stocks exceed 1 billion bushels. Producers who planted their wheat before the announcement of the 1986 program are eligible for land diversion payments ($2 per bushel) on an additional 10 percent of their crop base.

Table 4—Feed grain acreage reduction program

Crop year	Allowable reduction: With carryover stocks of 2 billion bushels or less	Allowable reduction: With carryover stocks greater than 2 billion bushels
	Percent	
1986	0 - 12 1/2	1/ 12 1/2 - 17 1/2
1987-90	0 - 12 1/2	12 1/2 - 20

1/ A 2 1/2-percent paid land diversion is also required, with in-kind payments, if carryover stocks exceed 2 billion bushels.

At the request of State Agricultural Stabilization and Conservation (ASC) committees, the Secretary must allow haying and grazing on reduced acreage under 1986 programs and grazing only under 1987-90 programs. Haying and grazing are not permitted on any diverted wheat and feed grain acreage during a consecutive 5-month period established by the State ASC committee.

The Secretary may also offer producers a paid land diversion (PLD) program if such payments will assist in obtaining the necessary adjustments in total acreage. A diversion program can be offered whether or not an acreage reduction or set-aside program is in effect. The diverted cropland (in addition to any reduced or set-aside acreage) must be devoted to approved conservation practices. Payment amounts may be determined by bids submitted by producers or other such means as the Secretary deems appropriate. The total acreage to be diverted in any county must be limited so as not to adversely affect the local economy. For the 1986 crops of wheat and feed grains, a 2 1/2-percent PLD is required if carryover stocks exceed 1 billion bushels of wheat and 2 billion bushels of corn; payments will be made in-kind. Producers who planted wheat prior to the announcement of the 1986 programs are also eligible for diversion payments of $2 per bushel for an additional 10 percent of their wheat base.

The Secretary may make inventory reduction payments to producers who agree to forgo obtaining loans and receiving deficiency payments and who limit the amount of wheat and feed grains planted for harvest to the crop acreage base less half of any acreage to be diverted by an ARP and PLD. Payments would be made in-kind, subject to availability. The payment rate and quantity would be the same as those determined for loan deficiency payments.

Any set-aside, reduced, or diverted acreage may be used for wildlife food plots or habitats, based on standards determined by the Secretary in consultation with wildlife agencies. The Secretary may authorize USDA to pay for part of the cost of establishing the plots. USDA may also pay for part of approved soil and water conservation practices on set-aside, reduced, or diverted acreage.

The main differences between these provisions and those in the 1981 Act are the acreage reduction percentages and how the crop acreage bases are calculated. Under the 1981 Act, the amount of acreage to be taken out of production was left to the discretion of the Secretary. Congress later changed that. The Omnibus Budget Reconciliation Act of 1982 required a 15-percent ARP and a 5-percent PLD for the 1983 wheat crop and a 10-percent ARP and 5-percent PLD for the 1983 feed grains crop. The diversion payment rates were also set in the legislation at $3 per bushel for wheat and $1.50 per bushel for corn, but the Secretary could reduce the levels by 10 percent if the program's objectives could be met with a lower rate. The PLD rates for grain sorghum, oats, and barley were set at rates fair and reasonable in relation to corn.

The Agricultural Programs Adjustment Act of 1984 mandated a 20-percent ARP and a 10-percent PLD for the 1984-85 crops of wheat. Cash payments for the land diversion were $2.70 per bushel. For the 1984 crop only, the Secretary was required to offer producers a voluntary PIK diversion program for an additional 10-20 percent of their base. The 1984 Act also authorized an ARP of up to 15 percent for the 1985 crop of feed grains.

Title X changes the formula by which crop acreage bases are calculated.

Cross Compliance

If an acreage reduction program is in effect for wheat or feed grains, the Secretary may require, as a condition of eligibility for loans and purchases, that the acreage planted to any other program crop with an ARP in effect be limited to the acreage base for that crop. Discretionary cross compliance is a provision of P.L. 99-253 (app. 2). If a set-aside is in effect, compliance with other commodity programs may be a condition of eligibility for loans, purchases, or payments.

Wheat Marketing Quotas

The Secretary is required to conduct a nonbinding poll (by mail ballot) of eligible wheat producers by July 1, 1986, to determine whether they favor mandatory production limits. To be eligible to vote, farmers must have produced at least one crop of wheat during 1981-85 on a wheat acreage base of at least 40 acres.

The Secretary may set national marketing quotas for the 1987-90 crops of wheat. If quotas are announced, a referendum must be held by August 1, 1986, to determine whether farmers (who have produced at least one crop of wheat during 1981-85) favor quotas or not. If 60 percent of those voting favor quotas, the Secretary must proclaim quotas for the 1987-90 wheat crops. Each farm's marketing quota would then be determined by multiplying the farm's average production during 1981-85, adjusted for acreage reduction programs, by the ratio of the national quota to U.S. production during 1981-85, adjusted for ARPs and natural disasters.

If marketing quotas are in effect, the target price would be established at not less than $4.65 per bushel or the national average cost of production per bushel, whichever is higher. The loan rate would be set at $3.55 per bushel, or 75 percent of the national average cost of production, whichever is higher. The cost of production, as determined by the Secretary, must reflect variable expenses, general farm overhead, taxes, insurance, interest, and capital replacement costs, but exclude residual returns for management and risk.

Other Provisions

The 1985 Act also includes the following provisions for wheat and feed grains.

Price Support for Corn Silage

During crop years 1986-90, the Secretary may make loans and purchases available to producers who cut, purchase, or exchange corn for silage and agree to participate in an acreage reduction or set-aside program. The Agricultural Programs Adjustment Act of 1984 contained similar provisions for crop years 1984-85.

Export Certificates for Wheat and Feed Grains

Title X contains provisions for two optional export certificate programs for wheat and feed grains.

Corn Marketing Year

Title X changes the marketing year for corn from October 1-September 30 to September 1-August 31.

1986 Programs

On January 13, 1986, the Secretary announced the target prices, loan rates, and acreage reductions applicable to the 1986 crops of wheat and feed grains. Target prices will be held at 1985 levels: $2.60 per bushel for barley, $3.03 for corn, $2.88 for grain sorghum, $1.60 for oats, and $4.38 for wheat. Loan rates for 1986 were set at $1.56 per bushel for barley, $1.92 for corn, $1.82 for grain sorghum, $0.99 for oats, $1.63 for rye, and $2.40 for wheat. The Secretary reduced the wheat and corn loan rates the full 20 percent from the basic levels. The feed grain target prices and loan rates are based on the feed value of barley, grain sorghum, oats, and rye compared with corn; the values are 81.5, 95, 51, and 85 percent, respectively. The required acreage reductions for 1986 are 25 percent for wheat and 20 percent for feed grains. The 2 1/2-percent paid land diversions for wheat and feed grains required by the 1985 Act are included in the reductions. Winter wheat producers who limit the acreage planted for harvest to 65 percent of their wheat base may be eligible to receive diversion payments on 10 percent of the wheat acreage base.

On January 29, 1986, the Secretary announced that producers may request 100 percent of their diversion payments and 40 percent of their projected deficiency payments when they sign up for the program. Payment rates for the 2 1/2-percent PIK paid land diversion will be $0.57 per bushel for barley, $0.73 for corn, $0.65 for grain sorghum, $0.36 for oats, and $1.10 for wheat. The cash payment rate for the additional diversion for winter wheat is $2 per bushel. Producers who have price-support loans--regular, special, or farmer-owned reserve--on any commodity on the day the advance payment is requested must make that loan collateral available to satisfy their PIK obligation. Producers who do not have commodities under loan, or producers whose commodities under loan are insufficient to meet their PIK entitlements, will be issued negotiable certificates in the net remaining monetary amount due them.

TITLE V: COTTON

The 1985 Act continues the cotton programs through crop year 1990, with some significant additions aimed at making cotton more competitive in world markets. Marketing loans--with two different repayment plans--and marketing certificates paid to first handlers of Upland cotton are required when the world market price is below the loan rate.

Target Prices and Price-Support Loans

The minimum target price for Upland cotton decreases from $0.81 per pound for the 1986 crop to $0.729 per pound for the 1990 crop (table 5). The 1981 Act, in comparison, set minimum target prices for Upland cotton that increased from 71 cents per pound to $0.86 per pound for the 1982-85 crops (app. 1). The Agricultural Programs Adjustment Act of 1984, however, eliminated the increase for 1985 and the target price remained at the 1984 level of 81 cents per pound.

Nonrecourse loans will be available for the 1986-90 crops of Upland cotton. The minimum 1986 loan rate will be at least $0.55 per pound. The loan levels for the 1987-90 crops will again be determined by using the formula in the 1981 Act:

- 85 percent of the average spot market price for Strict Low Middling 1 1/16-inch (SLM 1 1/16") Upland cotton (micronaire 3.5-4.9) at average U.S. location

Table 5—Upland cotton program levels, crop years 1986-90

Item	1986	1987	1988	1989	1990
			Cents per pound		
Target price	81	79.4	77	74.5	72.9
Loan rate	55	1/	1/	1/	1/
			Percent		
Maximum acreage reduction	25	25	25	25	25

1/ See text for the formula that will be used to determine the loan rate for crop years 1987-90.

during 3 years of the 5-year period (excluding the years with highest and lowest prices) ending July 31 in the year in which loan level is announced, or

- o 90 percent of the average adjusted price of the five lowest priced growths quoted for Middling 1 3/32-inch cotton, c.i.f. (cost, insurance, freight) Northern Europe for the 15-week period beginning July 1 of the year in which the loan level is announced, whichever is lower.

The loan rate cannot be reduced by more than 5 percent from the preceding year's rate and in no event less than $0.50 per pound. The minimum in the 1981 Act was $0.55.

If the average Northern Europe price is less than the average U.S. spot market price for any crop, the Secretary may increase the loan level to no more than the average U.S. spot market price. The Secretary must determine and announce the loan level for any Upland cotton crop no later than November 1 of the calendar year preceding the marketing year for which the loan applies.

As in the 1981 Act, Upland cotton loans will mature 10 months from the first day of the month in which the loan is made. During the 10th month of the loan period, producers may extend their loan for an additional 8 months. Requests to extend the loan period will not be approved, however, when the average spot market price of SLM 1 1/16" cotton in the preceding month exceeds 130 percent of the average spot price for the preceding 36-month period.

Loan Repayment

If the world market price for Upland cotton (adjusted to U.S. quality and location) is below the loan level, the Secretary must implement a loan repayment plan (marketing loan) to make U.S. cotton more competitive in world markets. The Secretary may implement either of two plans.

- o Under Plan A, producers may repay their loans at a level announced at the same time the loan rate is announced. The repayment level cannot be less than 80 percent of the loan rate and, once announced, cannot be changed.

- o Under Plan B, producers may repay their loan at the prevailing world market price for Upland cotton (adjusted to U.S. quality and location) or the loan level, whichever is lower. For the 1987-90 crops, if the world market price is less than 80 percent of the loan level, producers may repay their loan at a rate (not more than 80 percent) that the Secretary estimates will minimize loan forfeitures, accumulation of stocks, and Government storage costs and that will allow free marketing of cotton in domestic and international markets.

The Secretary may offer Upland cotton producers loan deficiency payments. Producers eligible to obtain loans must agree not to receive them. As with wheat and feed grains, payments are determined by multiplying the loan payment rate (loan level minus repayment level) by the amount of cotton eligible for the loan. As much as half of the payment may be made in negotiable marketing certificates.

Marketing Certificates

The CCC must issue negotiable marketing certificates to first handlers of cotton (individuals or businesses who regularly buy or sell Upland cotton) who have entered into agreements with the CCC to participate in the certificate program if either plan A or plan B fails to make U.S. Upland cotton fully competitive in world markets and the world market price (adjusted to U.S. quality and location) is below the loan repayment rate. The value of the certificates is based on the difference between the loan repayment rate and the world market price. Handlers may redeem the certificates for cash, CCC-owned cotton, or other commodities. Certificate owners, to the extent practicable, can designate the storage facility and commodities they wish to receive. If a handler does not present a certificate to the CCC for redemption within a reasonable number of days after issuance, as determined by the Secretary, the CCC will deduct reasonable storage costs and other carrying charges from the value of the certificate. Any price restrictions on the disposition of CCC commodities do not apply to the redemption of certificates. Certificates are transferable as approved by the Secretary. Further, the Secretary must ensure that certificate commodities will not adversely affect income of producers. Payments must be made in the form of marketing certificates as necessary to make new cotton in inventory on August 1, 1986, available at competitive prices.

For both the marketing loan and the market certificates, the Secretary must issue a formula defining the world market price and a mechanism for periodic announcement of such price.

National Program Acreage

As under the 1981 Act, the 1985 Act establishes the NPA for Upland cotton at 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, plus any desired increase or decrease in carryover stocks. The Secretary must announce the NPA for Upland cotton no later than November 1 of the preceding calendar year, and the NPA must be at least 10 million acres. The program allocation factor for Upland cotton is again computed by dividing the NPA by the number of acres the Secretary estimates will be harvested. The allocation factor may not exceed 100 percent. Whenever an acreage reduction program (ARP) is in effect, the NPA and allocation factor need not be calculated.

Farm Program Acreage

A farm's individual program acreage for Upland cotton is determined, as in the 1981 Act, by multiplying the allocation factor times the acreage planted to Upland cotton on the farm. The individual farm program acreage with an ARP in effect is the acreage on the farm planted to cotton for harvest within the permitted acreage. The permitted acreage is the crop acreage base for Upland cotton less the percentage reduction required by the ARP.

As with wheat and feed grains, if producers plant at least 50 and less than 92 percent of their permitted cotton acres and devote the rest to nonprogram crops (any agricultural commodity other than wheat, feed grains, Upland cotton, ELS cotton, rice, or soybeans), the individual farm program acreage is set at 92 percent of the permitted acreage for the purpose of calculating deficiency payments. Any acreage considered planted may not be used as conserving acreage in any ARP or PLD.

Title X establishes the formulas by which crop acreage bases and farm program payment yields are calculated under a new acreage base and program yield system for wheat, feed grains, Upland cotton, and rice.

Deficiency Payments

USDA will again make deficiency payments to participating Upland cotton producers if the national average market price received by farmers is below the target price during the calendar year which includes the first 5 months of the marketing year. The payment rate is the difference between the target price and the national average price or the loan rate, whichever is higher. The quantity on which payments are made is determined by multiplying the individual farm program acreage by the farm program payment yield. Up to 5 percent of these payments may be made as a payment-in-kind (PIK). The total quantity on which deficiency payments are made will be reduced by the amount on which any disaster payment is made.

Disaster Payments

The disaster provisions for Upland cotton are the same as those for wheat and feed grains. (See page 9.)

Acreage Reduction

The 1985 Act continues the Secretary's authority to implement acreage reduction and land diversion programs. The Secretary must operate any acreage reduction program to result in carryover stocks of 4 million bales of Upland cotton to the extent practicable. Figure 4 shows the areas where Upland cotton is produced in the United States. The amount of acreage placed in the conservation reserve must be considered when determining the need for any acreage reduction. The Secretary must announce an ARP by November 1 of the calendar year preceding the year in which the crop is harvested. The acreage limit is determined by reducing the crop acreage base of each farm by a uniform percentage, not to exceed 25 percent.

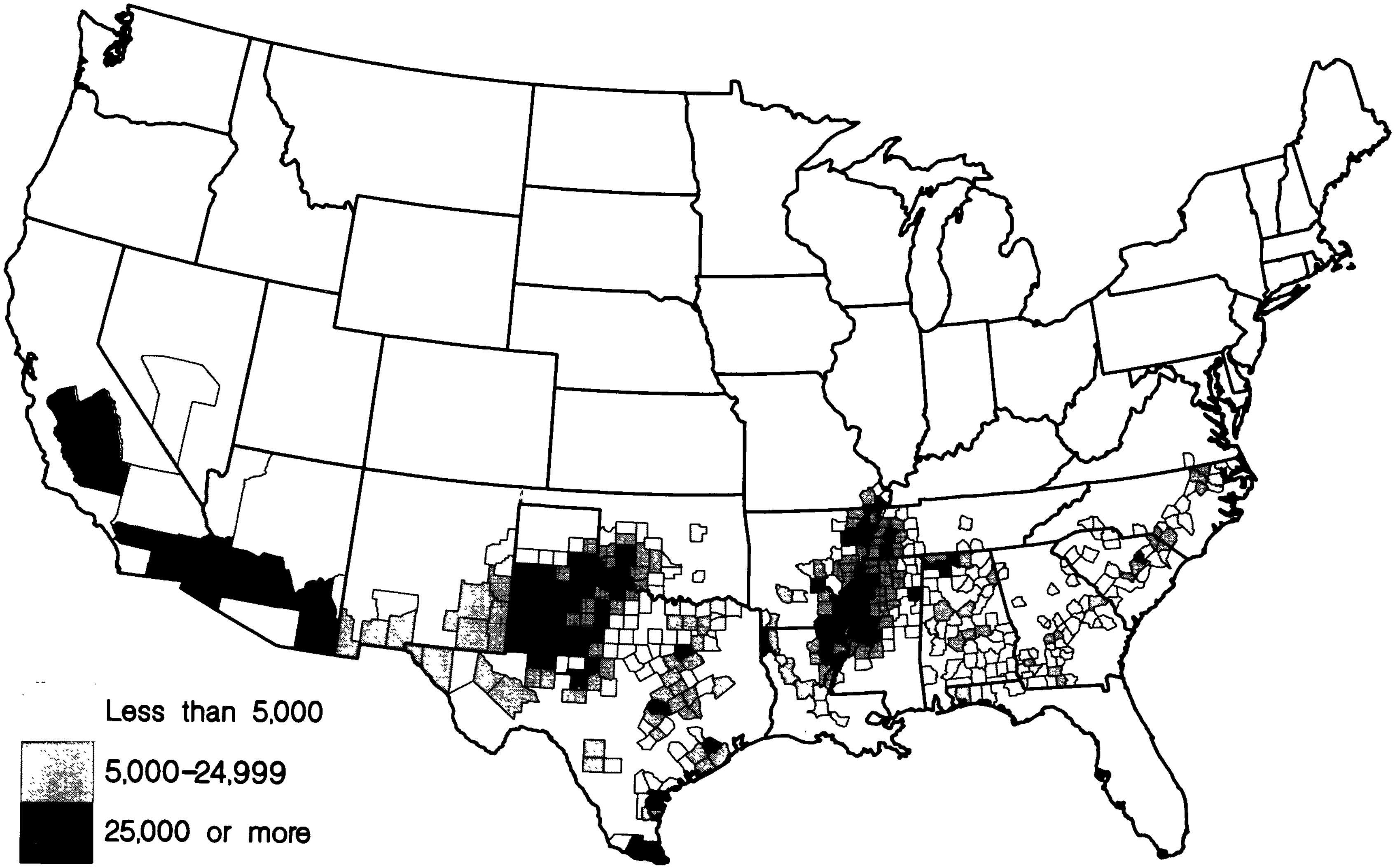
When an ARP is in effect, a certain percentage of each farm must be devoted to conserving uses. The amount is determined in the same manner as for wheat and feed grains. As with those programs, the Secretary may allow all or part of the reduced acreage to be devoted to certain designated nonprogram crops if such production is needed to provide adequate supplies, will not increase the cost of price-support programs, and will not adversely affect farm income.

The provision for haying and grazing on reduced acreage is the same as for the wheat and feed grain programs.

As under the 1981 Act, the Secretary may offer producers a paid land diversion (PLD) if such payments will help adjust the total national acreage to desired levels. Payments may be made whether or not an ARP for Upland cotton is in effect. The Secretary may determine amounts payable through the submission of bids or other means, as appropriate. The Secretary must limit the total acreage to be diverted in any county so as not to adversely affect the local economy. Diverted land must be devoted to conservation uses. Reduced or diverted acreage may again be used for wildlife food plots or habitats and the Secretary may authorize USDA to pay for part of the cost.

Figure 4

Harvested Acres of Cotton, by County, 1982



U.S. Total: 9,737,798 acres

Inventory reduction payments may be made to producers who agree to forgo obtaining loans and receiving deficiency payments and who do not plant Upland cotton for harvest in excess of the crop acreage base less half of any acreage required to be diverted from production under an ARP and PLD. Payments would be made in-kind, subject to availability. The payment rate and quantity would be the same as that determined for loan deficiency payments.

The 1981 Act gave the Secretary the discretion to set ARP and PLD levels with no restrictions. Congress later intervened with the Agricultural Programs Adjustment Act of 1984 for the 1985 crop of Upland cotton. If stocks in the United States on July 31, 1985, exceeded 3.7 million bales, the Secretary had to implement a PLD of at least 5 percent and was authorized to use an ARP of up to 20 percent. The payment rate for the PLD depended on carryover stocks on July 31, 1985--27.5 cents per pound if stocks were above the trigger level of 3.7 million bales, 30 cents per pound if stocks exceeded 4.1 million bales, and 35 cents per pound if stocks exceeded 4.7 million bales. The 1985 Act, on the other hand, limits the acreage reduced under an ARP to 25 percent and targets carryover stocks at 4 million bales.

Cross and Offsetting Compliance

The Secretary may require, as a condition of eligibility for Upland cotton loans and payments, that the acreage planted to any other program crop with an ARP in effect be limited to the acreage base for that crop. Also, USDA may not require a producer to comply with the program on one farm to be eligible for loans and payments on another.

Extra Long Staple Cotton

The Extra Long Staple Cotton Act of 1983 deleted the marketing quota and allotment provisions for extra long staple (ELS) cotton from permanent law and replaced it with program provisions similar to those for Upland cotton. Beginning with the 1984 crop, nonrecourse loans are available for a 10-month period with a possible 8-month extension. The 1983 Act sets target prices at 120 percent of the loan level. USDA makes deficiency payments to producers whenever the average market price received by producers is below the target price. The payment rate is the difference between the target price and the average market price during the first 8 months of the marketing year or the loan rate, whichever is higher.

The quantity of ELS cotton eligible for deficiency payments is determined by multiplying the farm program payment yield by the acreage planted to ELS cotton for harvest. ARP's and PLD's are authorized. Crop acreage bases and farm program payment yields are based on the average planted acreage and the actual yields during the preceding 3 years, adjusted for natural disasters.

The 1985 Act changes the calculation of the loan rates for crop years 1986-90. The loan rate formula is 85 percent of the average market price received by producers during 3 years of the 5-year period (excluding the years with the highest and lowest prices) ending July 31 in the year in which the loan level is announced. The announcement date for the loan is also changed from November 1 to December 1. Under the 1983 Act, the loan rate was set at not less than 150 percent of the Upland cotton loan level.

Other Provisions

The 1985 Act also contains the following additional provisions affecting cotton.