United States General Accounting Office

GAO

Briefing Report to the Honorable
Bill Alexander, House of Representatives

February 1988

FARM PROGRAMS

An Overview of Price and Income Support, and Storage Programs

GAO/RCED-88-84BR

GAO

United States
General Accounting Office
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Resources, Community, and
Economic Development Division

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February 29, 1988

The Honorable Bill Alexander
House of Representatives

Dear Mr. Alexander:

In response to your April 20, 1987, request, and as subsequently discussed with your staff, this briefing report presents information primarily for fiscal years 1985 through 1987 on the U.S. Department of Agriculture's (USDA) (1) farm price and income support programs and (2) programs for storing agricultural commodities. The report provides information on net cash outlays on all major support programs and on the cost to the federal government for storing federally-owned commodities and payments to farmers for storing commodities they own.

Federal outlays for agriculture have grown to very high levels in recent years. As we noted in our recent report on the financial condition of American agriculture,[1] the record outlays provided substantial support to the agricultural sector during a period of financial stress and adjustment.

FARM PRICE AND INCOME SUPPORT PROGRAMS

The federal government is required by law to support a number of basic agricultural commodities, and the Secretary of Agriculture has discretionary authority to support other nonbasic commodities. USDA's Commodity Credit Corporation (CCC) and Agricultural Stabilization and Conservation Service (ASCS) administer the federal government's farm support programs. CCC is a wholly-owned government corporation created to stabilize, support, and protect farm prices and farmers' income. CCC funds the various price and income support programs and relies on ASCS' personnel and facilities to carry out the programs.

Net cash outlays--cash expenditures less cash receipts in any year--for commodity price and income support programs totaled about $44 billion in fiscal years 1985 and 1986

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[1]Farm Finance: Financial Condition of American Agriculture as of December 31, 1986 (GAO/RCED-88-26BR, October 20, 1987).

combined, and over $88 billion during the 1980 through 1986 period. USDA estimated net cash outlays would exceed $23 billion in fiscal year 1987. Section 1 of this briefing report contains detailed information on these outlays. In addition, appendix I provides program-by-program and commodity-by-commodity outlay information for fiscal years 1985 and 1986 and USDA's estimate for fiscal year 1987.

On a program-by-program basis, three programs accounted for most of the net cash outlays: nonrecourse commodity loans, the direct purchase of farm commodities, and cash payments when market prices are below target prices set by law (deficiency payments). Net cash outlays on these three programs totaled over $37 billion in fiscal years 1985 and 1986 combined and are estimated at over $18 billion for fiscal year 1987. Appendix II provides descriptions of these three programs and other programs and activities supported by CCC.

On a commodity-by-commodity basis, four commodities accounted for most of the net cash outlays: corn, wheat, dairy products, and upland cotton. Net cash outlays on these four commodities totaled over $31 billion in fiscal years 1985 and 1986 combined and are estimated at over $17.5 billion for fiscal year 1987.

Most support programs provide cash payments which are generally nonrecoverable. However, the nonrecourse commodity loan program, in which some outlays are recoverable, accounts for a large part of total net cash outlays. Cash payments totaled over $22 billion in fiscal years 1985 and 1986 combined and are estimated at slightly less than $11 billion for fiscal year 1987. Nonrecourse commodity loans, net of loan repayments, totaled almost $20 billion in fiscal years 1985 and 1986 combined and are estimated at slightly over $11.5 billion for fiscal year 1987.

Most support program outlays went to farmers. Outlays under some programs went to nonfarmers, such as commercial processors of farm commodities. Recipients of outlays for other programs may or may not have been farmers. Some outlays also were for ASCS' administration of the programs, such as operating expenses. Net cash outlays that went to farmers totaled about $34.5 billion in fiscal years 1985 and 1986 combined and are estimated at about $19 billion for fiscal year 1987. Outlays to nonfarmers, other recipients who may or may not be farmers, and for ASCS administration, less sales proceeds, totaled about $9 billion in fiscal years 1985 and 1986 combined and are estimated at about $4.5 billion for fiscal year 1987.

FARM COMMODITY STORAGE PROGRAMS

As part of its mandatory price support activities, CCC and ASCS administer the federal government's programs for storing agricultural commodities. Storage operations cover commodities the federal government owns as a result of nonrecourse loan forfeitures and those acquired by direct purchase. CCC also pays farmers to store certain commodities they own that are pledged as collateral on nonrecourse loans and placed in the farmer-owned grain reserve. Section 2 of this briefing report contains detailed information on the storage programs.

Net cash outlays for storing agricultural commodities, including the cost of moving the commodities to and from storage facilities and payments to farmers for storing their commodities, totaled over $2 billion in fiscal years 1985 and 1986 combined, and over $6 billion during the 1980 through 1986 period. Also, USDA estimated net cash outlays on storage would exceed another $2 billion in fiscal year 1987.

ASCS contracts with warehouses throughout the nation for storing CCC-owned commodities in permanent and temporary facilities and in emergency space. CCC-owned bulk grain, such as corn and wheat, are comingled in the storage facilities with the grains of all other storers. Processed commodities, such as nonfat dry milk and cheese, are not comingled in storage.

CCC stores vast amounts of its commodities. During a 20-month period between 1985 and 1987, CCC's bulk grain inventory grew from about 1.1 billion bushels to about 3 billion bushels. Corn, wheat, and soybeans accounted for most of this increase. However, its processed commodity inventory fell during the same period from about 2.7 billion pounds to about 1.7 billion pounds.

ASCS normally moves CCC-owned bulk commodities from storage facilities as part of its inventory management process. Since fiscal year 1985, it has moved large quantities of commodities from storage facilities primarily for the purpose of making space available in those facilities for farmers to use for storing their incoming crops.

SPECIAL 1986 BARGE STORAGE PROGRAM

ASCS implemented a special barge storage program in 1986 to provide additional space for storing that year's corn harvest. Under the program, ASCS had almost 65 million bushels of grain, mostly corn, stored on barges. All of the grain stored on barges under the program originated from corn belt states. ASCS disposed of most of the barge-stored grain by subsequently trading it for other grain that its contractors had in storage in the same corn belt states. Section 3 of this briefing report contains detailed information on the special barge storage program.

The additional cost of the special barge storage program, over and above the normal cost of storing the grain, was about $44.8 million, or $.69 per bushel. The total cost of storing the grain, including the additional cost of the program and the cost that would have been incurred in the normal course of storage, was about $62.2 million, or $.96 per bushel.

* * * * *

Our study began in April 1987 and was conducted by gathering and analyzing numerous data primarily from USDA's Agricultural Stabilization and Conservation Service. Net cash outlay data were gathered primarily at ASCS' Budget Division in Washington, D.C.; storage data, including information on the special barge storage program, were gathered primarily at ASCS' Office of the Deputy Administrator for Commodity Operations in Washington, D.C., and its commodity and management offices in Kansas City, Missouri. We describe our objectives, scope, and methodology in greater detail in section 4 of this briefing report.

ASCS officials reviewed a draft of this briefing report. They generally agreed with its contents, and their comments have been incorporated where appropriate.

Copies of this briefing report are being sent to the Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry and to the Chairman of the House Committee on Agriculture. Copies are also being sent to the Secretary of Agriculture; the Administrator, Agricultural Stabilization and Conservation Service; the Director, Office of Management and Budget; and other interested parties. Copies will be available to others upon request. If we can be of further assistance, please contact me at (202) 275-5138.

Major contributors to this briefing report are listed in appendix III.

Sincerely yours,

Brian P. Crowley

Brian P. Crowley
Senior Associate Director

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
GAO	General Accounting Office
KCCO	ASCS' Kansas City Commodity Office
KCMO	ASCS' Kansas City Management Office
RCED	Resources, Community, and Economic Development Division
USDA	U.S. Department of Agriculture

SECTION 1

FEDERAL COMMODITY PRICE AND INCOME SUPPORT PROGRAMS

SUMMARY

Farm Price and Income Support Program Net Cash Outlays During the Fiscal Year 1980-86 Period Totaled Over $88 Billion

Three programs (nonrecourse loans, direct purchase of farm commodities, and deficiency payments) accounted for 80 percent of the outlays (see pp. 12-14).

Four commodities (corn, wheat, dairy products, and upland cotton) accounted for 72 percent of the outlays (see pp. 15-16).

Farm Price and Income Support Program Net Cash Outlays in Fiscal Years 1985 and 1986 Combined Totaled About $44 Billion, and USDA Estimates Fiscal Year 1987 Outlays Will Exceed $23 Billion

Nonrecourse loans, direct purchase of farm commodities, and deficiency payments totaled over $37 billion in fiscal years 1985 and 1986 combined and are estimated at over $18 billion for fiscal year 1987 (see p. 14).

Corn, wheat, dairy products, and upland cotton totaled over $31 billion in fiscal years 1985 and 1986 combined and are estimated at over $17 billion for fiscal year 1987 (see p. 16).

Most support program outlays were direct cash payments which are generally nonrecoverable: over $22 billion in fiscal years 1985 and 1986 combined and an estimated almost $11 billion for fiscal year 1987. Nonrecourse loan net outlays, some of which are recoverable, totaled almost $20 billion in fiscal years 1985 and 1986 combined and an estimated more than $11 billion for fiscal year 1987 (see pp. 16-17).

Most outlays went to farmers: over $34 billion in fiscal years 1985 and 1986 combined and an estimated almost $19 billion for fiscal year 1987. Outlays to nonfarmers, recipients who may or may not be farmers, and for program administration, less sales proceeds, totaled about $9 billion in fiscal years 1985 and 1986 combined and an estimated more than $4.5 billion for fiscal year 1987 (see pp. 17-19).

INTRODUCTION

Federal outlays supporting the nation's agricultural sector have grown to extremely high levels in recent years, increasing each fiscal year from 1980 through 1986, except 1984, and totaling about $130 billion throughout the period. This section of the briefing report provides information on the U.S. Department of Agriculture's (USDA) net cash outlays for commodity price and income support programs, which accounted for over $88 billion, or about 68 percent, of the total federal expenditures on agriculture over the fiscal year 1980 through 1986 period. Other USDA farm income stabilization programs, such as Farmers Home Administration loans and Federal Crop Insurance Corporation payments, and agricultural research and services accounted for the remaining $42 billion in total federal expenditures.

In this section, we briefly describe the administration of the programs and then provide detailed information on (1) net cash outlays on both a program-by-program basis and a commodity-by-commodity basis, (2) cash payment and loan programs, including a discussion of how much of these program outlays are received by farmers, (3) the nonrecourse loan program, including a discussion on the interest rates charged on nonrecourse commodity loans, and (4) total outstanding commodity loans. Also, appendix I contains a detailed listing of net cash outlays for all CCC commodity price and income support programs, cross-tabulated on a program-by-program basis and a commodity-by-commodity basis, during fiscal years 1985 and 1986, and USDA's 1987 estimate. Appendix II contains a brief description of each major program.

ADMINISTRATION OF THE PROGRAMS

USDA's Commodity Credit Corporation (CCC) and Agricultural Stabilization and Conservation Service (ASCS) administer the price and income support programs. CCC is a wholly-owned government corporation created in 1933 to stabilize, support, and protect farm prices and farmers' income. CCC funds the various price and income support programs and relies on ASCS personnel and facilities to carry out the programs.

The federal government is required by law to support, through CCC, the prices of the following specified commodities: corn, barley, oats, sorghum, rye, wheat, milk, cotton, rice, soybeans, tobacco, sugar, wool, mohair, honey, and peanuts. The Secretary of Agriculture also has discretionary authority to offer support for other agricultural commodities.

CCC supports the above commodities through a variety of income, price, and supply programs, operations, and activities, including loans, direct purchases, and payments. For example, price support, which occurs mainly through nonrecourse loans and the direct purchase of farm commodities, is intended to maintain farm prices when supply exceeds demand and when reduced demand results in low prices. Income support, which occurs mainly through direct payments such as deficiency payments based on preset target prices, is intended to protect farm income without affecting market prices. Nonrecourse loans and direct purchases also support farm income. Prices are also supported through supply controls which involve mainly direct payments, such as diversion and producer storage payments, and which are intended to limit production of surplus commodities or keep excess supplies from the market. In this briefing report, we refer to CCC's operations and activities collectively as commodity price and income support programs.

Net Cash Outlays Exclude USDA Certificate Activity

Information in this briefing report is on a net cash outlays basis. Under the provisions of the Food Security Act of 1985, commodity certificates may also be issued to farmers in lieu of cash under certain programs. Commodity certificate values are not included in the information covered by this briefing report.

USDA uses commodity certificates in a number of programs, such as making deficiency and diversion payments. In our recent report on commodity certificates,[1] we estimated that using certificates could increase CCC's outlays by 3 percent to 21 percent. In addition, we currently are conducting a review, requested by the House Committee on the Budget, on the budgetary treatment of commodity certificates.

NET CASH OUTLAYS FOR COMMODITY PRICE AND INCOME SUPPORT PROGRAMS

Net cash outlays are cash expenditures less cash receipts in any year. These outlays on commodity price and income support programs totaled over $88 billion from fiscal year 1980 through 1986. Figure 1.1 shows the overall increasing trend in these outlays since 1980.

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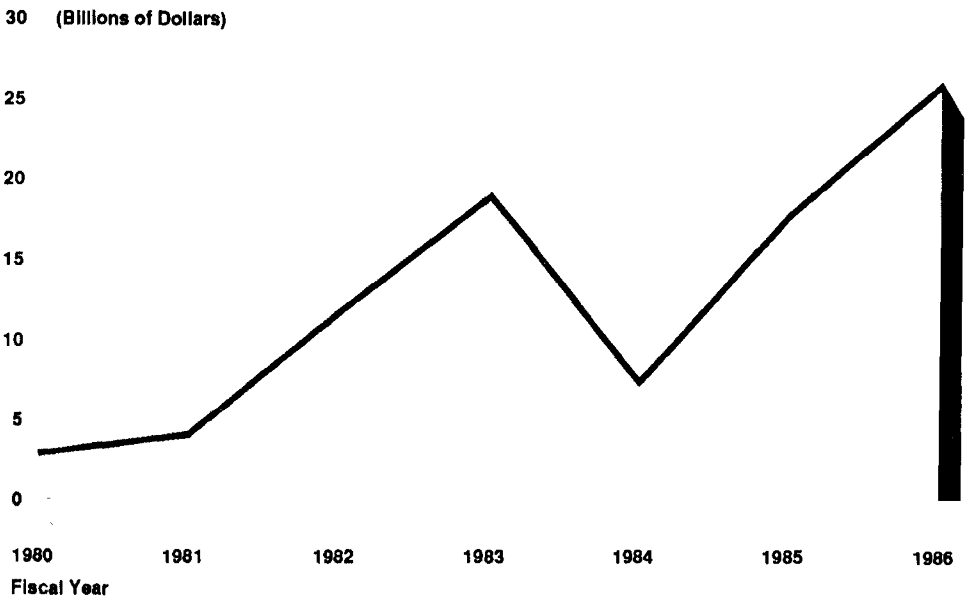
[1] Farm Payments: Cost and Other Information on USDA's Commodity Certificates (GAO/RCED-87-117BR, March 26, 1987).

Figure 1.1
Total Net Cash Outlays on Commodity Price and Income Support Programs, Fiscal Years 1980-86



Source: ASCS.

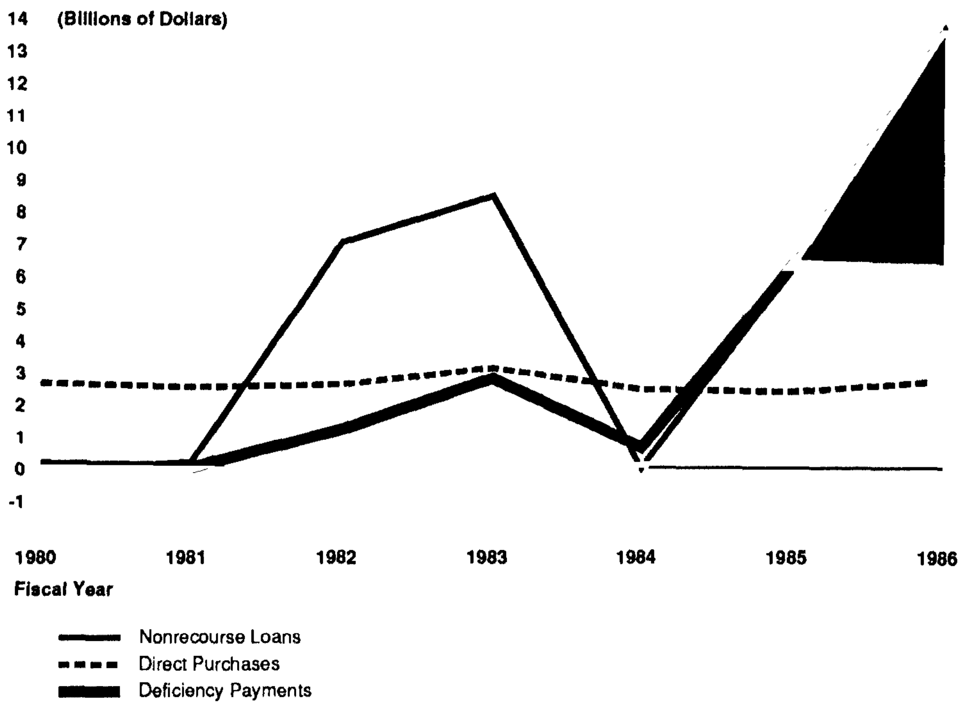
The significant decline shown in figure 1.1 for fiscal year 1984 outlays reflects in part USDA's payment-in-kind program, in which farmers received commodities rather than cash from the government in return for idling cropland and reducing production of surplus commodities.

In fiscal years 1985 and 1986, net cash outlays on commodity price and income support programs were about $17.7 billion and $25.8 billion, respectively. Additionally, USDA has estimated that net cash outlays in fiscal year 1987 on these programs will be another $23.1 billion.

Program-by-Program Outlays

Three commodity price and income support programs accounted for slightly over 80 percent of the net cash outlays during the fiscal year 1980 through 1986 period: nonrecourse commodity loans (net outlays of $35.4 billion), direct purchase of farm commodities ($18.3 billion), and direct cash deficiency payments ($17.1 billion). While outlays for the direct purchase of farm commodities remained relatively constant over this 7-year period, net outlays for nonrecourse loans and deficiency payments increased considerably, especially since 1984. Figure 1.2 shows the trend in net cash outlays for these three programs over this period.

Figure 1.2
Total Net Cash Outlays on the Key Commodity Price and Income Support Programs, Fiscal Years 1980-86



Source: ASCS.

In addition to these three key programs, CCC funds a number of other commodity price and income support programs covering such areas as the storage, handling, and transportation of government-owned commodities, the storage of farmer-owned commodities that are collateral for nonrecourse loans and that are placed in the farmer-owned reserve, and diversion programs.

Some CCC programs, such as deficiency payments to corn producers, are commodity specific, while other programs, such as the conservation reserve program, are not. Over 90 percent of the fiscal year 1985 and 1986 net cash outlays were made under the commodity-specific programs. Table 1.1 shows the amount of net cash outlays on the support programs in fiscal years 1985 and 1986 and USDA's estimate for 1987.

Table 1.1
Net Cash Outlays on a Program-by-Program Basis, Fiscal Years 1985-87[a]

Programs	FY 1985	FY 1986	FY 1987[b]
	(millions)		
Commodity-specific:			
Deficiency payments	$ 6,302	$ 6,166	$ 4,996
Nonrecourse loans	6,272	13,628	11,549
Direct purchases	2,368	2,705	1,528
Diversion payments	1,525	64	401
Storage and handling payments	394	713	1,229
Producer storage payments	329	485	578
Transportation payments	134	179	201
Processing and packaging payments	129	121	109
Loan collateral settlements	41	133	160
Sales proceeds	(1,037)	(1,036)	(2,007)
Miscellaneous and other	(282)	321	507
Total[c]	$16,174	$23,481	$19,250
Noncommodity-specific:			
Export guarantee claims payments	149	235	556
Storage facility loans	(318)	(223)	(141)
Export credit sales loans	(20)	(138)	(104)
Conservation reserve	0	23	680
Net interest expense	1,435	1,411	1,134
Operating expense	351	462	544
Working capital changes	(214)	416	1,000
Other	126	174	208
Total	$ 1,509	$ 2,360	$ 3,877
Total all programs	$17,683	$25,841	$23,127

[a]Numbers in parenthesis are receipts in excess of expenditures.

[b]Based on USDA's August 1987 estimates.

[c]Commodity-specific totals do not add due to rounding.

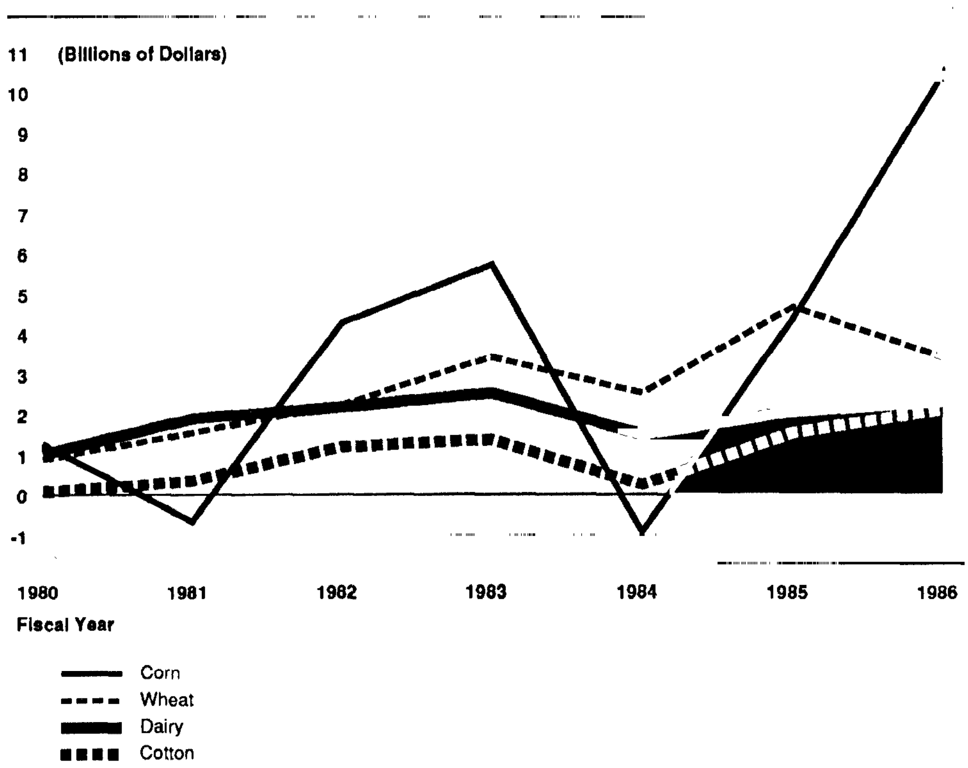
Source: ASCS.

Appendix I contains a detailed listing of net cash outlays for all CCC commodity price and income support programs, cross-tabulated on a program-by-program basis and a commodity-by-commodity basis, during fiscal years 1985 and 1986, and USDA's 1987 estimate. Appendix II contains a brief description of each major program.

Commodity-by-Commodity Outlays

Four commodities accounted for over 72 percent of the net cash outlays during the fiscal year 1980 through 1986 period: corn ($24.6 billion), wheat ($18.7 billion), dairy products ($13.5 billion), and upland cotton ($6.9 billion). While net cash outlays for these four farm commodities increased over this 7-year period, the increase for corn has been substantial, especially since fiscal year 1984. For example, net cash outlays for corn were $1.3 billion in fiscal year 1980 and $10.5 billion in 1986. Figure 1.3 shows the trend in net cash outlays for these four commodities over this period.

Figure 1.3
Total Net Cash Outlays on Four Key Commodities, Fiscal Years 1980-86



Source: ASCS.

Some commodities, such as corn and wheat, account for outlays under most of the CCC programs, while other commodities, such as wool and soybeans, account for outlays under only one or a few programs. Appendix I shows which commodities account for outlays under the various programs. Table 1.2 shows the amount of net cash outlays on all major commodities in fiscal years 1985 and 1986 and USDA's estimate for 1987. The total net cash outlays in table 1.2 exclude the noncommodity specific program outlays ($1.5 billion. $2.4 billion, and $3.9 billion, respectively, in fiscal years 1985, 1986, and 1987).

Table 1.2
Net Cash Outlays on a Commodity-by-Commodity Basis, Fiscal Years 1985-87[a]

Commodity	FY 1985	FY 1986	FY 1987[b]
	(millions)		
Corn	$ 4,403	$10,524	$11,888
Other feed grains[c]	808	1,688	1,500
Total feed grains	$ 5,211	$12,211[e]	$13,388
Wheat	4,691	3,440	2,787
Dairy products	2,085	2,337	1,238
Upland cotton	1,553	2,142	1,619
Rice	990	947	1,020
Soybeans	711	1,597	(446)
Tobacco	455	253	(326)
Sugar	185	214	(350)
Wool	109	123	149
Honey	81	89	82
Other[d]	104	128	89
Total all commodities	$16,174[e]	$23,481	$19,250

[a]Numbers in parenthesis are cash receipts in excess of cash expenditures.

[b]Based on USDA's August 1987 estimates.

[c]Other feed grains are sorghum, barley, and oats.

[d]Other covers extra long staple cotton, peanuts and peanut products, rye, blended food products, and vegetable oil.

[e]Totals do not add due to rounding.

Source: ASCS.

CASH PAYMENTS AND LOANS

Most price and income support programs are direct cash payment programs, in which cash outlays are made to farmers or nonfarmers. However, the nonrecourse commodity loan program accounts for a large part of CCC's total net cash outlays. For example, nonrecourse loans accounted for about 53 percent of CCC's net cash outlays in fiscal year 1986.

The following programs make cash payments: deficiency payments, direct purchases of farm commodities, diversion payments, storage and handling payments, producer storage payments, transportation payments, processing and packaging payments, export guarantee claims payments, and conservation reserve payments. Cash payments also include loan collateral settlements which, as discussed in appendix II, cover various payments associated with nonrecourse commodity loan forfeitures. Additionally, cash payments include wool program payments, rice inventory payments, upland cotton loan deficiency payments, and dairy whole herd buy-out payments. Cash payments under these programs are generally nonrecoverable; however, some payments for the direct purchase of farm commodities and for processing and packaging are recovered by selling those commodities. In fiscal year 1985, net cash outlays on these programs totaled $11.1 billion, or about 63 percent of total net cash outlays. In fiscal year 1986, net cash outlays on these programs increased slightly to $11.2 billion, or over 43 percent of total net cash outlays. USDA has estimated that in fiscal year 1987 net cash outlays on these programs will decline slightly to $10.9 billion, or 47 percent of total net cash outlays.

The following are loan programs: nonrecourse commodity loans, storage facility loans, and export credit sales loans. As discussed in appendix II, CCC is not currently making loans under the latter two programs, and the net cash outlay amounts for each reflect loan repayments. Some nonrecourse loan amounts are also recovered by loan repayments and by selling forfeited collateral commodities. In fiscal year 1985, net cash outlays on these programs were $5.9 billion, or about 34 percent of total net cash outlays. In fiscal year 1986, net cash outlays on these programs more than doubled to $13.3 billion, or over 51 percent of total net cash outlays. USDA has estimated that in fiscal year 1987 net cash outlays on these programs will decline to $11.3 billion, or about 49 percent of total net cash outlays.

Most Commodity Price and Income Support Outlays Went to Farmers

In recent years, farmers received about 80 percent of the commodity price and income support net cash outlays. However, the outlays from some of the programs went to persons who were not farmers, or to other recipients who may or may not be farmers. Some net cash outlays also were for ASCS administration of the programs.

Farming-related outlays

The following programs result in cash outlays to farmers: deficiency payments, nonrecourse loans, diversion payments, producer storage payments, loan collateral settlements, and conservation reserve payments. Also, storage facility loan repayments from farmers result in receipts for CCC. Additionally, cash outlays to farmers include wool program payments, rice inventory payments, upland cotton loan deficiency payments, and dairy whole herd buy-out payments. In fiscal year 1985, farmers received under these programs $13.9 billion, or about 79 percent of total net cash outlays. In fiscal year 1986, the amount farmers received increased to $20.6 billion, or about 80 percent of total net cash outlays. USDA has estimated that in fiscal year 1987 the amount farmers will receive will decline to $18.7 billion, or about 81 percent of total net cash outlays.

While farmers received most of the support program's outlays, it is unknown how much of those outlays went to individual farmers versus farmers organized under some other business structure. Farmers organize, operate, and receive the support program outlays as any one of various business entities: individual proprietorship, partnership, association, cooperative, corporation, trust, or estate. The Director of ASCS' Budget Division told us that neither ASCS nor CCC maintains records aggregating outlay information by the various business types. Farmers receive the support program outlays as producers of the supported agricultural commodities regardless of their business structure.

Nonfarming-related outlays

The following programs result in cash outlays to nonfarmers, such as commercial operators engaged in farming-related activities, or to other recipients who may or may not be farmers: direct purchases, processing and packaging payments, storage and handling payments, transportation payments, and export guarantee claims payments. Also, export credit sales loan repayments result in receipts for CCC. In fiscal year 1985, net cash outlays under these programs were $3.3 billion, or about 19 percent of total net cash outlays. In fiscal year 1986, the amount increased to $3.9 billion, or over 15 percent of total net cash outlays. USDA has estimated that in fiscal year 1987 net cash outlays under these programs will decline to $3.8 billion, or over 16 percent of total net cash outlays.

Direct purchases, as well as processing and packaging payments, primarily involve dairy and processed food products; the outlays are generally made to commercial processors of farm commodities. Transportation payments involve the movement of federally-owned commodities; the outlays are generally made to transportation companies. Storage and handling payments involve the storage and handling of federally-owned commodities; the outlays are generally made to commercial storage companies. Export guarantee claims payments involve defaults on credit payments guaranteed by CCC; the outlays are made to U.S. exporters and financial institutions.

Farmers may receive payments under some of these programs when operating an agribusiness activity ancillary to their farming operation, such as a commercial processing facility or an on-farm storage facility where federally-owned commodities are stored. However, it is unknown how much of the total outlays under these programs went to farmers because, according to ASCS officials, its records do not identify whether the recipients are or are not farmers.

Sales proceeds and administrative-related outlays

CCC sells some farm commodities acquired by direct purchase and through nonrecourse loan forfeitures. Sales proceeds reduce total cash outlays. ASCS records, however, do not show how much of the sales proceeds relate to commodities that were purchased versus acquired by loan forfeiture. Sales proceeds were slightly over $1 billion in both fiscal year 1985 and 1986. USDA has estimated that in fiscal year 1987 sales proceeds will increase to slightly over $2 billion.

Administrative-related net cash outlays covering interest expense, operating expense, and working capital changes were over $1.6 billion in fiscal year 1985. Net cash outlays for these items increased to about $2.3 billion in fiscal year 1986. USDA has estimated that net cash outlays for these items will increase to about $2.7 million in fiscal year 1987.

NONRECOURSE COMMODITY LOAN PROGRAM

CCC makes nonrecourse commodity loans to farmers who pledge certain eligible crops as collateral for the loans. The loans are nonrecourse because farmers can default on them without penalty by forfeiting the loan collateral to CCC as settlement of the loan. Farmers will sell the crops and repay the loan when the market price is more than the loan redemption price (loan principal and interest), or they will forfeit the crops rather than sell them when the market price is less than the loan redemption price. The nonrecourse commodity loan program applies primarily to feed grains (corn, sorghum, barley, and oats), wheat, soybeans, cotton, and rice.

Additionally, the marketing loan provision of the Food Security Act of 1985 (Public Law 99-198) allows farmers, under certain conditions, to repay nonrecourse commodity loans and reclaim their collateral crops at less than the original loan principal amount. The difference between the loan and repayment amount is an income support payment to farmers. Cotton, rice, and honey are eligible commodities for the marketing loan provision; the Secretary of Agriculture also has discretionary authority to implement the provision for feed grains, wheat, and soybeans.

Net cash outlays on nonrecourse commodity loans to the nation's farmers totaled $19.9 billion in fiscal years 1985 and 1986 combined. Also, USDA has estimated that net cash outlays on these loans will be another $11.5 billion in fiscal year 1987. Table 1.3 shows the amount of net cash outlays on nonrecourse commodity loans, by commodity, in fiscal years 1985 and 1986 and USDA s estimate for 1987.

Table 1.3
Net Cash Outlays on Nonrecourse Commodity Loans, by Commodity, Fiscal Years 1985-87[a]

Commodity	FY 1985	FY 1986	FY 1987[b]
		(millions)	
Corn	$1,726	$ 7,325	$ 8,947
Other feed grains[c]	404	1,033	903
Total feed grains	2,130	8,358	9,850
Wheat	2,061	1,276	705
Soybeans	706	1,576	358
Tobacco	455	297	(238)
Upland cotton	348	1,244	549
Rice	293	523	542
Sugar	185	236	(294)
Other[d]	93	119	77
Total all commodities	$6,272[e]	$13,628[e]	$11,549

[a]Numbers in parenthesis are cash receipts in excess of cash expenditures.

[b]Based on USDA's August 1987 estimates.

[c]Other feed grains are sorghum, barley, and oats.

[d]Other covers honey, peanuts, rye, and extra long staple cotton.

[e]Totals do not add due to rounding.

Source: ASCS.

Interest Rates on Nonrecourse Commodity Loans

CCC's nonrecourse commodity loans generally mature in 9 months. All nonrecourse loans made in any month have the same interest rate; the rates, however, generally vary from month to month during the year. For example, nonrecourse loans made in July 1987 had a 6.875 percent interest rate while those made in August 1987 had a 6.625 percent rate. Also, the rates on CCC loans are fixed for the term of the loan, unless the loan maturity runs past the succeeding January 1, when the loan then rolls over at the new January rate.

CCC charges its borrowers the same interest rate it is charged to borrow money from the U.S. Treasury. Table 1.4 shows the interest rates charged on CCC loans in various months during fiscal years 1985 through 1987 and the range of rates charged during each of those years.

Table 1.4
Interest Rates on CCC Nonrecourse Commodity Loans in Various Periods During Fiscal Years 1985-87

Period[a]	FY 1985	FY 1986	FY 1987
		(percent)	
December	10.125	7.875	5.750
March	9.125	7.625	5.875
June	8.750	6.500	6.875
September	8.125	6.125	6.875
Range of rates during the year	7.75 - 11.75	6.125 - 8.00	5.75 - 6.875

[a]The months listed are the last months in each quarter of the fiscal year. For example, December in fiscal year 1985 is December 1984.

Source: ASCS.

CCC fully recovers its interest costs on the nonrecourse loans that are repaid by its farmer borrowers when the loans are repaid at maturity. CCC recovers its interest costs only for the initial 9-month term on repaid grain loans when the grain is placed in the farmer-owned reserve and the loan maturity date is extended. CCC does not recover its interest costs on loans where the collateral is forfeited because all interest charges are forgiven when collateral is forfeited to CCC.

The interest rate that the Treasury charges CCC in any given month to borrow money from it for the nonrecourse loan program is based on the average interest rate of 1-year Treasury securities issued during approximately the preceding 2-week to 6-week period.

For example, in September 1986 the interest rate that the Treasury charged CCC was 6.125 percent; this interest rate was based on the monthly average rate for all 1-year Treasury securities issued during the preceding July 21 to August 20, 1986, period.

The interest rate CCC charges its borrowers in any month differs from the rate the Treasury pays for funds in the same month because of this time difference. For example, in September 1986 CCC charged its borrowers the same 6.125 percent interest rate on new loans. Treasury's average cost on all 1-year securities issued during September 1986 was 5.77 percent. This lower Treasury rate was subsequently reflected in CCC's October and November 1986 rates.

CCC borrowers receive a significant interest rate benefit with nonrecourse commodity loans compared with interest rates from other commercial lenders. For example, CCC loans carried a 7.75 percent interest rate in January 1986 and a 6.875 percent rate in July 1987. Conversely, short-term farm operating loans from commercial agricultural banks in one Federal Reserve district were 12.72 percent and 11.01 percent in January 1986 and July 1987, respectively.[2]

OUTSTANDING NONRECOURSE COMMODITY LOANS

Total outstanding nonrecourse commodity loan debt held by CCC has grown considerably in recent years. For example, at the end of fiscal year 1980, CCC had $3.6 billion in outstanding commodity loans. The total increased every year since fiscal year 1980, except 1984, and at the end of fiscal year 1986, was $18.5 billion. During the fiscal year 1980 through 1986 period, new CCC loans totaled $67.2 billion and loans repaid totaled $42.7 billion.

CCC borrowers have the option of repaying their nonrecourse commodity loans or forfeiting the collateral commodity to CCC in satisfaction of the loan; when the collateral commodity is forfeited, the loan principal and interest charges are canceled. During the fiscal year 1980 through 1986 period, loans canceled by the acquisition of collateral totaled $9 6 billion.

The total amount of CCC's outstanding commodity loans changes each year as CCC makes new loans and as loans are repaid, canceled by the acquisition of collateral, and charged-off. During the fiscal year 1980 through 1986 period, CCC experienced an overall increasing trend in new loans made and in loans canceled by the acquisition of collateral. For example, CCC had a 71 percent increase in new loans made in fiscal year 1986 compared with fiscal

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[2]The interest rates for commercial banks are the average rates reported in the Seventh Federal Reserve District, which includes Michigan, Indiana, Illinois, Wisconsin, and Iowa.

year 1985. However, it also had a 241 percent increase in loans canceled by the acquisition of collateral in fiscal year 1986 compared with fiscal year 1985. Table 1.5 shows how the level of CCC outstanding commodity loans increased during the fiscal year 1980 through 1986 period.

Table 1.5
CCC Commodity Loan Activity, Fiscal Years 1980-86

Fiscal Year	Loans: Outstanding at start of the year	Made	Repaid	Canceled[a]	Other[b]	Outstanding at end of the year
	(millions)					
1980	$ 3,886	$ 3,866	$ 3,932	$ 115	$55	$ 3,649
1981	3,649	5,623	5,450	3	29	3,790
1982	3,790	11,358	4,342	363	18	10,424
1983	10,424	13,622	9,088	860	22	14,076
1984	14,076	5,130	10,293	1,032	26	7,856
1985	7,856	10,186	4,148	1,638	23	12,233
1986	12,233	17,391	5,457	5,583	89	18,494

[a]Loans canceled by the acquisition of collateral.

[b]Loans charged-off or transferred to accounts receivable.

Source: ASCS.

SECTION 2

FEDERAL FARM COMMODITY STORAGE PROGRAMS

SUMMARY

Acquisition and Storage of Commodities

Storage operations cover CCC-owned commodities and payments for storing certain farmer-owned commodities that are pledged as collateral on nonrecourse loans and placed in the farmer owned reserve (see p. 25).

CCC acquires farm commodities through nonrecourse loan forfeitures and by direct purchase; it stores commodities in commercial warehouses throughout the country (see pp. 25-29).

Storage Costs and Quantities Stored

Net cash outlays for storing CCC-owned commodities, including related handling and transportation costs, and farmer-owned commodities were over $6 billion during the 1980-86 period (see p. 25).

Storage and related outlays in fiscal years 1985 and 1986 were over $2 billion, and USDA estimated fiscal year 1987 outlays will exceed another $2 billion (see pp. 30-32).

CCC stores vast amounts of its commodities; almost 3 billion bushels of bulk grains and about 2 billion pounds of processed commodities, as of May 31, 1987 (see pp. 33-34).

Movement of CCC-owned Commodities

ASCS normally moves CCC-owned bulk commodities from storage as part of its inventory management process. Since fiscal year 1985, large quantities have been moved primarily to make storage space available for farmers to use for incoming crops (see pp. 37-43).

INTRODUCTION

CCC and ASCS administer the federal government's programs for storing agricultural commodities. Storage operations cover commodities CCC owns as a result of nonrecourse commodity loan forfeitures and those CCC acquires by direct purchase. CCC also pays farmers to store commodities they own that are pledged as CCC loan collateral and placed in the farmer-owned reserve. CCC total net cash outlays for storing agricultural commodities, including the cost of moving its commodities to and from storage facilities and payments to farmers for storing their commodities, have grown considerably in recent years and during the 1980 through 1986 period totaled about $6.4 billion.

This section of the briefing report focuses primarily on the storage of CCC-owned commodities; information is also provided on the payments to farmers for storing commodities they own. Detailed information is provided on (1) how CCC acquires and stores commodities, (2) the cost of storage and the quantities stored, (3) storage rates and how they are determined, (4) the movement of commodities from storage, and (5) payments to farmers for storing loan collateral commodities.

CCC's ACQUISITION OF COMMODITIES

CCC acquires ownership of commodities as a result of nonrecourse commodity loan forfeitures and by direct purchase. Feed grains (corn, sorghum, barley, and oats), wheat, and soybeans are the primary bulk grains it acquires through loan forfeitures. Dairy products, such as cheese and nonfat dry milk, and other processed foods, such as flour and honey, are the primary commodities acquired by direct purchase. CCC makes nonrecourse loans and purchases farm products as part of its mandatory price support programs for agricultural commodities.

CCC acquires commodities when demand is insufficient to absorb available supplies and when farm prices are below CCC support levels. Part of CCC's inventory is also accumulated to fill orders or meet other USDA program requirements, such as export promotion activities and domestic nutrition programs.

CCC is authorized to sell its commodities in domestic markets only at prices above the acquisition price for unrestricted use, or at prices below the acquisition price for certain restricted uses, such as new or by-product uses and when commodities have deteriorated substantially. CCC is also authorized to sell its commodities to foreign buyers without price restrictions and to exchange its commodities for commodity certificates.

CCC's STORAGE OF COMMODITIES

CCC does not own its storage facilities. ASCS' Kansas City Commodity Office (KCCO) stores CCC's inventory of bulk grains and processed commodities in various types of commercial facilities located throughout the nation. It contracts with commercial warehouse operators, or warehousemen, to store CCC-owned commodities under various uniform storage agreements. For example, in April 1987, according to an ASCS agricultural marketing specialist, ASCS had agreements with about 5,900 grain contractors to store CCC-owned grain.

In some instances, warehouse operators are also producers of farm products and the storage of CCC's commodities is in on-farm facilities. However, ASCS officials, including the Deputy Director of the Warehouse Division and the Director of KCCO, told us that the storage contract they have with a warehouseman/producer is for storing the CCC-owned commodities; it is unrelated to the production of farm products. They also told us that ASCS does not maintain records which provide information on warehousemen who are also producers.

Bulk grains are stored in permanent storage facilities, such as concrete elevators and silos, and in temporary storage facilities and emergency storage space when high levels of surplus commodities create a shortage in permanent storage space. In storage, CCC-owned bulk grains are comingled with the grain of all other storers. According to ASCS officials, including the Deputy Director of the Warehouse Division and the Director of KCCO, the comingling of the CCC-owned grain with others' grain is not a matter of concern since warehousemen are responsible for providing ASCS with the same quality and quantity of grain when it is retrieved from the storage facility as ASCS placed in the facility.

Processed commodities, on the other hand, are normally stored only in permanent storage facilities, such as conventional warehouses, and they are not comingled.

Permanent Storage Facilities for Bulk Grains

Permanent storage facilities for bulk grains generally consist of stationary structures made from sound and durable construction materials, such as concrete, metal, or wood, and include a permanent roof. Generally, they include aeration equipment to control humidity and elevators or augers to move the grain from one location to another location in the facility.

The grain industry and ASCS have generally classified permanent storage facilities for bulk grains into two categories--country and terminal elevators. Country elevators are local storage facilities generally used by grain farmers. According to KCCO officials, these elevators range in capacity from about 25,000 bushels to about 2 million bushels, averaging about 1 million bushels.

Terminal elevators, on the other hand, generally are used by grain companies. They are generally located at terminals served by multiple transportation modes, and they have weighing and inspection, including grading, services. Terminal elevators also contain space for consolidating grain for export or other commercial purposes and have truck rail, and/or barge or ship loading and unloading facilities. According to KCCO officials, these elevators range in capacity from about 500,000 bushels to about 50 million bushels, averaging about 3.5 million bushels.

CCC pays the same rates for storing bulk grains in permanent facilities as it pays for storing them in temporary storage facilities and in emergency storage space (as discussed below).

Warehouses are required to maintain records covering the amount of grain in permanent, temporary, and emergency space; however, the information is not reported to KCCO. ASCS does not maintain information on the quantity of grain in each type storage, or the amount of their storage payments that apply to each type of storage. Rather, according to ASCS officials, bulk grains are comingled in storage and the warehousemen are responsible for maintaining the quality of the grain regardless of the facility where it is stored. Operators are required to provide KCCO access to their records, facilities, and the grain in storage for inspection purposes.

Temporary Storage Facilities for Bulk Grains

When high production and a large surplus of crops from prior years create a shortage of permanent storage space, ASCS has authorized grain elevators to increase their storage capacity by constructing temporary storage structures. Temporary facilities have a concrete or asphalt floor, self-supporting walls, and a nonpermanent roof, such as a vinyl tarp. These facilities generally have aeration or ventilation equipment to control moisture in the grain.

ASCS normally authorizes storing bulk grains in temporary storage facilities only until May 1 of the year following harvest, unless an extension of the storage period is allowed. KCCO officials told us that extensions are regularly approved. An Assistant Deputy Administrator for Commodity Operations said that extensions are based on an examination of the grain and the temporary storage facility which shows the quality of the grain is being maintained. Also, ASCS has had a temporary storage program each year for the past several years.

As of January 20, 1987, ASCS had authorized over 400 million bushels of temporary storage space in 27 states under its 1986 temporary storage program. By July 15, 1987, that amount had increased to over 600 million bushels of temporary storage space in 28 states under its 1987 temporary storage program, including extensions from the previous program.

Emergency Storage Facilities for Bulk Grains

When high production and a large surplus of crops from prior years occur, along with a severe shortage of permanent and temporary storage space, ASCS has authorized grain elevators to increase their storage capacity by using emergency storage space and methods. For example, in 1986 and 1987, emergency storage provided for bulk grains being stored in, among other places, open ground piles, rail cars, and ships. Also, barge storage occurred under the 1986 and 1987 emergency storage programs; this storage was apart from ASCS' 1986 special barge storage program, which is discussed separately in section 3 of this briefing report.

ASCS authorizes storing bulk grains in emergency storage space only until March 31 of the year following harvest. KCCO officials told us that extensions of the storage period are not allowed. Also, ASCS has had an emergency storage program each year for the past several years.

As of January 20, 1987, ASCS had authorized about 270 million bushels of emergency storage space under its 1986 emergency storage program; the authorization for this emergency space expired on March 31, 1987. Since that expiration, ASCS had authorized over 67 million bushels of emergency space in 16 states as of August 4, 1987, under its 1987 emergency storage program. An ASCS Assistant Deputy Administrator for Commodity Operations told us that the need for emergency space is not anticipated in 1988.

In addition to the above emergency storage, in 1986 ASCS implemented a special storage program in which it contracted with grain companies to store CCC-owned grain on barges. Additional payments were made under this program, which is discussed in section 3 of this briefing report.

Permanent Storage Facilities for
Processed and Other Commodities

Processed and other commodities are normally stored in conventional warehouses of permanent construction. The three types of warehouses in which they are stored, and the primary commodities stored in each, are:

1. Dry storage--used for nonfat dry milk, honey, and cotton.
2. Cooler--used for cheese.
3. Freezer--used for butter.

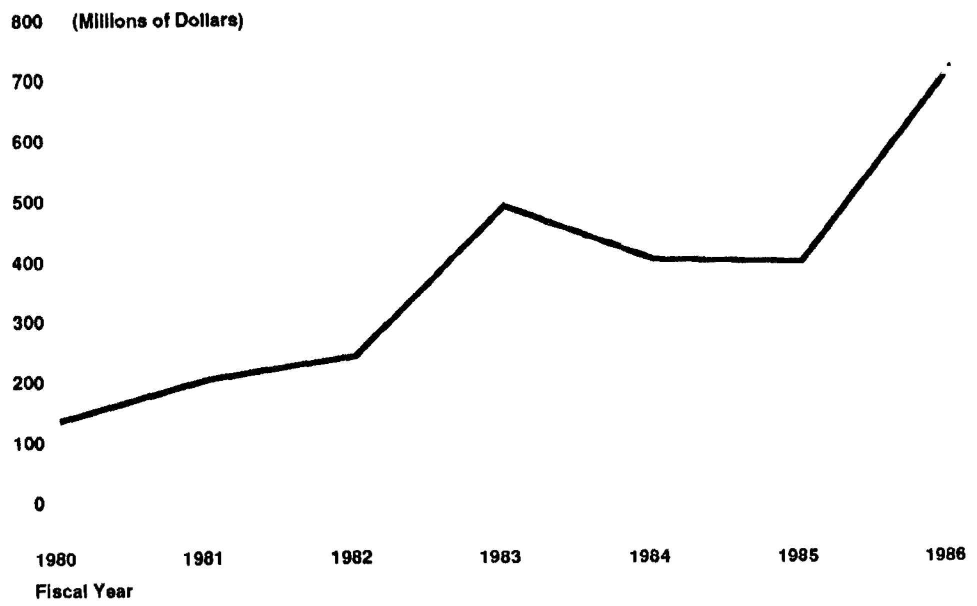
Dry storage warehouses are generally made of concrete, metal, or wood, and in some cases have air circulation or other equipment to control moisture. According to KCCO officials, some underground caves are also used to store processed commodities. For example, the Director, KCCO, told us that about 25 percent of CCC's dairy products, primarily nonfat dry milk, are stored in caves. Coolers and freezers are constructed similarly to dry storage warehouses, and the temperature is controlled to prevent spoilage, mold, and other contamination.

Unlike bulk grains, processed commodities are not comingled in storage. The identity of each processed commodity lot is maintained by the warehouse operator, including its quantity, quality and ownership (referred to as identity preserved). Processed commodities are generally stored in 35,000 pound to 105 000 pound lots, depending on the commodity.

COSTS OF STORING CCC-OWNED COMMODITIES

CCC's costs for storing its commodities have increased considerably in recent years as the quantity of commodities it owns has grown. Figure 2.1 shows the overall increasing trend in the cost of storing CCC-owned commodities since 1980.

Figure 2.1
CCC's Cost of Storing Its Commodities,
Fiscal Years 1980-86



Source: ASCS.

In addition to the payments for storing CCC-owned commodities, ASCS has paid (1) to move CCC-owned commodities to and from, and between, storage facilities, and (2) for storing farmer-owned commodities that are pledged as collateral on nonrecourse loans and placed in the farmer-owned reserve. Total net cash outlays for storing CCC-owned and farmer-owned commodities, including related CCC transportation costs, were over $2 billion in fiscal years 1985 and 1986. Also, as table 2.1 shows, USDA estimated net cash outlays on storage would exceed another $2 billion in fiscal year 1987; actual outlays were almost $1.5 billion through May 31, 1987.

Table 2.1
Total Net Cash Outlays on Storage, Fiscal Years 1985-86, and 1987 Estimate and Actual Through May 31, 1987

Commodity storage	FY 1985	FY 1986	FY 1987 Estimate[a]	FY 1987 Actual through May 31, 1987
	(millions)			
CCC-owned:				
Storage payments[b]	$394	$ 713	$1,229	$ 871
Transportation payments[c]	134	179	201	108
Total CCC-owned	528	892	1,430	979
Farmer-owned:				
Storage payments[d]	329	485	578	512
Total	$857	$1,377	$2,008	$1,491

[a]Based on USDA's August 1987 estimates.

[b]Covers storage and handling payments, as discussed below.

[c]Transportation payments, which are directly related to CCC's total storage costs, are discussed on pp. 37-43.

[d]CCC's payments to farmers for storing certain commodities that are pledged as collateral on nonrecourse loans and placed in the farmer-owned reserve, as discussed on pp. 43-45.

Source: ASCS.

CCC incurs two charges for storing its commodities: (1) a storage charge for actually storing the commodities in the storage facilities and (2) a handling charge for moving the commodities into and out of the storage facilities. ASCS records, including its accounting, payment, and budget records combine these two charges in one account. The records do not separately identify how much of the payments were for storing the commodities versus handling them. Also, the records do not identify how much was related to moving the commodities into the storage facilities versus out of the facilities. Therefore, we were unable to separately identify how much of the CCC's total storage and handling costs was specifically for storing the commodities versus handling them, or for moving the commodities into and out of the storage facilities. Unless otherwise noted, in this briefing report we refer to these combined costs as storage costs.

Most of CCC storage costs were for storing its bulk grain commodities. For example, as table 2.2 shows, over $640 million, or 90 percent, of CCC's fiscal year 1986 storage cost was for bulk grain storage.

Table 2.2
CCC Storage Cost, by Commodity,
Fiscal Years 1985-86 and 1987 Through May 31, 1987

Commodity	FY 1985	FY 1986	FY 1987[a]
	(millions)		
Bulk grain:			
Wheat	$149.5	$239.0	$205.2
Corn	83.1	192.4	376.9
Barley	6.8	22.3	22.1
Oats	0.5	1.0	0.8
Sorghum	44.3	68.5	92.6
Rough rice	36.9	49.9	19.9
Rye	3.3	7.1	4.0
Soybeans	1.3	54.7	101.9
Other	0.1	5.5	3.2
Total bulk grain[b]	325.9	640.4	826.6
Cotton:			
Upland	3.8	17.8	9.2
Extra long staple	0.2	0.4	(0.1)[c]
Total cotton	4.0	18.2	9.1
Processed commodities:			
Cheese	33.8	24.8	9.7
Nonfat dry milk	16.7	14.9	5.5
Butter	11.0	10.0	3.9
Butter oil	0.2	0.5	0.5
Honey	2.0	1.5	1.3
Milled rice	0.1	0.1	0.1
Beef and pork	0	0.7	14.6
Other	0.2	0.3	0.1
Total processed	64.0	52.7	35.6
Total all commodities[b]	$394.2	$712.9	$871.3

[a]As of May 31, 1987.

[b]Totals may not add due to rounding.

[c]Credit due to accounting adjustments.

Source: ASCS.

ASCS does not maintain records showing exactly how much of its storage payments are related to commodities in the different types of storage facilities (permanent, temporary, or emergency). However, since processed commodities and cotton are stored only in permanent facilities, the nearly $71 million paid in fiscal year 1986 for storing them would apply to permanent facilities. Bulk grains, on the other hand, are stored in permanent, temporary, and emergency facilities; therefore, it is unknown how much of the over $640 million paid in fiscal year 1986 for storing them applied to the different types of facilities.

As would be expected, CCC total storage costs have followed increases and decreases in its inventory levels. For example, its storage payments for bulk grains increased about 97 percent in fiscal year 1986 compared with fiscal year 1985; it increased another 29 percent in fiscal year 1987 through May 31, 1987, compared with all of fiscal year 1986. The quantity of its bulk commodity inventory increased at approximately the same rates during those periods, 103 percent and 36 percent, respectively. Also, its storage payments for processed commodities decreased during those periods, following a downward trend in its inventory of processed commodities.

QUANTITIES OF CCC-OWNED COMMODITIES IN STORAGE

While CCC's bulk grain inventory has grown considerably in recent years, its processed commodity and cotton inventories have decreased. Bulk grain inventories increased from about 1.1 billion bushels at the end of September 1985 to about 3 billion bushels at the end of May 1987, a 1.9 billion bushel increase, or 176 percent, over the 20-month period. Among the grains, the inventory levels for corn, wheat, and soybeans, accounted for most of the increase, while the levels for sorghum and rice decreased considerably.

CCC's processed commodities inventories decreased from about 2.7 billion pounds to about 1.7 billion pounds, more than a 900 million pound decrease, or almost 35 percent, during the same September 1985 through May 1987 period. Among the processed commodities, the inventory levels for dairy products--butter, cheese, and nonfat dry milk--accounted for most of the decrease, while the levels for meat products and oils increased considerably.

Also, as table 2.3 shows, CCC's cotton inventory fluctuated considerably during the same 20-month period, increasing from over 147 thousand bales in September 1985 to about 839 thousand bales in September 1986 and then decreasing to about 87 thousand bales in May 1987--a net decrease of about 61 thousand bales, or over 41 percent, for the period.

Table 2.3
Quantity of CCC-owned Commodities in Storage, Fiscal Years 1985-86 and 1987 Through May 31, 1987

Commodity	FY 1985	FY 1986	FY 1987[a]
Bulk grain:	(millions of bushels)		
Wheat	501.5	923.4	943.9
Corn	271.6	666.6	1,486.3
Barley	29.5	66.8	67.0
Oats	1.8	3.3	3.3
Sorghum	129.1	259.2	29.5
Rough rice	99.8	79.4	53.5
Soybeans	30.7	171.0	382.8
Rye	14.4	17.6	17.2
Other	2.7	0.3	0.6
Total bulk grain[b]	1,081.0	2,187.6	2,984.2
Cotton:	(thousands of bales)		
Upland	129.7	822.3	77.0
Extra long staple	17.4	16.5	9.5
Total cotton[b]	147.1	838.7	86.5
Processed commodities:	(millions of pounds)		
Nonfat dry milk	1,445.3	1,186.5	712.8
Cheese	821.6	854.4	597.6
Butter	257.6	285.2	220.2
Oils	23.5	50.1	52.4
Honey	124.9	79.3	93.1
Milled head rice	1.7	2.8	3.5
Beef and pork	0	74.8	63.6
Other	2.1	1.8	1.8
Total processed[b]	2,676.7	2,535.0	1,745.1

[a]As of May 31, 1987.

[b]Totals may not add due to rounding.

Source: ASCS.

HOW STORAGE RATES ARE DETERMINED

ASCS negotiates and reaches agreement with each storage contractor, or warehouseman, on the rates for storing and handling CCC-owned commodities. The rates CCC paid for storing and handling most of its commodities remained virtually unchanged during the April 1985 through March 1987 period because ASCS froze the rates in 1986 to comply with the Gramm-Rudman Act budget reduction requirements. In April 1987, ASCS negotiated new rates which slightly increased the average storage and handling rate for bulk grains and rice. Previously, ASCS had also negotiated new rates which slightly increased the average rate for cotton. Also, as table 2.4 shows, the average rate for key processed commodities in CCC's inventory remained about the same as a result of the new rates.

Table 2.4
Average Annual Storage and Handling Rates[a] for Various Commodities, 1985-87

Commodity	1985	1986	1987[b]
Grain and cotton:			
Bulk grain (bushel)	$ .48	$ .48	$ .52
Rice (bushel)	.59	.60	.61
Cotton (bale)	19.76	20.19	20.42
Processed commodities:			
Nonfat dry milk (pound)	$ .0138	$ .0138	$ .0138
Cheese (pound)	.0326	.0323	.0326
Butter (pound)	.0379	.0376	.0364

[a]Handling rates cover one movement into and one movement out of the storage facility for bulk grains, rice, and processed commodities, and one movement into the facility for cotton.

[b]Current rates effective at different times during April 1987.

Source: ASCS.

How Rates Are Determined for Bulk Commodities

ASCS uses an offer and acceptance procedure to determine storage and handling rates for bulk grains. Under this system, a warehouseman makes an offer to KCCO, which will accept the offer if it is reasonable and within the limits established by ASCS' headquarters for storage and handling.

In April 1987, ASCS established an annual maximum storage rate of $ 445 per bushel for grain. In turn, KCCO set the maximum storage rate it would accept in each state. That rate could not exceed 120 percent of the average rate offered for a commodity in the state, subject to the maximum $.445 per bushel.

ASCS also established maximum handling rates of $.10 per bushel to move grain into a storage facility and $.10 per bushel to move it out of a facility. Warehousemen were not allowed to increase the combined in and out handling rates by more than $.02 per bushel over their 1986 rates.

KCCO's negotiations for 1987 storage and handling rates for bulk grains resulted in annual storage rates ranging from $.12 to $.445 cents per bushel; the average annual rate was about $.34 per bushel at country elevators and $.37 per bushel at terminal elevators. The combined handling rates ranged from $.01 (at one warehouse) to $.20 per bushel; the average rate was about $.19 per bushel at country elevators and $.15 per bushel at terminal elevators. Also, as table 2.5 shows, average annual storage and combined handling rates increased an average of $.0306 per bushel from April 1985 to April 1987 at country elevators and $.0503 per bushel at terminal elevators.

Table 2.5
Average Annual Per Bushel Storage and Handling Rates, by Type of Storage Facility, April 1985 and April 1987[a]

Facility/commodity	1985	1987[b]	Increase
	------(dollars per bushel)------		
Country elevator:			
Wheat	$.5035	$.5353	$.0318
Corn	.4929	.5272	.0343
Barley	.4945	.5238	.0293
Oats	.4815	.5133	.0318
Sorghum	.5098	.5393	.0295
Soybeans	.5124	.5481	.0357
Rye	.5029	.5339	.0310
Flaxseed	.5057	.5269	.0212
Average	$.5004	$.5310	$.0306
Terminal elevator:			
Wheat	$.4472	$.5061	$.0589
Corn	.4607	.5201	.0594
Barley	.4588	.5037	.0449
Oats	.4607	.5095	.0488
Sorghum	.4471	.4967	.0496
Soybeans	.4739	.5301	.0562
Rye	.4514	.5005	.0491
Flaxseed	.4754	.5107	.0353
Average	$.4594	$.5097	$.0503

[a]Storage rates for 1 year plus truck (country) or rail (terminal) receiving and rail loading out.

[b]These rates include warehouse rates negotiated through April 20, 1987, but do not represent final negotiated rate averages for 1987.

Source: ASCS.

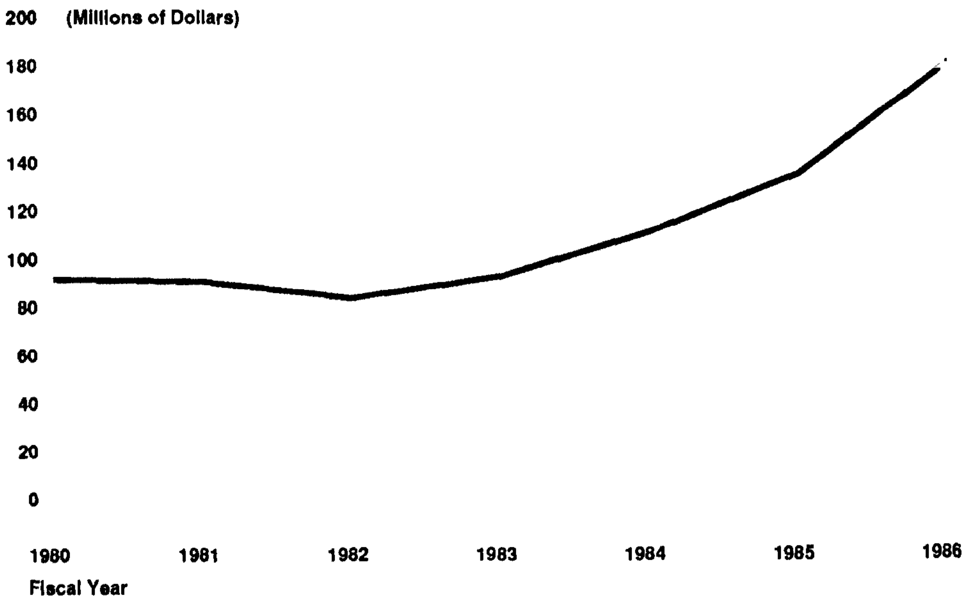
How Rates Are Determined for Processed Commodities

ASCS also negotiates storage rates for processed commodities with individual storage contractors. ASCS headquarters does not provide detailed guidance for processed commodity storage rates, as it does for bulk grain storage rates. For example, while a national $.445 per bushel maximum storage rate had been set for bulk grains, a similar maximum rate was not set for processed commodities. According to an agricultural marketing specialist in the Warehouse Division, a surplus of storage space currently exists which makes the rates highly competitive, and, therefore, ASCS headquarters feels such guidance is unnecessary. The Chief, KCCO Processed Commodity Contract Branch, told us KCCO will accept rate offers that are within the range of existing rates in a local area.

MOVEMENT OF STORED COMMODITIES

CCC's total payments for moving its stored commodities has increased considerably in recent years. Figure 2.2 shows the overall increasing trend in these payments since 1980.

Figure 2.2
CCC's Payments for Moving Its Stored Commodities, Fiscal Years 1980-86



Source: ASCS.

CCC's fiscal year 1986 transportation payments were over $179 million, nearly a 34-percent increase compared with its 1985 payments (almost $134 million). High levels of transportation payments have continued in fiscal year 1987; as of May 31, 1987, these payments were about $108 million. USDA has estimated CCC's final fiscal year 1987 transportation payments at almost $201 million.

Moving Bulk Commodities

While transportation payments for bulk commodities accounted for slightly less than half of the total fiscal year 1985 payments, they accounted for over 56 percent of the fiscal year 1986 payments and over 68 percent of the fiscal year 1987 payments through May 31, 1987. CCC's payments for transporting bulk commodities increased by over 55 percent in fiscal year 1986 compared with 1985, and through May 31, 1987, they were at a higher rate in fiscal year 1987 than in 1986.

Quantities of bulk commodities moved

KCCO normally moves bulk commodities from country elevators to terminal elevators as part of its inventory management process. However, high production and large surplus stocks in recent years have caused it to move bulk commodities from country elevators to terminal elevators, and from terminal elevators to other terminal elevators, not for the purpose of disposing of the commodities, but rather for making space available for farmers to use for storing their incoming crops. Movements of commodities from one storage facility to another storage facility are referred to as "reconcentrations" and include all movements of CCC-owned bulk commodities.

CCC acquires bulk commodities through nonrecourse loan forfeitures from farmers with price support loans. Normally, farmers had the commodities in storage either on the farm or in a local country elevator. When a forfeiture occurs, CCC acquires title to the commodity. Bulk commodities are usually moved, at KCCO's instructions, to a country elevator which has a uniform storage agreement with KCCO.

KCCO generally stored the CCC-owned commodities at a country elevator until they were sold redeemed for commodity certificates, or moved to a terminal elevator. According to ASCS headquarters and KCCO officials, much of the movement of bulk commodities in 1985 and 1986 related to moving commodities out of the country elevators and into the nearest terminal elevator, and from terminal elevators to other terminal elevators, that had available space. ASCS officials, including the Deputy Administrator for Commodity Operations, told us the primary reason they moved the commodities from the elevators was in response to requests from warehousemen to make space available for farmers to use in the local production area for the incoming harvest. The ASCS officials further said that they continued to move bulk commodities in 1987 out of local production areas where storage space remains unavailable or scarce and into areas where space was available. An ASCS Assistant Deputy Administrator for Commodity Operations told us that there will be no major grain reconcentrations in 1988.

The quantity of CCC-owned bulk grains moved increased to over 508 million bushels in fiscal year 1986 compared with about 245 million bushels in fiscal year 1985. Also, as shown in table 2.6, in fiscal year 1987, through May 31, 1987, about 199 million bushels of bulk grains had been moved. Four commodities--corn, wheat, soybeans, and sorghum--accounted for most of the movements. According to KCCO officials, the decline in the quantity of bulk grains moved through the first 8 months of fiscal year 1987 reflects, in part, their policy change to primarily move grain out of local production areas rather than moving the grain to the nearest facility with available space within local production areas. These officials also said the decline reflects an increase in their trading of grain from areas where storage space is tight for grain in other areas of the country where space is available.

Table 2.6
Quantity of CCC-owned Bulk Grains Moved,
Fiscal Years 1985-86 and 1987 Through May 31, 1987

Commodity	FY 1985	FY 1986	FY 1987[a]
	(millions of bushels)		
Wheat	111.7	165.6	46.5
Corn	37.6	215.6	106.3
Barley	b	17.1	0.8
Oats	b	0.3	0.1
Sorghum	54.7	37.5	13.2
Soybeans	b	67.1	30.9
Rice	15.1	0	0
Rye	b	5.3	1.0
Other	25.4	0	0
Total	244.6	508.5	198.7

[a]As of May 31, 1987.

[b]Included in other for 1985.

Source: GAO analysis of ASCS records.

KCCO data also show that cotton had been moved from one storage location to another location. Cotton reconcentration statistics were not available by fiscal year, but they were available by calendar year. About 489 thousand bales of cotton were moved in calendar year 1986. According to KCCO officials, the

1986 cotton movements were made primarily to increase storage space in the local production areas for the incoming harvest. In calendar year 1987, through May 31, 1987, the movement of cotton had declined considerably to slightly over 1,000 bales as CCC's inventory of cotton declined.

Payments for moving bulk commodities

Total payments for moving bulk commodities increased to almost $101 million in fiscal year 1986 compared with almost $65 million in fiscal year 1985. Also, as shown in table 2.7, in fiscal year 1987, through May 31, 1987, total payments were about $74 million.

Table 2.7
Payments for Moving CCC-owned Bulk Commodities,
Fiscal Years 1985-86 and 1987 Through May 31, 1987

Commodity	FY 1985	FY 1986	FY 1987[a]
	(millions)		
Wheat	$33.8	$52.2	$10.0
Corn	7.1	28.3	40.7
Barley	4.0	6.0	0.6
Oats	0.1	0.1	0.1
Sorghum	16.9	4.5	6.0
Rye	2.1	2.2	2.0
Soybeans	0.1	7.4	14.2
Rough rice	0.9	0.4	0.1
Upland cotton	(0.1)[b]	(0.1)[b]	0.1
Other	(0.1)[b]	0	0
Total	$64.9	$100.9	$73.7

[a]As of May 31, 1987.

[b]Credits are due to accounting adjustments.

Source: GAO analysis of ASCS records.

According to ASCS Kansas City Management Office (KCMO) accounting records, transportation payments for bulk commodities were at a slightly higher monthly rate than they were during fiscal year 1986 even though the quantity of bulk commodities moved was substantially less than in the previous fiscal year. The Chief, KCCO Traffic Management Division, told us the reason for the higher rate was because freight payments are recorded in the fiscal year when the payment is made rather than in the fiscal year when the movement occurs. For example, he said the payments are made an average of 4 to 6 months after the movement. Therefore, the fiscal year 1987 payment level includes a large amount for movements made in fiscal year 1986.

Working with the Chief, KCCO Traffic Management Division, we developed an estimate that more nearly shows actual costs incurred in fiscal years 1986 and 1987. The estimate shows that actual transportation costs for fiscal year 1986 were substantially higher than shown in the accounting records while the actual costs for fiscal year 1987 were substantially lower. As table 2.8 shows, we estimate the transportation costs at about $153 million and $64 million in fiscal years 1986 and 1987, through May 31, 1987, respectively; this compares with about $101 million and $74 million contained in KCMO's accounting records.

Table 2.8
GAO Estimated Transportation Costs for Moving CCC-owned Bulk Grains, Fiscal Years 1986 and 1987 Through May 31, 1987

Commodity	FY 1986 Bushels moved (millions)	FY 1986 Per bushel estimated cost	FY 1986 Total estimated cost (millions)	FY 1987[a] Bushels moved (millions)	FY 1987[a] Per bushel estimated cost	FY 1987[a] Total estimated cost (millions)
Wheat	165.6	$.393	$ 65.1	46.5	$.438	$20.4
Corn	215.6	.251	54.1	106.3	.296	31.5
Barley	17.1	.388	6.7	0.8	.433	0.3
Oats	0.3	.301[b]	0.1	0.1	.346[b]	0.1
Soybeans	67.1	.202	13.5	30.9	.247	7.6
Sorghum	37.5	.254	9.5	13.2	.299	3.9
Rye	5.3	.749	4.0	1.0	.346[c]	0.3
Total	508.5		$153.0	198.7[d]		$64.1
Average per bushel cost		$.301			$.323	

[a]As of May 31, 1987.

[b]In the absence of a specific rate for oats, the fiscal year 1986 rate is the composite rate for all of the other grains and the fiscal year 1987 rate is the fiscal year 1986 rate plus $.045 per bushel.

[c]According to the Chief, KCCO Traffic Management Division, fiscal year 1986 rye movements were unusual in that KCCO shipped large quantities of rye over long distances. Similar shipments are not planned during fiscal year 1987. Therefore, the estimate is based on the composite rate of all grains for fiscal year 1986 plus $.045 per bushel.

[d]Total does not add due to rounding.

Source: GAO estimate based on ASCS data.

To assist us in developing our estimate, the Chief, KCCO Traffic Management Division, provided us with estimated average transportation cost per bushel for each commodity in fiscal year 1986. We applied that average to the quantities that KCCO records showed were moved to determine the estimated fiscal year 1986 costs of transportation. The Chief also estimated that transportation costs averaged about $.045 more per bushel in fiscal year 1987 than they did in 1986 primarily because the average shipment covered a longer distance.[1] To determine the estimated fiscal year 1987 costs of transportation, we added the $.045 to the fiscal year 1986 estimated average transportation costs per bushel for each commodity and applied that amount to the quantities that KCCO records showed were moved. KCCO officials, including a Deputy Director and the Chief of the Traffic Management Division, agreed with our methodology and results in determining the more accurate annual cost for moving the commodities.

A KCCO cotton marketing specialist told us that CCC incurred little, if any, transportation costs for cotton reconcentrations. He said that warehouses storing CCC cotton often move it at no cost to CCC in order to receive their business. Fiscal year 1987 transportation payments for cotton, through May 31, 1987, totaled about $29,000. KCMO accountants advised us that a large part of the fiscal year 1987 transportation payments applied to calendar year 1986 cotton movements. Also, accounting adjustments made in the cotton transportation account for fiscal years 1985 and 1986 resulted in negative balances for those years.

Moving Processed Commodities

Processed commodities are usually purchased from food processors and transported to CCC's contractor storage facilities. Processed commodities are normally moved only from the point of purchase to a storage facility. These commodities generally remain at the storage facility until they are moved because of sale, to be disposed of through various USDA programs, or for reprocessing.

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[1]According to the Chief, Traffic Management Division, KCCO changed its reconcentration policy in fiscal year 1987, which increased the average distance of each shipment. Previously, KCCO shipped grain from a country elevator to the nearest terminal elevator that had available space within the local production area. KCCO revised its policy to primarily ship the grain from country elevators to terminal elevators located outside the local production areas because of the large quantity of grains in storage in the local areas. The purpose for the change was to increase storage space in the local production areas rather than only in particular elevators.

Total payments for moving processed commodities increased to over $78 million in fiscal year 1986, compared with slightly over $69 million in fiscal year 1985. Also, as shown in table 2.9, in fiscal year 1987, through May 31, 1987, total payments for moving processed commodities were about $34 million. According to an agricultural marketing specialist in the Warehouse Division, the decline in payments for moving processed commodities through the first 8 months of fiscal year 1987 reflects decreases in the quantity of commodities moved and in CCC's inventory.

Table 2.9
Payments for Moving Processed Commodities, Fiscal Years 1985-86 and 1987 Through May 31, 1987

Commodity	FY 1985	FY 1986	FY 1987[a]
	(millions)		
Cheese	$28.8	$27.7	$10.6
Nonfat dry milk	27.0	33.1	15.9
Butter	10.2	11.9	4.9
Butter oil	1.3	1.6	0.9
Honey	1.5	0.2	0.1
Milled head rice	0.1	0.2	0.1
Corn products	0.1	0.1	0.1
Wheat products	0.1	0.1	0.1
Dry edible beans	0.1	0.1	(0.1)[b]
Beef and pork meats	0	3.6	1.5
Other	0.1	0.1	0.1
Total[c]	$69.0	$78.5	$33.9

[a]As of May 31, 1987.

[b]Credits due to accounting adjustments.

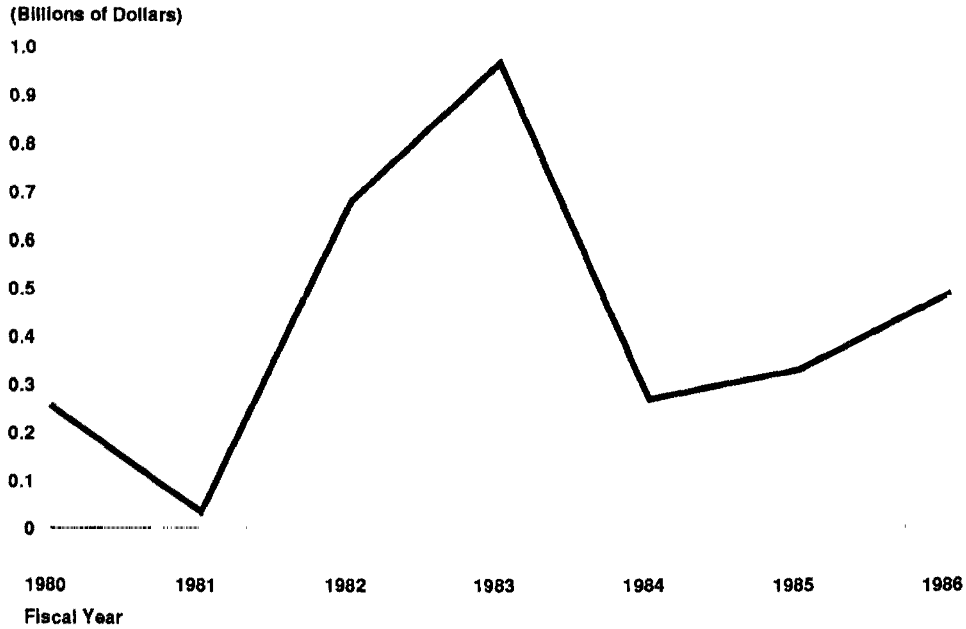
[c]Totals do not add due to rounding.

Source: GAO analysis of ASCS records.

STORAGE PAYMENTS TO FARMERS

CCC also pays farmers to store certain commodities they own that are pledged as collateral on nonrecourse loans and placed in the farmer-owned reserve. As figure 2.3 shows, CCC total payments to farmers for storing loan collateral commodities has increased in 4 of the 6 years since 1980.

Figure 2.3
CCC's Payments to Farmers for Storing Loan Collateral Commodities, Fiscal Years 1980-86



Source: ASCS.

According to ASCS' Chief of the Cotton, Grain and Rice Price Support Division's Loan Branch, the fiscal year 1981 decline in payments was due to market conditions at the end of 1980 and the beginning of 1981; wheat and corn prices increased and farmers sold their commodities rather than participate in the storage program during most of 1981. Also, he said the fiscal year 1984 decline was due to USDA's payment-in-kind program; storage payments apply to certain stored commodities that are collateral for nonrecourse loans and the payment-in-kind program resulted in a reduction in loans which, in turn, caused a decline in 1984 payments.

The primary eligible commodities for the storage payments are feed grains (corn, sorghum, barley, and oats) and wheat. CCC pays farmers an annual rate of $.265 per bushel to store these commodities except for oats, which it pays $ 20 per bushel.

CCC's fiscal year 1986 payments to farmers for storing the eligible loan collateral commodities were over $485 million over a $156 million increase, or over 47 percent, compared with its 1985 payments (almost $329 million). High levels of storage payments to farmers have continued in fiscal year 1987--as of May 31, 1987, CCC's payments were over $512 million. USDA has estimated CCC's final fiscal year 1987 producer storage payments at about $578 million.

Most of the storage payments to farmers were for storing corn and wheat. For example, as table 2.10 shows, $430.8 million, or about 89 percent, of CCC's fiscal year 1986 payments to farmers was for storing these two commodities.

Table 2.10
CCC Storage Payments to Farmers, by Commodity, Fiscal Years 1985-86 and 1987 Through May 31, 1987

Commodity	FY 1985	FY 1986[a]	FY 1987[b]
	(millions of dollars)		
Feed grains:			
Corn	$100.2	$258.5	$286.1
Sorghum	34.0	24.1	28.4
Barley	27.0	29.6	38.5
Oats	0.2	0.7	0.7
Total feed grains	161.4	312.9	353.7
Wheat	167.6	172.3	158.7
Total	$329.0	$485.2	$512.4

[a]Excludes rye and rice storage payments of $13,000 and $2,000, respectively.

[b]As of May 31, 1987. Excludes rye and soybean payments of $48,000 and $2,000, respectively.

Source: ASCS.

Farmers pay the cost associated with storing the commodities during the initial term of the nonrecourse loans. They receive the storage payments from CCC for the eligible commodities when that term is extended and the commodities are placed into the farmer-owned reserve.

Farmers have the option of storing their commodities in on-farm storage facilities or at commercial elevators. When the commodities are stored in on-farm facilities, farmers retain the payments. When stored in commercial elevators, part or all of the payments are passed through the farmers to the warehousemen. ASCS officials, including the Chief of the Cotton, Grain and Rice Price Support Division's Loan Branch, told us they do not know whether farmers profit or lose money by storing loan collateral grain. They also told us ASCS does not have information detailing what it costs farmers to store in on-farm facilities or in commercial elevators.

SECTION 3

SPECIAL 1986 BARGE STORAGE PROGRAM

SUMMARY

ASCS implemented a special barge storage program in 1986 to provide additional space for storing corn. Twelve contractors were paid to store almost 65 million bushels of grain, mostly corn, on barges (see p. 47).

All of the grain stored on barges originated from corn belt states. Most of the grain was disposed of by trading it for other grain that was in storage in the same corn belt states (see pp. 47-49).

The estimated additional cost of the special program, over and above the normal cost of storing the grain, was about $44.8 million, or $.69 per bushel. The estimated total cost of storing the grain, included the added cost of the program and the cost that would have been incurred in the normal course of storage, was about $62.2 million, or $.96 per bushel (see pp. 49-52).

INTRODUCTION

ASCS implemented a special barge storage program in 1986 to provide additional space for storing the 1986 corn harvest. This section of the briefing report focuses on the special barge storage program. Detailed information is provided on (1) a description and the purpose of the program, (2) the origin and disposal of the barge-stored grain, and (3) the estimated cost of the program.

DESCRIPTION AND PURPOSE OF THE PROGRAM

On July 17, 1986, USDA announced a special barge storage program to increase grain storage space in the corn belt states.[1] The purpose of the program, according to the ASCS Assistant to the Deputy Administrator for Commodity Operations, was to move part of CCC's large corn inventory from regular storage facilities in those states and to put the corn on barges along the Illinois, Mississippi, Missouri, and Ohio rivers. According to other ASCS officials, available storage space in the corn belt states was very limited in mid-1986 and farmers and others in the grain trade were concerned about whether the space would be able to handle the incoming 1986 corn harvest.

ASCS agreed to pay certain additional costs for storing grain on barges under the program including storage and handling charges --contractors would be paid the same rates they received for storing CCC grain in their regular storage facilities--and for using barges--the added costs for moving, renting, and parking the barges.

On August 14 and 26, 1986, ASCS' KCCO awarded a total of 42 contracts to 12 grain companies to store an estimated 69.8 million bushels of grain on barges. By November 30, 1986, the 12 contractors loaded about 64.9 million bushels of grain in 1,253 barges. Almost all of the grain was corn; about 2 percent was soybeans.

ORIGIN AND DISPOSAL OF THE BARGE-STORED GRAIN

All the grain that was stored on barges under the special barge storage program originated from corn belt states. While most of it had been stored at country and terminal elevators, some of it was newly forfeited farm-stored grain. KCCO directed about 400 elevators in corn belt states to ship about 41 million bushels of corn to the contractors. About 90 percent of that corn came from country elevators and 10 percent came from terminal elevators. In addition, ASCS state offices directed about 24 million bushels of

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[1]The corn belt states are Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

grain to be shipped to the contractors; this grain had been stored on farms.

KCCO disposed of most of the special program's barge-stored grain by trading it to the contractors for grain they had stored in their inland elevators. As table 3.1 shows, the balance of the barge-stored grain was sold, redeemed for certificates, or unloaded and returned to storage.

Table 3.1
Disposition of Grain Stored on Barges

Disposition method	Number of barges	Estimated number of bushels (millions)
Traded	1,032	53.5
Sold	139	7.2
Exchanged for payment-in-kind certificates	61	3.2
Reconcentrated	21	1.1
Total	1,253	64.9[a]

[a]Total does not add due to rounding.

Source: GAO analysis of ASCS data.

Trades

We reviewed 280 merchandising contracts KCCO had with the grain companies; the contracts covered 50.7 million of the 53.5 million bushels of grain that ASCS traded. The contracts showed that CCC received 44.5 million bushels of grain in return for the 50.7 million bushels it traded; the 6.2 million bushel difference was the cost of the trades to CCC.

Our analysis of the KCCO and contractors' trades showed that most of the grain CCC received in trade was located in the corn belt states and, much of it was in the same type elevators as the grain had been that was originally moved to the barges. The contract data showed that almost 42 million of the 44.5 million bushels of grain received by CCC in trade was located in corn belt states. Also, over 24 million bushels of the grain received in trade by CCC was located in country elevators while over 20 million bushels was located in terminal elevators.

Sales and Exchanges

We reviewed 42 KCCO sales contracts covering the disposal of barge-stored grain by sale or exchange for commodity certificates. These contracts covered almost 9 million of the 10.4 million bushels of grain that was sold or exchanged. The contracts showed that CCC received over $10.3 million in cash for selling about 6.6 million bushels and certificates valued at about $3.3 million for exchanging over 2.4 million bushels.

Grain Returned to Storage

Our review of the disposition of the barge-stored grain showed that KCCO had over 1 million bushels unloaded from barges and placed in storage in terminal and country elevators in three corn belt states.

ESTIMATED ADDITIONAL COST OF THE SPECIAL BARGE STORAGE PROGRAM

We estimate that the additional cost of the special barge storage program, over and above the normal costs for shipping, storing, and disposing of the grain, was about $44.8 million, or an additional cost of $.69 per bushel to store the grain for an average of 4 months. We made our estimate because ASCS did not separately accumulate total cost data for the program. The estimated total cost of storing the 64.9 million bushels of grain was about $62.2 million, or $.96 per bushel; this includes the additional cost of the program (about $44.8 million) and the cost that would have been incurred in the normal course of storage (over $17.3 million).

Computation of Estimated Additional Costs

To estimate the additional cost of the barge program, we identified the individual cost elements involved in moving, storing, and disposing of the grain that would not have been incurred had regular storage been used.[2] For each element, we obtained the actual costs incurred; where the actual cost was unavailable, we developed an estimate. KCCO officials, including the Director, agreed with our methodology and results in estimating the additional cost of the program.

The elements of additional costs covered:

1. Moving the grain to the barges.

2. Barge contractor receiving charges.

3. Barge switching--the cost for a tow boat to move a barge to the dock for loading or unloading of grain.

4. Barge fleeting--the rental fee for the barge and for parking the barge at a parking area.

5. Trades--the gain or loss from trading grain on the barges for grain in an elevator at another location.

We did not apply each of the five cost elements to each bushel of grain stored on barges because some costs would have been incurred in the normal movement, storage, and disposition of grain. For example, the normal flow of CCC grain in storage is from a country elevator to a major terminal elevator for disposition. Grain that was moved in the same general direction as a terminal elevator for disposition would only have the barge switching and fleeting costs over and above the normal costs.

The costs of barge fleeting and moving the grain to the barge location accounted for most of the additional costs of the barge storage program; about $28.5 million, or 64 percent, of the total

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[2]We excluded cost elements that would have been incurred in the normal course of storing the grain (movement, storage, and disposition). The excluded cost elements cover (1) the cost of moving the grain out of approximately 400 country and terminal elevators for shipment to the barge contractors--a total of almost 41 million bushels were loaded out from elevators at $.0865 per bushel (national average rate for trucks and rail) for a cost of over $3.5 million; the remaining almost 24 million bushels were transported from farm storage and were not subject to this cost element; (2) the storage costs charged by the grain companies for storing grain--they received about an estimated $7.9 million for normal storage costs, based on the actual per bushel rates charged applied to an estimated average storage period of 4 months; and, (3) the transportation costs for moving the grain from the barge storage location for disposition--freight bills show that the grain companies received over $5.9 million for transporting the grain from the barge storage location to a disposition location.

estimated additional costs. As table 3.2 shows, we estimate the total additional cost of the barge program for all five costs elements at about $44.8 million, or $.69 per bushel.

Table 3.2
GAO Estimated Additional Cost of the Barge Storage Program

Cost element	Bushels (millions)	Estimated cost (millions)
Transportation from original storage location to barge contractors[a]	53.5	$13.2
Barge contractor receiving charges[b]	53.5	3.5
Barge switching charges[c]	64.9	0.5
Barge fleeting charges[c]	64.9	15.3
Trading costs[d]	53.5	12.3
Total		$44.8

[a]The Chief, KCCO Traffic Management Division, estimated that about half the grain was shipped by truck and the other half by rail, and that long distance shipments were by rail. On average, the Chief estimated the cost to be $.19 per bushel via truck, $.302 per bushel by rail, and $.246 per bushel overall.

[b]KCCO data showed that national average charges were $.0707 per bushel for truck and $.0607 per bushel for rail. We estimated the average cost at $.0657 per bushel.

[c]Actual cost shown on the paid freight bills.

[d]We reviewed 280 merchandising contracts covering 50.7 million bushels of the 53.5 million bushels of grain that KCCO and the grain companies traded. These contracts cover about 95 percent of the bushels traded. From them, we computed a cost of $.2295 per bushel. We estimated that the cost of trading the remaining 2.8 million bushels was at the same rate.

Source: GAO estimate based on an analysis of ASCS data.

Estimated Payments to Barge Contractors and to Others

We estimate that KCCO paid the 12 contractors a total of about $45.5 million for storing the grain on barges. Our estimate covers $31.7 million of the additional cost of the barge storage program--(1) receiving or handling-in charges, (2) barge switching charges,

(3) barge fleeting charges, and (4) the cost of trade--and $13.8 million of the cost that would have been incurred in the normal course of storing the grain--(5) storage costs, and (6) loading or handling-out charges for moving the grain from the barge storage location to the unloading location.

In addition to the amount paid to the 12 contractors, we estimate that KCCO paid a total of about $16.7 million to others for charges related to the barge-stored grain. Our estimate covers $13.2 million of the additional cost of the barge storage program that was paid to transportation companies for moving grain to the barge contractors, and $3.5 million of the cost that would have been incurred in the normal course of storing the grain that was paid warehousemen where much of the grain had originally been stored for moving it out of their elevators.

KCCO officials, including the Director, agreed with our methodology and results in estimating the amount of payments under the program.

SECTION 4

OBJECTIVES, SCOPE, AND METHODOLOGY

In response to Congressman Alexander's April 20, 1987, request and subsequent agreements with his office, our objective was to provide information on USDA's (1) farm price and income support programs and (2) programs for storing agricultural commodities. Within USDA, the CCC and ASCS administer the federal government's farm support programs, including the storage programs. CCC is a wholly-owned government corporation created to stabilize, support, and protect farm prices and farmers' income. CCC funds the various price and income support programs and relies on ASCS' personnel and facilities to carry out the programs.

Our study began in April 1987. Detailed field work, conducted in Washington, D.C., and Kansas City, Missouri, was completed in October 1987. ASCS officials reviewed a draft of this briefing report. Generally, they agreed with its contents, and their comments have been incorporated where appropriate.

Farm price and income support programs

We gathered detailed information on, among other things, (1) USDA's farm price and income support programs, differentiating which programs provide direct payments and which provide loans, (2) CCC's net cash outlays during fiscal years 1985 through 1987 for each program on a program-by-program basis and a commodity-by-commodity basis, (3) payments or loans made directly to farmers and those not made directly to farmers (where information was available), and (4) nonrecourse commodity loans made, repaid, canceled by the acquisition of collateral, and charged-off during the fiscal year 1980 through 1986 period.

Support program data were gathered primarily at ASCS headquarters in Washington. Among other things, we reviewed USDA budget submissions to the Congress, ASCS reports on CCC's expenditures and financial condition, ASCS publications describing the support programs, and Congressional Research Service reports on farm programs. Working with ASCS budget analysts, we developed a detailed schedule for cross-tabulating CCC net cash outlays on a program-by-program basis and commodity-by-commodity basis. In addition, we interviewed various ASCS officials, including the Director of the Budget Division, the Chief of the Budget Division's Corporate Programs Branch, and the Chief of the Cotton, Grain and Rice Price Support Division's Loan Branch.

Overall, we gathered and analyzed actual fiscal year 1985 and 1986 data. We used USDA's August 1987 estimated data for fiscal year 1987 because actual 1987 values were not available at the time we conducted our review. We did not independently verify the accuracy of the cost data contained in the USDA budget documents or the ASCS reports.

Storage programs

We gathered detailed information on USDA's programs for storing agricultural commodities including, among other things, (1) a description of the programs, (2) the types and quantities of commodities stored, and (3) the costs incurred by the federal government, including the cost of moving stored commodities. USDA's programs cover the storage of CCC-owned commodities and payments to farmers for storing commodities they own that are pledged as collateral on CCC nonrecourse loans and placed in the farmer-owned reserve.

Storage program data were gathered primarily at ASCS' Kansas City Commodity Office (KCCO) and Kansas City Management Office (KCMO) in Kansas City, Missouri, and its headquarters Office of the Deputy Administrator for Commodity Operations. KCCO manages CCC's inventories, including acquiring, storing, transporting, and disposing of all bulk and processed commodities. Storage cost data were also gathered at KCMO, which is ASCS' national accounting office.

We reviewed ASCS documentation describing storage programs and activities, and interviewed ASCS headquarters and KCCO officials, including the Deputy Administrator for Commodity Operations, the Assistant to the Deputy Administrator, the Director of KCCO, and the Deputy Director of the Warehouse Division. Also, we reviewed inventory data at KCCO's Bulk Grain Inventory Division, its Processed Commodities Division and its Cotton and Rice Division to determine the quantity of commodities in storage. We also obtained inventory data from KCMO's Accounting Division, and the Warehouse Division.

We reviewed payment records at KCMO's Accounting Division and budget and financial records at the headquarters Budget Division to determine the cost of storage. Also, we reviewed KCCO's Bulk Grain Inventory Division records on the quantities moved and KCMO's Accounting Division records on payments for moves to determine the cost of moving commodities. However, ASCS records of the quantity moved in a fiscal year do not totally relate to payments for that year--payments are recorded in the fiscal year made rather than the year in which the movement occurs. Therefore, we obtained the estimated average transportation cost per bushel for each commodity from the Chief, KCCO's Traffic Management Division, and multiplied that estimated cost by the quantities moved to arrive at an estimated cost that more nearly reflects the actual cost incurred for moving commodities in each year. KCCO officials, including a Deputy Director and the Chief of the Traffic Management Division, agreed with our methodology and results in determining the more accurate annual cost for moving the commodities.

Special 1986 barge storage program

We gathered information on the special 1986 barge storage program because storage under it was a significant variation from ASCS' normal storage. The information we gathered included (1) a description of the program and the reason for its implementation, (2) the origin and disposition of the barge-stored grain, and (3) the program's estimated costs.

We interviewed ASCS officials, including the Director of KCCO and the Assistant to the Deputy Administrator. We reviewed ASCS documentation describing the program and storage data which we requested and received from the program's contractors.

As discussed in section 3 of this briefing report, we used actual cost data where they were available, and made estimates where actual cost data were unavailable, to compute the cost of the program and the payments to the contractors. Specifically, we used (1) estimates provided by the Chief, KCCO Traffic Management Division, for the cost of moving the grain from an elevator where it was originally stored to the barges; (2) the national average receiving charge provided by the KCCO Warehouse License and Contract Division for the cost of receiving (unloading) the grain at the barge facilities; (3) paid freight bills for the cost of moving, renting, and parking the barges; and (4) information in 280 contract files, which accounted for about 95 percent of the barge-stored grain that KCCO traded, and an estimate for the remaining 5 percent of the grain, based on the average per bushel cost as contained in those files, for the cost of trade.

KCCO officials, including the Director, agreed with our methodology and results in determining the cost of the program and the payments to the contractors. Additionally, we reviewed the KCCO program monitor's records to determine where the grain that was loaded on the barges originated, and information contained in 322 KCCO contract files to determine the disposition of the barge-stored grain.

CCC NET CASH OUTLAYS ON A PROGRAM-BY-PROGRAM BASIS AND A COMMODITY-BY-COMMODITY BASIS, FISCAL YEARS 1985 AND 1986, AND USDA's 1987 ESTIMATE

Fiscal Year 1985

	Commodity													
	Feed grains													Total
Program	Corn	Other	Total	Wheat	Rice	Upland cotton	Tobacco	Honey	Dairy	Soybeans	Sugar	Wool	Other[a]	net cash outlays
	(millions)													
Commodity-specific:														
Nonrecourse commodity loans	$1,726	$ 404	$2,130	$2,061	$293	$ 348	$455	$64	$ 0	$706	$185	$ 0	$ 29	$ 6,272
Deficiency payments	2,591	350	2,941	1,740	572	1,048	0	0	0	0	0	0	1	6,302
Diversion payments	2	1	3	652	78	162	0	0	631	0	0	0	0	1,525
Direct purchases	6	54	60	189	48	0	0	0	1,820	4	0	0	247[b]	2,368
Processing and packaging	2	6	8	1	5	0	0	9	105	0	0	0	0	129
Transportation	7	21	28	34	1	0	0	1	67	0	0	0	2	134
Storage and handling payments	83	52	135	150	37	4	0	2	62	1	0	0	4	394
Producer storage payments	100	61	161	168	0	0	0	0	0	0	0	0	0	329
Loan collateral settlements	2	6	8	15	10	1	0	7	0	(2)	0	0	1	41
Miscellaneous	(26)	(3)	(28)	20	(1)	(1)	0	0	(61)	(4)	0	0	59	(17)
Other	0	0	0	0	0	0	0	0	(375)[c]	0	0	109[d]	0	(265)
Sales proceeds	(92)	(143)	(235)	(338)	(54)	(9)	0	(4)	(164)	6	0	0	(239)[b]	(1,037)
Total	4,403	808	5,211	4,691	990	1,553	455	81	2,085	711	185	109	104	16,174
Noncommodity-specific:														
Storage facility loans														(318)
Export guarantee claims payments														149
Export credit sales loans														(20)
Interest expense														1,435
Operating expenses														351
Changes in working capital														(214)
Other[e]														126
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	1,509
Total net cash outlays	$4,403	$808	$5,211	$4,691	$990	$1,553	$455	$81	$2,085	$711	$185	$109	$104	$17,683

[a]Other commodities are extra long staple cotton, peanuts and peanut products, rye, blended food products, and vegetable oil.
[b]Other direct purchases and sales proceeds include $11 million for dry edible beans and peas and raisins.
[c]Other dairy is dairy assessment receipts.
[d]Wool outlays are National Wool Act expenditures.
[e]Other nonspecific includes ocean transportation for export donations and export market promotion.

Additional notes:

1. Receipts and net receipts are shown in parenthesis.
2. Totals may not add due to rounding.

APPENDIX I

Fiscal Year 1986

Program	Feed grains: Corn	Feed grains: Other	Feed grains: Total	Wheat	Rice	Upland cotton	Tobacco	Honey	Dairy	Soybeans	Sugar	Wool
	Commodity (millions)											
Commodity-specific:												
Nonrecourse commodity loans	$ 7,325	$1,033	$ 8,358	$1,276	$523	$1,244	$297	$77	$ 0	$1,576	$236	$ 0
Deficiency payments	2,857	477	3,333	1,674	324	833	0	0	0	0	0	0
Diversion payments	1	0	1	15	14	34	0	0	0	0	0	0
Direct purchases	43	53	96	164	40	0	0	0	2,205	18	0	0
Processing and packaging	2	1	3	1	3	0	0	11	104	0	0	0
Transportation	28	11	39	52	1	0	0	0	78	7	0	0
Storage and handling payments	192	92	284	239	50	18	1	2	51	55	6	0
Producer storage payments	258	54	313	172	0	0	0	0	0	0	0	0
Loan collateral settlements	40	20	60	47	5	9	0	2	0	6	0	0
Miscellaneous	1	(2)	(1)	(6)	0	2	0	0	(54)	(8)	(28)	0
Other	0	0	0	0	25[c]	2[d]	0	0	202[e]	0	17[f]	123[g]
Sales proceeds	(224)	(51)	(275)	(194)	(37)	0	(44)	(2)	(249)	(57)	(18)	0
Total	10,524	1,688	12,211	3,440	947	2,142	253	89	2,337	1,597	214	123
Noncommodity-specific:												
Storage facility loans												
Export guarantee claims payments												
Export credit sales loans												
Conservation reserve payments												
Interest expense												
Operating expenses												
Changes in working capital												
Other[h]												
Total	0	0	0	0	0	0	0	0	0	0	0	0
Total net cash outlays	$10,524	$1,688	$12,211	$3,440	$947	$2,142	$253	$89	$2,337	$1,597	$214	$123

[a]Other commodities are extra long staple cotton, peanuts and peanut products, rye, blended food products, and vegetable oil.
[b]Other direct purchases include $10 million and sales proceeds include $11 million for dry edible beans and peas and raisins.
[c]Other rice is rice inventory payments.
[d]Other upland cotton is loan deficiency payments.
[e]Other dairy is the difference between whole herd buy-out payments ($489 million) and dairy assessment receipts ($287 million).
[f]Other sugar is bankruptcy compensation.
[g]Wool outlays are National Wool Act expenditures.
[h]Other nonspecific includes ocean transportation for export donations and export market promotion.

Additional notes:

1. Receipts and net receipts are shown in parenthesis.
2. Totals may not add due to rounding.

Fiscal Year 1987 USDA Estimate

Program	Feed grains: Corn	Feed grains: Other	Feed grains: Total	Wheat	Rice	Upland cotton	Tobacco	Honey	Dairy	Soybeans	Sugar	Wool
	(millions)											
Commodity-specific:												
Nonrecourse commodity loans	$ 8,947	$ 903	$ 9,850	$ 705	$ 542	$ 549	$(238)	$60	$ 0	$ 358	$(294)	$ 0
Deficiency payments	1,742	327	2,070	1,569	436	920	0	0	0	0	0	0
Diversion payments	360	41	401	0	0	0	0	0	0	0	0	0
Direct purchases	0	27	27	152	35	0	0	0	1,153	0	0	0
Processing and packaging	2	2	4	1	9	0	0	12	83	0	0	0
Transportation	76	11	86	31	0	0	0	3	61	17	0	0
Storage and handling payments	515	170	685	308	33	9	0	1	53	128	5	0
Producer storage payments	360	63	423	155	0	0	0	0	0	0	0	0
Loan collateral settlements	95	27	122	22	2	6	0	5	0	0	0	0
Miscellaneous	0	0	0	0	0	65	0	0	(47)	0	0	0
Other	0	0	0	0	1[c]	71[d]	0	0	220[e]	0	0	149[f]
Sales proceeds	(209)	(72)	(281)	(156)	(38)	0	(88)	0	(284)	(949)	(61)	0
Total	11,888	1,500	13,388	2,787	1,020	1,619	(326)	82	1,238	(446)	(350)	149
Noncommodity-specific:												
Storage facility loans												
Export guarantee claims payments												
Export credit sales loans												
Conservation reserve payments												
Interest expense												
Operating expenses												
Changes in working capital												
Other[g]												
Total	0	0	0	0	0	0	0	0	0	0	0	0
Total net cash outlays	$11,888	$1,500	$13,388	$2,787	$1,020	$1,619	$(326)	$82	$1,238	$(446)	$(350)	$149

[a]Other commodities are extra long staple cotton, peanuts and peanut products, rye, blended food products, and vegetable oil.
[b]Other direct purchases and sales proceeds include $21 million for dry edible beans, lentils, and raisins.
[c]Other rice is rice inventory payments.
[d]Other upland cotton is loan deficiency payments.
[e]Other dairy is the difference between whole herd buy-out payments ($640 million) and dairy assessment receipts ($420 million).
[f]Wool outlays are National Wool Act expenditures.
[g]Other nonspecific primarily covers ocean transportation for export donations.

Additional notes:

1. Receipts and net receipts are shown in parenthesis.
2. Totals may not add due to rounding.

Source: USDA.

DESCRIPTION OF THE COMMODITY CREDIT CORPORATION'S FARM SUPPORT PROGRAMS AND ACTIVITIES

The U.S. Department of Agriculture's Commodity Credit Corporation (CCC) supports farm prices and farmers' income through a variety of loan, purchase, and payment programs and activities. Price support occurs primarily through nonrecourse commodity loans and the purchase of farm commodities. Income support occurs primarily through deficiency payments. Also, supply support occurs mainly through diversion and producer storage payments. In this briefing report, we refer to these operations and activities collectively as commodity price and income support programs. This appendix briefly describes the major programs and activities.[1]

NONRECOURSE COMMODITY LOANS

Farmers can place certain crops under a CCC nonrecourse commodity loan. They receive a loan based on a per unit support price or "loan rate" established by law for the commodity. The Secretary of Agriculture has limited discretion to adjust the rates. Farmers can reclaim their crops by paying back the loans with interest, or they can forfeit the crops to CCC and keep the loan proceeds and interest is forgiven. Feed grains, wheat, soybeans, cotton, and rice currently are eligible commodities. Also, producers of feed grains, wheat, cotton, and rice must agree to set aside, or idle, a percentage of their acreage in order to receive a nonrecourse commodity loan if an acreage adjustment program is in effect.

Marketing loans are a variation of CCC's regular nonrecourse commodity loans. They have the same conditions as the regular loan except that, under certain conditions, farmers can reclaim their crops at a repayment rate that is less than the loan rate. The difference between the repayment rate and the loan rate is an income support payment. Cotton, rice, and honey are currently the eligible commodities, although the Secretary of Agriculture has the discretionary authority to implement a marketing loan for feed grains, wheat, and soybeans.

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[1]Two Congressional Research Service reports, Fundamentals of Domestic Commodity Price Support Programs (Report No. 86-128 ENR, June 1986) and Farm Support Programs: Cost Considerations (Report No. 86-913 ENR, September 1986), contain additional information on CCC's price and income support operations and activities.

Loan collateral settlement payments, which cover various adjustments associated with nonrecourse commodity loan forfeitures, are made to farmers. These adjustments include an excess or shortage in the value of collateral acquired by CCC when nonrecourse loans are canceled or the reimbursement for commercial storage prepaid by farmers beyond the loan maturity date.

DEFICIENCY PAYMENTS

Farmers growing certain crops and participating in CCC's acreage adjustment programs receive a cash payment, or in some cases an in-kind payment, as an income supplement when crop prices do not meet a "target price" level set by law. The size of the payment is tied to the amount of production. Feed grains, wheat, cotton, and rice are eligible commodities.

Also, upland cotton loan deficiency payments are made, under certain conditions, to farmers who are eligible to receive loans, but do not take out a loan. The payment is the difference between the repayment rate and the loan rate.

DIRECT PURCHASE OF FARM COMMODITIES, AND PROCESSING AND PACKAGING PAYMENTS

Direct purchases of farm commodities, and processing and packaging payments, primarily involve dairy products, such as cheese, dried milk, and butter, and other processed food products, such as flour, vegetable oils, and blended food products. The outlays are generally made to commercial food processors. Direct purchases are made to support commodity prices when supply exceeds demand and reduced demand results in prices below support levels and to meet other USDA program requirements, such as domestic nutrition programs.

SALES OF ACQUIRED FARM COMMODITIES

CCC disposes of farm commodities acquired by direct purchase and through nonrecourse commodity loan forfeitures in various ways, including sales, donations, exchanges for commodity certificates, and transfers to other government agencies. Sales result in receipts that CCC uses, along with appropriations and borrowings, to fund its operations. CCC is authorized to sell its commodities to domestic buyers (1) only at prices above the acquisition price for unrestricted use, or (2) at prices below the acquisition price for restricted use, such as a new or by-product use, or as damaged or off-grade quality products. CCC is also authorized to sell its commodities to foreign buyers without price restrictions.

DIVERSION PAYMENTS

Farmers receive land diversion payments under certain circumstances when they agree to set aside from production a specified percentage of their acreage. Diversion payments help to reduce the amount of planted acreage in time of large surpluses. Feed grains, wheat, cotton, and rice are eligible commodities.

STORAGE AND HANDLING, AND TRANSPORTATION PAYMENTS

Commercial warehouse operators receive payments for storing and handling CCC-owned commodities, primarily feed grains and wheat, acquired as a result of nonrecourse commodity loan forfeitures, and dairy products, acquired by direct purchase. Storage payments are for the actual storage of the commodities; handling payments are for moving the commodities into and out of the storage facilities. Additionally, commercial transportation companies receive transportation payments for moving the CCC-owned commodities to and from the storage facilities. Section 2 of this briefing report discusses in detail the storage of CCC-owned commodities.

PRODUCER STORAGE PAYMENTS

Farmers receive payments for storing certain commodities they own that are pledged as collateral on nonrecourse commodity loans and that are stored in the farmer-owned reserve. Under the program, the nonrecourse loan due date is extended for 3 years. Advance storage payments are made to participating farmers. They cannot take the grain out of storage without penalty unless the market price reaches a specified release price, or they are given authority to rotate their grain in the reserve. When the release price is reached, farmers may choose to redeem their grain from the reserve but are not required to do so. Feed grains and wheat are the eligible commodities.

CONSERVATION RESERVE PAYMENTS

Farmland owners and operators receive payments to assist in conserving and improving the soil and water resources of their farms by converting highly erodible land that was used for the production of agricultural commodities to permanent vegetative cover. The program is also intended to decrease the production of surplus agricultural commodities, including corn, sorghum, wheat, and soybeans. In exchange for entering land into the conservation reserve, program participants receive a one-time cash payment of 50 percent of the costs of establishing the vegetative cover, and annual rental payments paid in cash or in commodity certificates.

WHOLE HERD BUY-OUT PAYMENTS

Dairymen receive payments for selling their entire dairy herd and agreeing to remain out of the dairy business for 5 years. The program is intended to decrease the production of milk and milk products and, therefore, to bring production to levels consistent with demand.

WOOL AND MOHAIR PAYMENTS

Producers of wool and mohair receive payments, as required by the National Wool Act of 1954, as amended, on the marketing of shorn wool, unshorn wool (wool on lambs), and mohair. The payment rate is approximately the difference between the mandated support price and the national average market price.

STORAGE FACILITY LOANS

Farmers in areas where a shortage of farm storage existed formerly could receive a storage facility loan. CCC no longer makes loans under this program; its current net cash outlays reflect repayments by farmers who borrowed from CCC in past years. Also, the loan program, when operated, was not commodity-specific.

EXPORT GUARANTEE CLAIMS PAYMENTS

U.S. exporters, or their assignees (U.S. financial institutions), receive payments from CCC under various export credit guarantee programs. The purposes of the programs are to develop new foreign market opportunities, and to maintain and expand existing foreign markets, for U.S. agricultural commodities. In the programs, CCC guarantees, for a fee, payments due U.S. exporters for export sales under deferred payment sales contracts with 3-year and 10-year credit terms. The export loans guaranteed by CCC result in outlays when a foreign bank fails to pay as scheduled and a U.S. bank files a claim with CCC.

EXPORT CREDIT SALES LOANS

Foreign buyers of U.S. agricultural commodities formerly could receive a loan from CCC under various export credit sales programs. The purposes of the programs were to develop, maintain, and expand foreign markets for U.S. agricultural commodities. In the programs, CCC's loans financed short-term (less than 3 years) and intermediate (3 to 10 years) credit sales of agricultural commodities to foreign buyers. CCC no longer makes loans under these programs; net cash outlays reflect repayments.

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