

JOINT MEETING

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE & SMALL BUSINESS  
3rd Floor & HOUSE AGRICULTURE & LIVESTOCK COMMITTEE  
Held in Room OLD SUPREME CT at the Statehouse at 9:15 a. m. ~~XXXX~~

on Wednesday, January 12, 1983, 19    .

All members were present except: Senator Dan Thiessen (Excused)

The next meeting of the Committee will be held at 10:15 a. m. ~~XXXX~~  
on Wednesday, January 12, 1983, 19    .

These minutes of the meeting held on Wednesday, January 12, 1983, 19     were considered, corrected and approved.

  
Chairman

1/13/83

The conferees appearing before the Committee were:

Congressmen Dan Glickman and Pat Roberts

Senator Kerr called the meeting to order. He welcomed the joint committee members and Congressmen Glickman and Roberts who are in Topeka attending the Board of Agriculture meetings. Senator Kerr stated we are fortunate in that both are members of the House Agriculture Committee and are knowledgeable relative to the payment-in-kind program just announced by the administration and the problems relating to grain elevators which will be discussed before both committees in the next few weeks. He then turned the meeting over to Representative Fuller, Chairman of the House Agriculture and Livestock Committee. Representative Fuller stated in these critical times there should be close cooperation and communication between the state legislatures and the Congress.

Congressman Glickman, Chairman of the Sub-committee on Grain Warehousing, stated they had worked a long time on the bill presented to last year's Congress, although it did not get through Congress. He wondered just how far we can remedy bankruptcy laws and prorationing of assets. He asked if there should be a federal insurance fund established to insure assets; if so, should it be voluntary or mandatory and who would pay the fees? He feels there is a real need to accelerate determination of ownership and accelerating distribution of cash and perhaps insure assets.

He stated the PIK program is an innovative idea. He noted there are several questions. Should there be some support program? Will it cause a deluge of grain since the farmers need money? Should it contain mandatory production controls? Would there be depressing effects unless there is a schedule?

Congressman Roberts stated he felt more upbeat and optimistic this week than anytime during the last two years. He thinks the PIK announcement is an upbeat kind of message but perhaps should have begun in 1980-81, since there have been four crop years below cost of production. He feels the contract sanctity bill (CFTC) to be beneficial since after an export contract has been entered into it could not be broken by an embargo or government order, except in case of war or a national emergency, until after a period of 270 days.

(MORE)

CONTINUATION SHEET

JOINT

MINUTES OF THE HS & SENATE COMMITTEES ON AGRICULTURE

OLD SUPREME COURT  
room \_\_\_\_\_, Statehouse, at 9:15 a.m./~~p.m.~~ on Wednesday, January 12, 1983, 19\_\_

Congressman Roberts stated he feels Secretary Block has come up with something positive and viable. Too many people in Washington want to use the farmers, i.e., Department of Defense, State Department and National Security Council. He also stated we have real problems with trade in Japan and Europe. A strong export program is needed. The supply management problem has to be addressed. Sign-up time under the PIK program is January 24, with closing date of March 11. (Note Attachment 1 to original minutes)

In answer to a question relative to the effects of the PIK program on suppliers, Congressman Glickman stated any meaningful supply program will have an effect and hurt agro business. He feels a farm crisis bill in some form should be introduced. He feels we need to get into a free market.

Congressman Roberts stated the PIK program, as written, will run for two years. He stated this program would cost less and reduce production, and emphasized we need a spending freeze in all areas.

Representative Polson questioned the soybean production. Congressman Roberts stated perhaps it would be covered by a regulation.

The meeting was adjourned.

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ATTENTION: DAN, GREG

Attachment 1, 1/12/83

172 St mtg

FACT SHEET  
Payment-In-Kind (PIK)

Background

In the past two years, U.S. and world grain production has reached record levels. Weather also contributed to a sharp jump in world production of oilseeds in 1982, and large cotton crops in foreign countries. At the same time, the sources of strength in the demand for U.S. agricultural products have been eroded by a variety of factors: weak economic conditions in the U.S. and throughout the rest of the world, financial instability in a number of countries, the strong U.S. dollar, losses related to the Soviet embargo, continued East-West tensions, unfair trade practices by some of our export competitors, and restrictive market actions by some foreign buyers.

Rising world production in the face of weakened demand has led to a sharp accumulation in world stocks. By the end of 1982/83, world grain stocks will likely reach a record 260 million tons, nearly double the level of two years ago. This would be equal to two months' supply of grain, the highest global stocks-to-use ratio in more than a decade--and nearly 60 percent of the stocks are in the U.S.

U.S. stocks of nearly all major commodities have increased dramatically. By the end of the current 1982/83 crop year, compared with two years earlier, our ending stocks of rice and feed grains will have tripled. The farmer-owned reserve for corn will have increased twelve-fold approaching 2.5 billion bushels. The wheat reserve will have more than doubled and reached nearly 1 billion bushels. Cotton stocks will be nearly three times larger than two years before.

PIK Program and Impacts

- The PIK program is a land diversion program designed to bring supplies more in line with demand. The Government offers farmers an amount of commodity for reducing acreage by a larger amount than called for under previously announced programs.
- Total harvested acreage for the five crops is expected to be reduced by 23 million acres relative to previously announced program. Total wheat, corn and sorghum production will be reduced by over 1 billion bushels (10 percent) with cotton production reduced by 2.5 million bales (20 percent) and rice production by 21 million cwt. (15 percent).
- Total ending stocks of wheat, corn and sorghum for 1983/84 are expected to be reduced by over 1 billion bushels from levels expected under the previously announced 1983/84 programs and around 600 million bushels below 1982/83 levels. Upland cotton stocks will be reduced by 2.7 million bales relative to earlier expectations for 1983/84 with rice stocks dropping by about 20 million cwt. The PIK program is self-terminating when excessive stocks are reduced.
- Although production will be reduced, total supplies of grains and cotton will be ample to meet both foreign and domestic needs and ensure our role as a reliable supplier.
- Sound conservation practices would be applied to 23 million acres more land than under previously announced 1983 programs.

Atch. 1

2  
FACT SHEET

✓ Farmers can expect to receive the same or greater net returns while the stock adjustments are occurring. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced. Once stocks are reduced significantly through the PIK program, then substantial opportunities for price increases will exist.

• The impact of the PIK program on input industries will be largely due to net returns to farmers and changes in crop acreages. Reduced acreages will likely reduce total input use slightly in 1983 but improved returns in 1983-84 will tend to increase input use. Expenditures for major farm inputs may decline only about 3-4 percent relative to estimates before the PIK program.

✓ Commodity Credit Corporation (CCC) outlays, which totaled around \$12 billion in FY 1982, are expected to be reduced by over \$3 billion during FY 1983-84 relative to previously announced programs.

Impact of Payment-in-Kind Program

	1983/84			
	1982/83	Current Program	Current Program & PIK	Impact of PIK Program
<u>WHEAT</u>				
Acreage harvested mil. acres	78.8	75.5	65.6	-9.9
Production mil. bu.	2,809	2,545	2,380	-265
Ending Stocks	1,509	1,771	1,506	-265
FOR 1/	975	1,310	765	-545
<u>CORN</u>				
Acreage harvested mil. acres	72.8	69.0	60.0	-9.0
Production mil. bu.	8,330	7,659	6,876	-783
Ending Stocks	3,497	3,647	2,884	-763
FOR 1/	2,300	2,515	1,940	-575
<u>GRAIN SORGHUM</u>				
Acreage harvested mil. acres	13.8	12.4	11.2	-1.2
Production mil. bu.	826	750	685	-65
Ending Stocks	447	526	476	-50
FOR 1/	375	450	355	-95
<u>UPLAND COTTON</u>				
Acreage harvested mil. acres	9.4	11.4	8.7	-2.7
Production mil. bales	12.0	12.5	10.0	-2.5
Ending Stocks	7.9	8.6	5.9	-2.7
<u>RICE</u>				
Acreage harvested mil. acres	3,252	3,180	2,660	-0.5
Production mil. cwt.	154.2	152.6	132.0	-20.6
Ending Stocks	62.2	70.7	51.2	-19.5

1/ Farmer-owned reserve.

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ABBREVIATED CALENDAR FOR PIK PROGRAM

Commodities eligible for the program include: wheat, rice, corn, grain sorghum, and upland cotton. Producers must participate in the previously announced 1983 acreage reduction/voluntary land diversion programs in order to participate in the PIK Program.

<u>Date</u>	<u>Event</u>
Jan. 12	— Issue interim regulations. There will be a 30-day comment period.
Jan. 17-24	— Send information notices to producers.
Jan. 24	— Signup begins.
	— At signup, producers desiring to participate in the program will indicate the percentage of their established base they wish to divert.
	— This percentage cannot be less than 10 percent and may vary from that level up to 30 percent. Thus a PIK program producer may divert from 30 percent to 50 percent of his established base.
	— At signup, a producer may submit a sealed bid to divert his entire base.
	— The number of whole base bids accepted will depend on the supply-demand situation for each commodity, conditions in the local community, and other relevant factors. <u>However, in no case would the amount diverted exceed 50 percent of the total base in the county.</u>
	— At signup, a producer will sign a contract. On March 11, after final regulations are issued, the contract will be accepted by the county office and becomes binding. If any changes is made in the regulation, producers who have already signed contracts or submitted bids will be permitted to modify or revoke them.
Feb. 11	— Comment period on interim regulation ends.
Feb. 25	— Issue final regulations.
March 11	— Signup ends.
March 18	— Counties will evaluate and approve whole base bids.
March 22	— Issue an enrollment report..

PIK PROGRAM PROVISIONS

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Signup

--- Signup will begin on January 24 and end on March 11, 1983.

Producer's Alternatives

- ✓ --- To participate in the PIK program, farm operators must enroll in the previously announced acreage reduction and required land diversion program.
- ✓ --- Operators may enroll the farm in the 10-30 percent of the base PIK.
- ✓ --- Operators may bid on the whole base for the farm.
- Producers who are projected to receive deficiency and diversion payments in excess of the \$50,000 limit may request a reduction in the required conservation use acreage, or may request PIK at 50 percent of the farm's effective yield for the applicable commodity on the conservation use acreage that would have been reduced.

Enrollment

- PIK contract must be signed by March 11, 1983;
- All producers who share in the PIK must sign the contract.

Whole Base Bids

- The amount of base accepted will depend on signup, the supply/demand situation for each commodity, conditions in the local community, and other relevant factors. However, in no event will the amount diverted exceed 50 percent of the total base for the commodity in the county.
- Bids will be made as a percent of the farm's program effective yield.
- CCC reserves the right to reject any or all bids.
- County ASC committees will open bids on March 18 and arrange them in order from the lowest percentage of the yield bid to the highest.
- No bids will be accepted that exceed the percent of the yield offered for the 10-30 percent PIK.
- If bids are to be accepted in the county, they will be approved in order until the county limitation is reached but not exceeded.



### Compensation

- Compensation for the 10-30 percent PIK will be the announced percentage (95 percent for wheat and 80 percent for corn, grain sorghum, rice, and upland cotton), times the farm program yield, times the PIK acreage.
- Compensation for accepted whole base PIK contracts will be the bid percentage times the farm program yield, times the PIK acreage.
- Compensation for the reduced conservation use acreage feature for producers subject to the \$50,000 limitation will be 50 percent of the farm's program yield times the conservation use acreage that would have been reduced. the
- Compensation will be in standard amounts for grain (No. 1 wheat, No. 2 yellow corn, No. 2 sorghum) or the historical area average quality for rice and cotton.

### Conservation Use Acreage Eligibility

- ✓ — Producers who have planted wheat before PIK program announcement will be permitted to graze or hay the conservation use acreage before the disposal deadline.
- ✓ — In summer fallow areas, summer fallow acreage designated for PIK must be land that was or would have been planted in 1983.
- Other eligibility requirements will be the same as for the previously announced program.

### Producers With Commodities Under Loan

- Producers entering PIK with outstanding price support loans (regular or reserve) must make their commodity pledged as security for their loans available to CCC for use in the PIK program.
- The quantity made available must at least equal the quantity they would receive as PIK. Adjustments will be made for quality and grade.
- ✓ — Producers have 5 months from the PIK availability date to choose which loan to liquidate.
- Loan liquidation will be on the same day the producer receives the commodity.

Producers With No Commodity Loan

- Producer has 5 months from the PIK availability date to accept title to the commodity.
- The commodity will be available at the warehouse of the producer's choice depending upon CCC's ability to locate the commodity at the warehouse.
- Rice and cotton producers who are active members of a coop will receive their PIK through the coop.
- After taking title, the producer is liable for all storage and other charges.

Storage Payments

- In order to provide the producer marketing flexibility, CCC will pay storage from the PIK availability date to the loan liquidation date, not to exceed 5 months.
- Producers that liquidate farm-stored FOR loans will be eligible to receive a payment equivalent to 7 months storage. Payments will be made on the date of receipt of payment in kind and will reflect any unearned storage.



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General Q & A's on the Operation of the 1983 PIK Program

1 What is a Payment-In-Kind Program?

The PIK program is designed to encourage farmers to further reduce 1983 crop acreages of wheat, corn, sorghum, upland cotton and rice from the previously announced programs. In return for participation in a PIK program, a producer will receive an amount of the commodity as payment for reducing planted acreage.

2 Why is a PIK Program Needed?

The announced 1983 program(s) for wheat, corn, sorghum, rice and cotton were designed to reduce excess supplies which have been depressing farm prices. Despite the Department's best effort to announce effective programs, several factors have come together to prevent the programs from actually reducing 1983/84 ending stocks and the downward pressure on prices and incomes that farmers are now experiencing. Some of the most important factors include:

- A. Large Global Supplies. There was record world production of grains, oilseeds, and cotton in 1981/82, record world crops of grains and oilseeds again in 1982/83. We estimate that by the end of 1982/83 the United States will hold nearly 150 million tons of grain stocks, roughly 60 percent of the world's carryover and more grain than we export annually.
- B. Global Recession. Demand has been very weak. World use of feed grains, which had been growing at an average rate of 16 million metric tons (mmt), each year over the past two decades, has not increased since 1978/79; world wheat consumption, which had been increasing at an average 10 mmt per year since 1960, has been flat since 1979/80.
- C. Strong U.S. Dollar. The value of the U.S. dollar relative to 10 major currencies is at its highest level since 1969. The increasing value of the dollar has actually increased the price of our commodities in terms of foreign currencies despite the decline in prices in U.S. dollar terms.
- D. Financial Plight of Major Importers. Financial problems of a number of middle income countries, which represent a significant portion of the foreign demand for U.S. farm products, have impacted on our export potential.

3 What are the objectives of the PIK program?

- Reduce stocks while cutting production, lessening the overhang on the market in future years and enhancing prospects for a market-led recovery in farm prices.
- Maintain supplies in marketplace, showing the U.S. intends to be a reliable supplier abroad.
- Minimize CCC loan forfeitures by utilizing commodities under outstanding regular loans for PIK compensation.
- To reduce Farmer-Owned Reserve (FOR) stocks to more desirable levels by utilizing these stocks for PIK compensation.
- To promote farm income while at the same time reducing costs to the Federal Government and, thus, to U.S. taxpayers.
- To lessen storage space problems.

4 Why not a larger paid diversion program instead of the PIK?

A larger paid diversion program would be more costly than the PIK program, and would not accomplish the objective of sharply reducing the FOR and government inventories. The PIK program is the most cost-effective program for reducing stocks, and getting the agriculture sector on the road to recovery.

5 When will farm operators be able to sign up in the program?

Signup will begin January 24 and end March 11, 1983. The end of signup for the previously announced acreage reduction and land diversion programs will be advanced to also end on March 11.

6 Why is the ending signup date for the previously announced programs being changed?

We need to have signup in the acreage reduction and land diversion programs complete before the county ASC committees begin to evaluate the bids received under the whole base PIK diversion. Setting an early date permits producers to make their farming plans on a timely basis.

7 Does the PIK program change any aspects of the previously announced programs?

No. All provisions of the acreage reduction and land diversion programs as previously announced will apply for farms that participate in the PIK program.

8 Who is eligible to participate in the PIK program?

Producers on any farm for which an 1983 acreage base and yield has been established for wheat, corn and sorghum, rice, and upland cotton under the previously announced programs.

9 How were the 1983 acreage bases established?

The Omnibus Budget Reconciliation Act of 1982 requires that the bases for wheat, feed grains, and rice for 1983 be the same as those established for the farm for 1982, adjusted to reflect crop rotations and other factors the Secretary determines should be considered in determining a fair and equitable base.

The upland cotton acreage bases for farms that participated in the 1982 cotton program or reported zero planted acreage will be the same as the 1982 base. For other cotton farms, the base will be the average of the cotton acreage on the farm in 1981 and 1982.

10 If a farm is participating in the program for a commodity, but the acreage base is underplanted, what happens to the 1984 acreage base?

The farm's 1984 acreage base will not be reduced due to under planting in 1983.

11 What are the percentages of the farm yield under the 10-30 PIK diversion?

Wheat is 95 percent. Corn, grain sorghum, upland cotton and rice are all 80 percent.

12 Why is the wheat PIK set at 95 percent of the farm yield while the PIK for other commodities is set at 80 percent?

Wheat is the only fall-seeded crop eligible for PIK. These producers have already incurred substantial costs to plant the crop, which is not generally true for spring-seeded crops. While some wheat is spring-seeded, it would be impracticable to have different percentages for fall and spring-seeded wheat since both may be planted in the same area.

13 Why were barley and oats not included in the PIK program?

The relatively low Farmer-Owned Reserve (FOR), regular loan and CCC stocks available for PIK would make an effective program impracticable. Current estimates of acreage under the announced program indicate that oat stocks will be near desired levels and barley only slightly above desirable levels. Because barley and oat market prices are normally influenced by corn prices, a significant reduction in corn stocks under PIK should also benefit oat and barley prices.

14 What must be done to enroll in the PIK program?

The farm operator will be required to enroll the farm in the acreage reduction (ARP) and land diversion programs and sign a contract with the county ASCS office agreeing to reduce the acres of the crops for harvest by the percent desired above the previously announced program.

15 What can the farm operator sign up for under the PIK program?

For PIK diversion, the farm operator may sign up to divert a part of the crop acreage base (any amount that is no less than 10 percent or more than 30 percent of the crop acreage base) or bid to divert the whole crop acreage base.

16 Does the farm operator have to sign up for both the 10-30 percent PIK diversion and the whole base bid?

No. The farm operator may sign up for either one or both.

17 Must the operator decide the amount of PIK diversion at sign up?

Yes, the operator must determine the amount which will become part of the PIK contract and will determine the maximum permitted planted acreage.

18 What does the bid consist of under the whole base PIK diversion?

The operator offers to reduce the planted acreage of the crop to zero and devote an acreage equal to the acreage base for the crop to approved conservation uses. The operator bids by specifying the percent of the farm program yield per acre that is acceptable as compensation for participation. If accepted, the bid applies on the total PIK acreage diverted.

19 Is there a limit on what may be bid?

The operator may bid any amount. However, the county ASC committee will not accept bids that exceed the per acre offer rate for the PIK diversion.

20 Can the bid be changed?

Any bid received may be changed or withdrawn by the operator up to the end of signup.

21 How does the operator make a bid?

The operator will bid by completing the PIK contract which includes the bid amount. Bids will be submitted as sealed bids through March 11, 1983.

22 What is the procedure for accepting bids?

In an open public meeting on March 18, the county ASC committee will open all bids and arrange the bids from the lowest percentage of the effective yield to the highest. If the county is authorized to accept bids, the bid with the lowest percentage will be accepted first. Ties will be settled by taking the first bid received in the county ASCS office (by date and time).

23 Is there a county limit on the acreage that can be accepted under the bid?

The number of whole base bids accepted will depend on the level of signup in the 10-30 percent PIK, the supply-demand situation for each commodity, conditions in the local community, and other relevant factors. However, in no case would the amount diverted exceed 50 percent of the total base in the county. CCC reserves the right to reject any or all bids.

24 When does the contract take effect for whole base PIK?

Contracts submitted by the farm operator to the county ASCS office by March 11 will take effect when accepted by the county ASC committee on March 18.

25 Who must sign the contract?

The farm operator is responsible for submitting the contract; however, all producers must sign by March 18. The county committee may permit a later signature in hardship cases. At that time, the contract becomes final and binding on both Commodity Credit Corporation (CCC) and the producers.

26 Will tenants and sharecroppers be protected?

A contract will not be accepted if it is known that a landlord or operator has not afforded the tenants or sharecroppers, if any, the opportunity to participate. This includes reducing the number of tenants or sharecroppers in anticipation of or because of participation in the program. (This is the same protection offered under the acreage reduction and land diversion programs.)

27 What will the operator agree to in the contract?

For the PIK diversion, the operator must limit the final acreage to an agreed upon amount and devote an eligible acreage equal to the PIK acreage to conservation uses.

For an accepted whole base PIK bid, the operator must agree to reduce the acres of the crop for harvest to zero and to devote the required eligible acreage to conservation uses.

28 What will happen if the farm does not comply or fails to comply fully with terms and conditions of the contract?

The normal failure to fully comply provisions will apply.

- a) Producers who attempted in good faith to comply with the contract within allowable tolerances will not be affected.
- b) Producers who attempted to comply with the contract in good faith but exceed the tolerance will have program benefits reduced proportionately.
- c) For violated contracts, producers who did not attempt in good faith to comply will be declared ineligible for PIK program benefits for the crop. Such producers will also be required to pay liquidated damages.

29 Can an operator offer or bid only one base or must all bases be considered?

Cross compliance will not apply and each base will stand on its own with one exception. Bases for corn and grain sorghum are combined to afford producers additional flexibility and they must be considered in total. The same offer and bid rates will apply to both bases.

30 Can an operator offer or bid only the base on one farm or must all farms operated be considered?

Offsetting compliance will not apply. Each farm will be considered individually.

31 What happens if a farm change requiring a reconstitution occurs after a PIK contract is filed?

- A During signup: If the reconstitution is effective for the current year, PIK contracts will be cancelled for the parent farm(s) and the operator will be given an opportunity to enroll in the PIK program on the resulting farm(s).
- B After signup: The reconstitution will not be effective for the current year for any crop for which a PIK contract is in effect.

32 What acreage will be eligible to be designated as conservation use acreage under PIK?

The current requirements for the acreage reduction program conservation use acreage will apply except for summer fallow producers. The PIK program compensates the producer for the commodity that would have been produced in 1983; therefore, to achieve the necessary reduction in production, summer fallow producers must designate land that would normally be devoted to the production of small grain or row crops in 1983.

33 Can the conservation use acreage be grazed or harvested?

The acreage can be grazed except during the six principal growing months. This 6-month period between February 28 through October 31 will be determined by the local ASC committee. Mechanical harvesting of any crop will be prohibited. There are exceptions to these rules for winter wheat planted prior to the announcement of the PIK program.

34 What about the wheat producers that have already planted their 1983 crop?

These producers who participate in PIK must also limit their acreage for harvest; however, to be fair and equitable, they will be permitted to graze the acreage or to cut the acreage for hay. So that a grain crop is not produced, the acreage must be substantially destroyed by the deadline established for the county. (This is the same condition as was permitted in 1982 for wheat due to the late announcement of the 1982 program.) In addition, if approved by the State ASC committee with concurrence of the State Conservationist for the Soil Conservation Service, the stubble may be eligible cover.

35 Specifically, how much conservation use acreage (CUA) is required under different situations?

The required CUA acreage for a farm with a 100 acre base for each commodity will be as follows:

Participates in the additional PIK diversion  
at 30% of base with maximum planted

Commodity	Permitted Ac.	CUA				Total Planted and CUA
		ARP	Pd. Div.	PIK	Total	
Corn/Sorghum	50	6.3	10.0	30.0	46.3	96.3
Wheat	50	9.4	5.0	30.0	44.4	94.4
Cotton	50	12.5	3.3 1/	30.0	45.8	95.8
Rice	50	9.4	5.0	30.0	44.4	94.4

1/ Paid diversion is optional up to 6.67 percent of planted acres.

Participates in Whole Base Bid phase of PIK

Commodity	Permitted Ac.	CUA			
		ARP	Pd. Div.	PIK	Total
Corn/Sorghum	0	0	10.0	90.0	100.0
Wheat	0	0	5.0	95.0	100.0
Cotton	0	0	0 2/	100.0	100.0
Rice	0	0	5.0	95.0	100.0

2/ Cotton paid diversion is based on planted acreage.



36 What about producers that have already accepted advance deficiency or diversion payments?

In cases where the producer diverts all of the base or substantially reduces planted acreage, a refund may be required. This will be determined when final payments are computed. No interest charges would apply on any refunds for PIK participation; however, refunds not made within 30 days from the request will be subject to late payment charges.

37 What is the method of compensation under the PIK program?

The producer will have the right to receive bushels or pounds of a specific commodity—the commodity for which acreage was diverted. However, CCC reserves the right to substitute, on a bushel for bushel basis, corn for grain sorghum.

✓ 38 When will the PIK commodities be made available?

The PIK availability date will be determined and announced by the Secretary for each production area based on the normal harvest for the crop in the area.

39 How is the amount computed?

By multiplying the established percentage (offer or bid rate) times the farm program yield, times the acres diverted from production of the crop under the PIK program.

40 Is the PIK compensation subject to the payment limitation?

No.

41 How does the PIK program impact agribusinesses?

The limit on the amount of crop acreage base in a county that can be withdrawn from production is intended to minimize adverse effects. One of the objectives of the program is to improve the farm economy benefiting all agribusiness in the long run from an effective program.

42 Are the 10-30 percent PIK diversion and the whole base bid the only ways a producer can receive PIK compensation?

No. Under the previously announced acreage reduction and land diversion programs, there is a \$50,000 limitation on total 1983 payments to a producer. Producers whose payments are reduced because of the limitation may request a proportional reduction in their total conservation use acreage requirement. Under the PIK program, these producers will be able to forego this reduction for special PIK compensation if the farm is participating in the PIK program for the crop. The compensation is 50 percent of the farm's program yield for the applicable commodity times the conservation use acreage that would have been reduced for that crop.

✓ 43 How can the PIK be received?

1. Producers with outstanding CCC loans (regular and FOR) must allow CCC to use loan collateral for the PIK payment.
2. Producers with no outstanding CCC loans may receive the PIK by acquiring the commodity from an approved warehouse.

✓ 44 Can a producer designate a specific class of a commodity for PIK purposes?

No. The PIK will be in terms of No. 1 wheat, No. 2 corn, etc.

45 When can a producer receive the PIK?

PIK must be received during the 5-month period beginning on the PIK availability date.

✓ 46 If a producer has a CCC price support loan does the producer have to make the loan collateral available to CCC?

Generally yes, if the loan on the applicable commodity is outstanding on March 11. However, this does not apply if the outstanding loan was obtained from another county or application for FOR was applied for after January 11.

47 Will a cotton or rice producer who is an active member of a marketing cooperative be required to receive the PIK through the cooperative that has an outstanding loan for the commodity?

Yes, unless the producer has an individual loan on the same commodity through the county office. Wheat and feed grain producers will not receive PIK through cooperatives.

48 What will the cotton or rice co-ops do with the PIK?

The co-op must permit CCC to use the loan collateral for PIK purposes. CCC will provide the co-op with the quantity of the PIK that exceeds the co-ops outstanding price support loans.

49 If a producer's regular or reserve loan was obtained on grain the producer acquired and substituted for eligible grain, must the loan be liquidated even though it is stored in some other county?

Yes. If the loan was obtained in the county where the PIK is issued.

✓50 Can a PIK participant redeem a CCC loan through normal repayment provisions?

Producers with loans outstanding as of March 11 may not redeem or forfeit loan quantities that would result in a outstanding loan amount less than the PIK.

✓51 Since a PIK participant cannot forfeit a loan after March 11, who pays the storage until the PIK is received?

CCC will pay storage from loan maturity up to 5 months following beginning of PIK availability.

52 If Form CCC-819, Release of Warehouse Receipts and Redemption Agreement for cotton is on file in the county office, must the producer make the cotton available to CCC?

No. The producer has sold his equity in the cotton. The buyer has agreed to redeem the cotton and CCC is obligated not to permit redemption by anyone other than the buyer.

53 What are the charges on a loan liquidated to make the commodity available to CCC?

CCC will fully compensate the producer for interest or handling charges assessed on the quantity which the producer must make available to CCC.

54 How will CCC determine the quantity of the loan commodity a producer must make available to CCC?

Quantities must be made available on a bushel for bushel or pound for pound basis unless the loan was made on a grade or quality different from the base grade or quality used to determine the PIK. In that case the quantity is adjusted to reflect that difference.

55 How will the quantity be adjusted?

Assume a producer has available a PIK of 1000 bushels of No. 2 corn. The producer's warehouse-stored loan was made on 1982-crop No. 3 corn that had 15.3 percent moisture; a test weight of 52 pounds; and broken kernels and foreign material of 4 percent. The loan rate of \$2.53 was reduced by 4 cents to \$2.51 because of the discounts. The base loan rate was 1.016 of the discounted loan rate (2.55 divided by 2.51 = 1.016 rounded to 3 decimal places). The 1000 bushel PIK of No. 2 corn will equal 1,016 bushels of the discounted corn. (1000 bushels X 1.016).

56 Who is responsible for storage on the PIK commodity?

CCC will pay storage for up to 5 months after PIK availability period begins. The producer will be responsible for storage and warehouse charges following the availability period or earlier if the producer takes title to the commodity before the end of the availability period.

57 What storage rate will CCC pay PIK participants?

Storage payments for regular loan or FCR shall be based at the following rates:

<u>Commodity</u>	<u>Annual Rate</u>	<u>Daily Rate</u>
Wheat, Corn	\$.265 bu.	\$.000726 bu.
Sorghum	\$.4732 cwt.	\$.001296 cwt.
Rice	\$.85 cwt.	\$.002329 cwt.
Cotton	(The rate specified in the schedule of rates for the applicable CSA warehouse where the cotton is stored).	

Storage payments for CCC inventory commodities shall be paid to the warehouse by CCC at the warehouse's UGSA, URSA, or CSA rate.

58 What happens to storage earnings on FCR loans that will be liquidated?

Producers will continue to earn FCR storage until the loan is liquidated or for a maximum of 5 months. A producer with a farm stored FCR loan will receive an additional 7 months storage payment less any unearned storage beginning with the PIK availability date. All producers will be required to refund any unearned storage.

59 Will producers who must liquidate farm-stored FCR loans receive any additional consideration?

Yes, producers will earn an additional payment equal to 7 months storage.

60 Why do farm-stored FCR participants receive additional consideration?

Some producers built farm storage structures to store the FCR grain. To require early liquidation of the FCR loan may cause financial hardship unless some additional assistance is granted.

61 Why not assist warehouse-stored FCR participants?

Producers with warehouse-stored loans have not invested in storage facilities. They will continue to earn storage through the date of liquidation, not to exceed 5 months. The producer will receive a refund from the warehouseman for unused storage.

62 If after using the PIK the producer has a partial bin of grain or a partial warehouse receipt remaining, can the balance be forfeited or delivered?

If the producer must liquidate the loan on 75 percent of the quantity represented in an individual bin or warehouse receipt for PIK purposes, the balance of the bin or receipt, not to exceed 5,000 bushels (or the equivalent number of pounds) of the commodity, may be sold to CCC.

63 Can producers repay the balance of a warehouse receipt or bin?

The balance on a regular loan can be repaid. However, the balance on a FOR loan cannot be repaid without penalty unless it is a mature loan.

64 Will producers continue to be permitted to place grain in FOR?

Yes, since they were assured of the option as a condition for program participation. However, the final date for reserve entry will be the commodity's applicable final loan availability date (March 31 for wheat and May 31 for corn and sorghum).

65 Will all FOR grain be used for PIK?

No, only grain in FOR or with FOR application on file on or before January 11 will be eligible to be used for PIK.

66 In cases where cotton producers have more than one crop year production under loan, will they have a choice of which crop year loan to liquidate?

No. While grain producers will have the choice of which crop year loan to liquidate, cotton producers must liquidate the oldest crop year loan. If the oldest crop year production is under several loans, the producer may choose the applicable loan. Once the loan is selected, the bales will be liquidated in the order they appear on the cotton warehouse receipt listing form (CCC Cotton A-1).

67 For cotton, the PIK will be expressed in pounds which in most cases will not correspond to whole bales. How will this be resolved?

A cotton producer will receive the full bale.

68 The current cotton program provisions provide a set-off for cotton research and promotion. Since production under this PIK program may be substantially reduced, what effect, if any, will this have on the research and promotion fund?

There will be no adverse impact on the research and promotion fund. Any cotton received under the PIK program will be subject to the research and promotion fee. The set-off will be made by the first buyer when the producer markets the PIK cotton.

- 69 Can a PIK recipient who is provided the commodity by CCC (not out of FOR or loan) be guaranteed availability at the warehouse of his or her choice?

No, although the producer will, during signup, indicate a preferred approved warehouse delivery point in the producer's county or in an adjacent county.

- 70 If CCC is unable to provide the commodity at the producer's preferred warehouse, where will the commodity be delivered?

CCC will use the following order of preference in selecting approved houses:

1. In producer's own county.
2. In adjoining county.
3. In nearest house "in line" to subterminal or terminal.

- 71 What options will a producer have with commodity obtained from CCC with the PIK?

Producers may keep the commodity or dispose of the commodity in any manner.

- 72 How will the warehouse know who has CCC commodities coming, and how much?

Each producer will receive a "letter of entitlement". The warehouseman will receive a courtesy copy of the producer's letter. Warehousemen will also receive open loading orders from CCC listing total quantities to be made available.

- 73 If a producer elects to withdraw the PIK from warehouse storage, is the producer responsible for loadout charges?

Yes.

- 74 How will a warehouse be reimbursed by CCC for storage earned on PIK commodities?

The warehouseman will submit an invoice to CCC along with a copy of producer's letter of entitlement to receive the applicable storage payment.

- 75 What will be done to reduce the market impact caused by the release of FOR, loan, and CCC inventory to use the PIK?

Commodities will be released to producers after the PIK availability date. The southern areas where harvest occurs first will receive the PIK entitlement first. Additional areas will receive PIK entitlements as harvest normally progresses. It should be noted that less of a commodity will be released through PIK than would have been harvested in the absence of PIK. The impact is further minimized by CCC agreeing to pay storage costs for 5 months if the producer holds the PIK commodity off the market.

76 We understand the FCIC is offering an incentive to PIK program participants. Why?

FCIC wants to encourage program participants to continue their insurance coverage and this is a way to attract new producers to the program.

77 How does the FCIC incentive work?

Participating in the PIK program at a level at least 10% but less than 20% increases the yield guarantee by 6%; participating between 20% but less than 30% will result in a guarantee increase of 8%; participating at the maximum of 30% will increase the yield guarantee by 10%.

78 How does an insured farmer become eligible for the yield guarantee increase?

No action will be required by the program participant. All policies will be issued at standard rates and coverages. In the event of loss, the producer's policy guarantee will be adjusted according to his verified ASCS records of participation in PIK.

79 Will there be extra cost to the producer for the increased guarantee?

No, the premium rate per acre will be the same as with the standard coverage.

80 How can FCIC offer these higher yield guarantees without a corresponding increase in premium rates?

These yield coverage increases recognize the probability of increased per acre yields on the remaining acreage of program participants. The harvested acreage is expected to exceed the average production potential of the entire farm. FCIC anticipates more timely operations and increased inputs per acre on the reduced acreage planted. FCIC can offer these higher guarantees without a corresponding rise in premium rates because the risk of loss is reduced.

81 Will FCIC accept revised acreage reports on insured winter wheat destroyed to comply with PIK?

Yes, until March 11. The PIK participant must identify the acreage to be destroyed on an ASCS map attached to the revised acreage report. No premium will be charged for destroyed acreage which is timely reported. Producers submitting bids for whole farm participation may submit a zero acreage report which is conditional upon acceptance of their bid by ASCS.



82 Why not accept revised acreage reports until PIK bids are awarded?

Any extension beyond March 11 would increase FCIC's risk of loss without offsetting premium income to unacceptable levels. One of the major causes of winter wheat loss is winterkill which cannot be assessed until the crop emerges from the dormant stage in early spring. The risk of excess moisture and flood loss increases as time passes. Free insurance coverage on destroyed acreage until March 11 should be an additional incentive to participate in PIK.

83 How will winter wheat producers be informed of the proper procedure for revising their acreage reports?

FCIC will send a letter of notification to each insured producer of winter wheat stating exactly how to revise acreage reports and the deadline for doing so.

84 How can the producer obtain additional information?

Farmers will be able to get full details on the PIK program from their local ASCS office by the time the PIK sign-up begins on January 24. In the meantime, farmers can call a toll-free number 800/368-5942 to get answers to their questions. This number will open for calls from 8 a.m. until 8 p.m., EST, beginning January 12.