

THE ROLE OF GOVERNMENT IN MARKETING

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Major Farm Program Components

1. Market Transition Payments
 - provides supplemental income

2. Federal Crop Insurance
 - yield coverage for major crops
 - price (revenue) coverage is lacking

3. Market Assistance Loan Program
 - intended for temporary financing
 - provides a revenue floor per bushel or cwt.

Market Transition Payments

- predetermined fixed annual payments
- payment levels decline from 1996 to 2002
- market loss adjustment payments added in 1998 and 1999
- market loss adjustment payment likely for 2000

Federal Crop Insurance

- catastrophic coverage delivered through the private sector
- eliminates linkage between crop insurance and other farm programs
- office of Risk Management established
- mandated a pilot revenue insurance program

Market Assistance Loan Program

- provides for non-recourse commodity loans and marketing loans
- rates based on moving average of past market prices
- maximum loan rates set equal to 1995 rates
- provides a minimum loan level for soybeans and minor oilseeds
- increases interest rate 100 basis points
- the Secretary must attempt to minimize forfeitures
- marketing loans do not set a price floor
- does not allow our competitors to benefit from our loan program

What is a marketing loan?

- a commodity loan that may be repaid at less than face value
- non-recourse loans, meaning CCC must accept the collateral as full payment
- provides a guaranteed minimum price for the quantity under loan
- commodity must meet minimum quality specifications

What is the purpose of marketing loans?

- provide temporary financing for up to nine months
- reduces the need to sell during harvest when price is typically the lowest
- reduces the amount of commodity under loan that will be forfeited to CCC
- U.S. loan rate cannot be used by other producing countries as a price safety net
- minimizes negative market impact of large CCC stocks
- permits prices to fall to market clearing levels while providing a floor under income
- interferes less with the market's goal of balancing supply with demand

How are loan rates determined?

- starts with legislatively determined national average loan rate
- no higher than 85% of average market prices for preceding five years with the high and low years dropped
- wheat and corn rates may not be higher than 1995 rates
- maximum rate for soybeans may not exceed \$5.26
- minimum rate for soybeans is \$4.92
- maximum rate for minor oilseeds is \$0.093
- minimum rate for minor oilseeds is \$0.087
- Secretary may make additional adjustments based on stocks/use ratio

**If stocks-to-use
ratio is:**

For wheat:

Equal to or greater than 30 percent
15 to 30 percent
Less than 15 percent

For corn:

Equal to or greater than 25 percent
12.5 to 25 percent
Less than 12.5 percent

**The loan rate may
be reduced by:**

Up to 10 percent
Up to 5 percent
No adjustment

Up to 10 percent
Up to 5 percent
No adjustment

The Secretary of Agriculture must allow producers the option of repaying loans at levels below the original loan rate to reduce the likelihood that commodities pledged as collateral for a loan will be forfeited in satisfaction of the loan.

Loan Repayment Options

1. Sell the crop and repay the loan (principal plus interest)
2. Repay the loan at the posted county price and keep the difference
3. Forfeit the collateral and keep the loan amount

Marketing Loan Gain

- the amount by which the applicable loan rate exceeds the market loan repayment rate (PCP) for the respective loan
- accrued interest that is forgiven is not considered marketing loan gain

Final loan and loan deficiency payment availability date

- the final day to apply for a loan or a loan deficiency payment (LDP) on 1999 crop wheat, barley and oats is March 31, 2000

Loan Deficiency Payment (LDP)

- producers who are eligible to obtain a loan, but who agree to forgo the loan, may obtain a loan deficiency payment
- the LDP rate equals the amount by which the applicable county loan rate where the grain is stored exceeds the market loan repayment rate
- the LDP rate is subject to change daily for wheat, feed grains and soybeans; and weekly for minor oilseeds

Production Evidence

- producers who receive a marketing loan gain or LDP must provide production evidence to CCC such as:
 - sales receipts
 - warehouse receipts
 - load summary
 - assembly sheets

Posted County Price (PCP)

- theoretically represents the local market price
- the value per bushel that a producer may repay a loan
- subtracted from the county loan rate yields the current LDP

How is the posted county price calculated?

- the county differential for each loan commodity is subtracted from the current terminal market price
- from time to time adjustments to the differential are also applied to account for changes in local market conditions (change in basis)
- two terminal markets, one domestic and one export, are used for most commodities
- each terminal market has a separate differential
- the higher of the two posted county price calculations is used
- each week KCCO calls 187 locations to monitor prices of cash vs. PCP

Terminal Market Price

- Kansas City CCC calls buyers at terminal market locations to collect contract prices for cash grain sales
- the terminal market price is reduced by a differential to derive PCP

Differential

- the differential is based on the historic price relationship between local market prices and the assigned terminal market. They are intended to reflect yearly averages, not daily.

Beneficial Interest

- in order to be eligible for CCC marketing loans and LDPs, producers must retain beneficial interest in the commodity
- the producer must retain control of the commodity
- the producer must be at risk for loss
- the producer must have title to the commodity
- sales contracts may impact beneficial interest
- beneficial interest was waived for 1999 only

LDP Applications

- Field Direct LDP, form CCC-709
 - use this form for crops that will be hauled directly to the buyer
 - must be completed before harvest takes place
 - can cover all production delivered to any buyer
 - can cover all production delivered to a specific buyer
 - can cover a specific quantity delivered to a buyer
 - can cover only amount delivered to a buyer and immediately sold
 - can specify all farms or any specific farm
 - the LDP rate is the rate in effect on the date of delivery

LDP Applications (continued)

- Form CCC-666
 - use for production that is placed into storage and beneficial interest is retained
 - covers a specific quantity
 - crop may be stored on the farm or in a warehouse
 - the LDP rate is the rate on the day of application

Commodities Harvested for Other Than Grain

- marketing loans and LDPs are available for commodities harvested for other than grain
- most common examples would be small grain hay and corn silage
- loans are severely discounted
- LDP is figured in the normal manner
- yield is based on other acreage of the same crop harvested as grain

Quantity Eligible for Loan or LDP

- all wheat and feed grains produced on farms with a PFC contract
- all production of soybeans and minor oilseeds, need not have a PFC contract
- producers must have filed a planted acreage report

Production Evidence

- producers who receive a marketing loan gain or a LDP must provide evidence of production
- acceptable evidence may include sales or warehouse receipts, load summaries and assembly sheets

Loan or LDP

- grain contracted for harvest delivery, take LDP if available
- take the LDP at harvest and hold cash grain while speculating on average seasonal price increases
- hold the grain unpriced and when ready to sell take the LDP if available and sell immediately
- take out a loan until seasonal price patterns begin to develop

Taking the LDP when you think prices are at their low for the season and holding the cash grain for price improvement offer the most potential for increasing revenue over loan but also increases the risk of getting less than loan.

Take the loan and use the 60-day lock on PCP. This is a lower risk means of capturing both a favorable marketing loan gain and a better market opportunity.

Marketing Loan Examples Under Various Price Scenarios (\$ per bushel)

		Price Scenario		
		1	2	3
1.	Loan rate	2.58	2.58	2.58
2.	Loan rate plus accrued interest ^{1/}	2.72	2.72	2.72
3.	Market loan repayment rate	3.00	2.65	2.50
4.	Loan repayment rate (lower of 2 or 3)	2.72	2.65	2.50
5.	Marketing Loan Gain	0.00	0.00	0.08
6.	Waived Interest	0.00	0.07	0.14

^{1/} Interest for 9 months based on 7 percent annual interest rate.

Williams County Average Differential Listing As of April 17, 1998

County Average Williams	Hard Red Winter Wheat	.87 MPL-Minneapolis	1.37 PNW-Portland/Seattle
	Hard Spring Wheat	.81 MPL-Minneapolis	1.28 PNW-Portland/Seattle
	Hard Amber Durum Wheat	.91 DUL-Duluth	
	Yellow Corn	.06 MIN-Minnesota	.67 PNW-Portland/Seattle
	Barley	.37 MIN-Minnesota	.85 PNW-Portland/Seattle
	Oats	.33 MPL-Minneapolis	
	Sorghum	1.29 GLF-Texas Gulf	.67 KCM-Kansas City

Post Harvest Price Increase

Assumptions		Transaction	Strategy 1	Strategy 2	Strategy 3	Strategy 4
County wheat loan rate	\$2.50		Sell at Harvest	Take LDP-Sep 1	Take loan - Aug 31	Take loan Aug 31
Loan Interest Rate	6%		LDP at harvest	Sell cash - Dec 1	Repay loan - Mar 1	60-day lock - Oct 1
Aug 31 local cash price	\$2.25				Sell cash - Mar 1	Repay loan - Dec 1
Aug 31 PCP	\$2.25	Cash Sale	\$2.25	\$2.50	\$2.60	Sell Cash - Dec 1
Oct 1 local cash price	\$2.35	LDP	\$0.25	\$0.25	0	
Oct 1 PCP	\$2.35	Loan Proceeds	--	--	\$2.50	\$2.50
Dec 1 local cash price	\$2.50	Gross Return	\$2.50	\$2.75	\$5.10	\$5.00
Dec 1 PCP	\$2.50	Loan Repayment	--	--	\$2.58	\$2.35
Mar 1 local cash price	\$2.60	Opportunity Cost	--	\$0.07	--	--
Mar 1 PCP	\$2.60					
May 15 local cash price	\$2.65					
May 15 PCP	\$2.65	Net Return	\$2.50	\$2.68	\$2.52	\$2.65

Post Harvest Price Decrease

Assumptions		Transaction	Strategy 1	Strategy 2	Strategy 3	Strategy 4
County wheat loan rate	\$2.50		Sell at Harvest	Take LDP-Sep 1	Take loan - Aug 31	Take loan Aug 31
Loan Interest Rate	6%		LDP at harvest	Sell cash - Dec 1	Repay loan - Mar 1	60-day lock - Oct 1
Aug 31 local cash price	\$2.25				Sell cash - Mar 1	Repay loan - Dec 1
Aug 31 PCP	\$2.25	Cash Sale	\$2.25	\$2.20	\$2.10	Sell Cash - Dec 1
Oct 1 local cash price	\$2.30	LDP	\$0.25	\$0.25	0	
Oct 1 PCP	\$2.30	Loan Proceeds	--	--	\$2.50	\$2.50
Dec 1 local cash price	\$2.20	Gross Return	\$2.50	\$2.45	\$4.60	\$4.70
Dec 1 PCP	\$2.20	Loan Repayment	--	--	\$2.10	\$2.25
Mar 1 local cash price	\$2.10	Opportunity Cost	--	\$0.07	--	--
Mar 1 PCP	\$2.10					
May 15 local cash price	\$2.20					
May 15 PCP	\$2.20	Net Return	\$2.50	\$2.38	\$2.50	\$2.45

BARLEY

Marketing Year	Average Price
1986-87	1.63
1987-88	1.82
1988-89	2.77
1989-90	2.23
1990-91	2.32
1991-92	2.36
1992-93	2.36
1993-94	2.05
1994-95	2.18
1995-96	2.94
1996-97	3.04
1997-98	2.74
1998-99	2.26

DURUM WHEAT

Marketing Year	Average Price
1986-87	2.73
1987-88	3.32
1988-89	5.02
1989-90	3.39
1990-91	2.82
1991-92	2.74
1992-93	3.04
1993-94	4.34
1994-95	4.92
1995-96	5.14
1996-97	4.76
1997-98	5.06
1998-99	3.38

SPRING WHEAT

Marketing Year	Average Price
1986-87	2.70
1987-88	2.71
1988-89	4.01
1989-90	3.63
1990-91	2.86
1991-92	3.16
1992-93	3.57
1993-94	3.59
1994-95	3.49
1995-96	4.47
1996-97	4.45
1997-98	3.65
1998-99	3.15

WINTER WHEAT

Marketing Year	Average Price
1986-87	2.40
1987-88	2.61
1988-89	3.72
1989-90	3.78
1990-91	2.63
1991-92	3.10
1992-93	3.31
1993-94	3.19
1994-95	3.37
1995-96	4.57
1996-97	4.48
1997-98	3.50
1998-99	2.80

FEEED BARLEY
SMALLER THAN EXPECTED NEW CROP SUPPLY

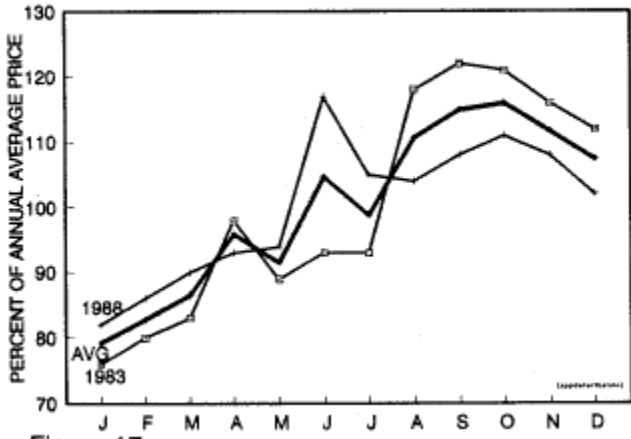


Figure 17.

FEED BARLEY
LARGER THAN EXPECTED NEW CROP SUPPLY

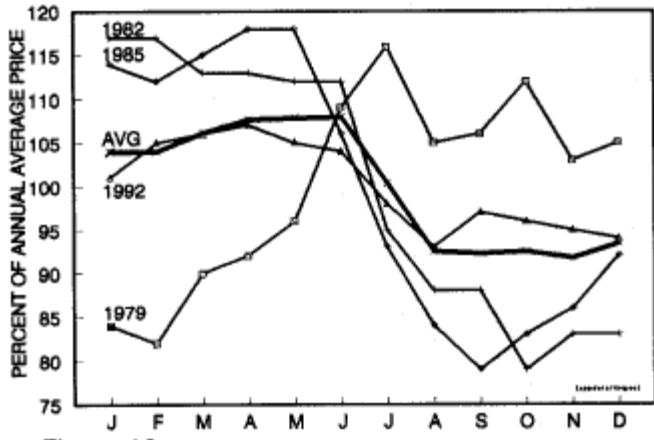


Figure 18.

HARD RED SPRING WHEAT

SMALLER THAN EXPECTED NEW CROP SUPPLY

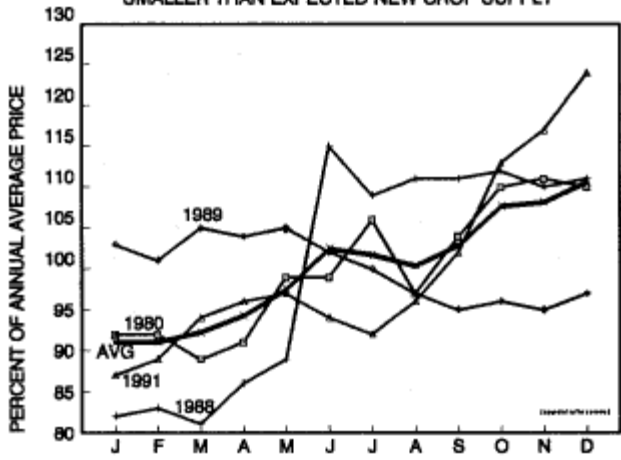


Figure 2.

MALTING BARLEY
SMALLER THAN EXPECTED NEW CROP SUPPLY

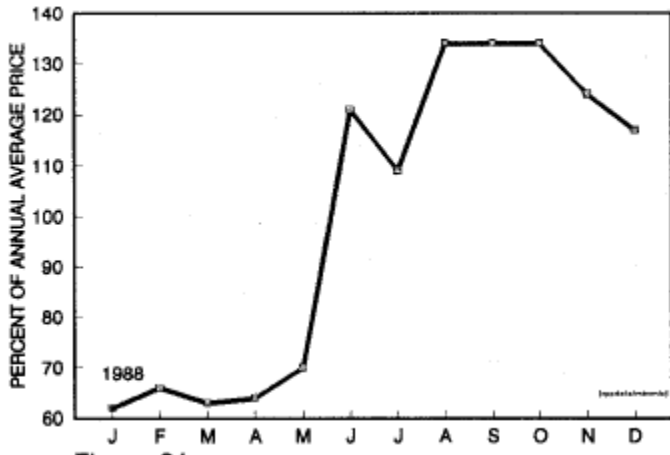


Figure 21.

MALTING BARLEY
LARGER THAN EXPECTED NEW CROP SUPPLY

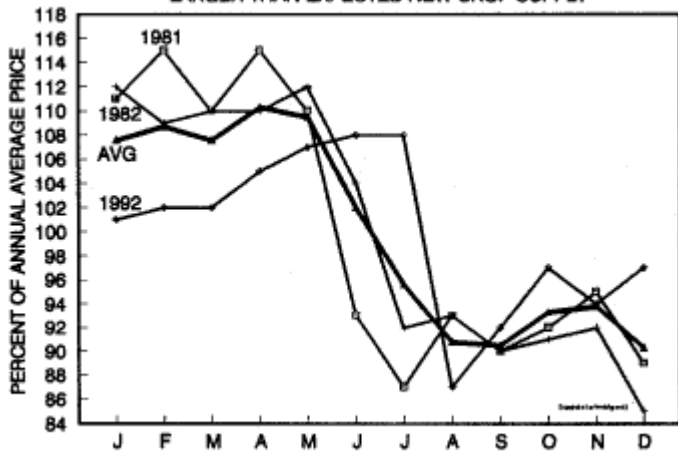


Figure 22.

HARD RED SPRING WHEAT

LARGER THAN EXPECTED NEW CROP SUPPLY

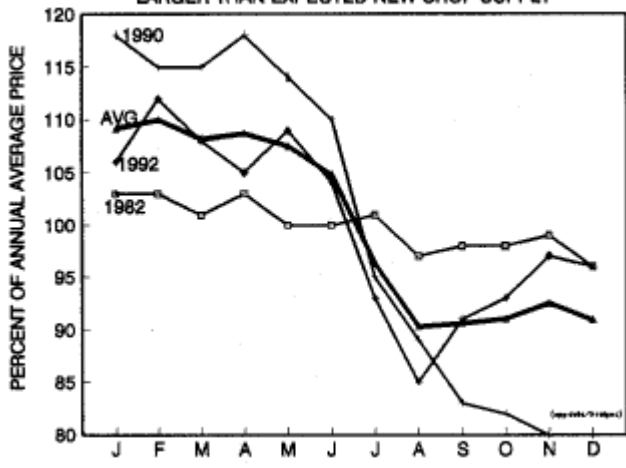


Figure 3.

HARD RED SPRING WHEAT

SEPTEMBER FUTURES MGE

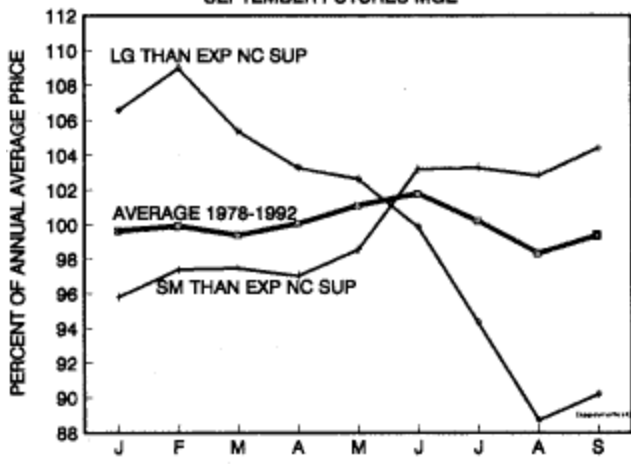


Figure 4.

HARD AMBER DURUM
SMALLER THAN EXPECTED NEW CROP SUPPLY

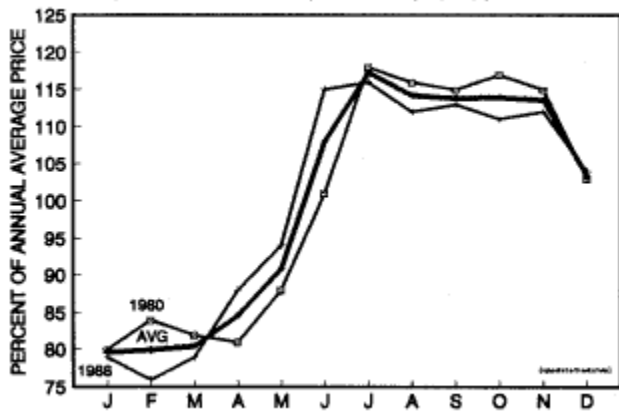


Figure 8.

HARD AMBER DURUM
LARGER THAN EXPECTED NEW CROP SUPPLY

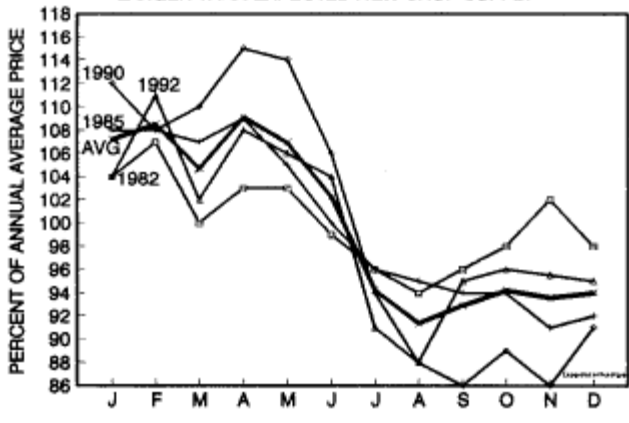


Figure 9.