

Ed Young



United States
Department of
Agriculture



Agricultural
Economic
Report
Number 712

An Economic Research Service Report

Wheat

Background for 1995 Farm Legislation

Linwood A. Hoffman
Sara Schwartz
Grace V. Chomo



It's Easy To Order Another Copy!

Just dial 1-800-999-6779. Toll free in the United States and Canada. Other areas, please call 1-703-834-0125.

Ask for *Wheat: Background for 1995 Farm Legislation* (AER-712).

The cost is \$9.00 per copy. For non-U.S. addresses (including Canada), add 25 percent. Charge your purchase to your VISA or MasterCard. Or send a check (made payable to ERS-NASS) to:

ERS-NASS
341 Victory Drive
Herndon, VA 22070.

We'll fill your order by first-class mail.

Other Farm Bill Backgrounders Available!

This report is one of a series of "Background for 1995 Farm Legislation" publications by USDA's Economic Research Service. Other backgrounders available are:

- *Dairy: Background for 1995 Farm Legislation* (AER-705)
- *Cotton: Background for 1995 Farm Legislation* (AER-706)
- *Federal Marketing Orders and Federal Research and Promotion Programs: Background for 1995 Farm Legislation* (AER-707)
- *Honey: Background for 1995 Farm Legislation* (AER-708)
- *Tobacco: Background for 1995 Farm Legislation* (AER-709)
- *Peanuts: Background for 1995 Farm Legislation* (AER-710)
- *Sugar: Background for 1995 Farm Legislation* (AER-711)
- *Rice: Background for 1995 Farm Legislation* (AER-713)
- *Feed Grains: Background for 1995 Farm Legislation* (AER-714)
- *Oilseeds: Background for 1995 Farm Legislation* (AER-715)
- *Agricultural Export Programs: Background for 1995 Farm Legislation* (AER-716)

Dial 1-800-999-6779 for availability and price information.

Wheat: Background for 1995 Farm Legislation. By Linwood A. Hoffman, Sara Schwartz, and Grace V. Chomo. Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 712.

Abstract

Surplus wheat stocks disappeared under the 1990 Food, Agriculture, Conservation, and Trade Act of 1990. The aggregate U.S. wheat sector appears in balance due, in part, to acreage reduction programs, the Conservation Reserve Program, and the Export Enhancement Program. However, some industry participants wonder whether wheat carryover levels are optimal and whether the public will approve a continuation of government expenditures near current levels, while others want to maintain low carryover stocks. Exports will likely be the largest source of demand growth for U.S. wheat for the remainder of the 1990's. Global wheat trade is expected to expand steadily through the 1990's at a rate higher than the 1980's, but well below the rate experienced in the 1970's. The U.S. market share is expected to drop slightly over the next decade to about 31 percent as competition increases in a growing world market. Issues for the 1995 farm legislation include levels of program benefits and costs, methods for calculating deficiency payments, the future of the Conservation Reserve Program, farm program cost containment, planting flexibility, wheat imports, marketing loan provisions, targeting benefits to producers, environmental quality, and the future of the Export Enhancement Program.

Keywords: Wheat, production, domestic use, world trade, prices, costs and returns, farm programs, and program effects

Foreword

Congress will soon consider new farm legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation and current situations to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates *Wheat: Background for 1990 Farm Legislation* (AGES 89-56), by Joy L. Harwood and C. Edwin Young. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characteristics of the commodities and the industries that produce them. For more information, see Additional Readings at the end of the text.

Acknowledgments

The authors thank the reviewers for their contributions made to this report: Ed Allen, Frank Gomme, Craig Jagger, Brian Just, and Gerald Rector.

Contents

Summary	iii
Introduction	1
Characteristics of the Wheat Industry	1
Structure of the Production Sector	2
Location of Production	3
Wheat Classes	4
Trends in Supply	6
Trends in Total Disappearance	9
Trends in Global Wheat Trade With Future Prospects	10
Prospects for U.S. Exports	13
Trends in Prices, Costs, and Farm Returns	15
Recent Government Programs	18
The Food Security Act of 1985	18
The Food, Agriculture, Conservation, and Trade Act of 1990	18
Provisions of the Food, Agriculture, Conservation, and Trade Act of 1990	19
Base Acres	20
Loan Rates	20
Marketing Loan Provisions	21
Deficiency Payments and Target Prices	21
Acreage Reduction Programs	22
Planting Flexibility Provisions	22
0-85/92	22
Other Major Provisions	23
Ad Hoc Disaster Assistance and Crop Insurance	24
Effects of the 1990 FACT Act	25
Producers	25
Taxpayers	27
Consumers	28
Supply	29
Indirect	29
Problems and Issues To Be Addressed in 1995	29
Structure and Performance Issues	29
Impact of Trade Agreements on Sector	29
Policy Options and Alternatives for Sector	30
Additional Readings	32
Appendix Tables	34

Summary

Wheat stocks in the United States were reduced substantially under the 1990 Farm Act (officially entitled the Food, Agriculture, Conservation, and Trade Act). Whether current carryover levels are optimal will be one issue in the deliberations over new farm legislation. Factors that have helped keep stocks down include, in part, the acreage reduction program (ARP), the Conservation Reserve Program (CRP), and the Export Enhancement Program (EEP).

Exports will likely be the largest source of demand growth for U.S. wheat for the remainder of the 1990's. Global wheat trade is expected to expand steadily through the 1990's at a rate higher than the 1980's, but well below the rate experienced in the 1970's. Current projections are that the U.S. share of world trade in 2000 will about equal the 1990-94 average of 32 percent, but the share is expected to decline slightly thereafter due to increasing competition.

Wheat is the third largest U.S. field crop in terms of farm value, with annual receipts averaging more than \$7 billion in recent years. This amounted to about 9 percent of total farm value of U.S. field and miscellaneous crops in crop years 1991-93. The value of wheat, flour, and wheat product exports averaged \$4.4 billion in fiscal 1991-93, which was 11 percent of total U.S. farm exports. More than half of total U.S. wheat production was exported during the 1991-93 crop years.

Major wheat program issues this year include:

- What level of program cost is acceptable? What methods should be used to reduce government expenditures on the wheat program?
- How has the normal flex acres provision affected acres planted to wheat?
- Are current U.S. stock levels of wheat optimal? What are the purposes of the Food Security Wheat Reserve and the Farmer-Owned Reserve?
- What is an acceptable level of wheat imports? Should the United States import wheat that is duty-free or with minimum duties when such grain is subsidized by the exporting country?
- Should the wheat program encourage reduced use of chemical inputs to protect the environment, if yields are reduced?
- Should marketing loan provisions be continued for wheat?
- What kind of export market development, promotion, and assistance programs should be maintained for wheat, with the GATT (General Agreement on Tariffs and Trade) Uruguay Round agreement?
- Should government program benefits be targeted to certain types of farmers?
- Should a more flexible whole farm base program be implemented and, if so, what is the expected impact to the wheat sector?
- Should all classes of wheat be treated the same under government programs?

These questions must be considered in the context of the following recent developments in U.S. and world wheat markets:

- The U.S. market share in world wheat trade has averaged 32 percent in 1990-94, down from previous highs established in 1975-79 of 42 percent. The U.S. share is projected to decline slightly over the next decade, given the new CRP provisions and implementation of GATT.
- Foreign countries continue to have the potential to expand production.
- Planted acreage of U.S. wheat ranged from 70 to 72 million in 1991-94 despite reductions in ARP levels. This raises questions about U.S. production potential, especially if the CRP is extended.
- Feed use of wheat is not seen as a significant growth area for wheat consumption.

Important wheat production and marketing characteristics must also be considered in finding appropriate policies:

- Wheat is a supplementary enterprise on many farms, especially east of the Mississippi River, but in other areas wheat is the major crop grown because of land types and climatic conditions. Program needs may be different for the two situations.
- Imports exist and this factor must be considered when initiating government supply management or demand expansion policies.

Wheat production and demand have been fairly well balanced during the 1991-94 period. While the steady increase in domestic food use is expected to continue, exports are expected to provide the largest source of demand growth over the next 5 years. If growth in demand outgains yield growth by the end of the decade, higher prices may encourage additional land to enter production. However, if a large amount of wheat base remains in the CRP, the U.S.'s ability to respond to increasing wheat prices with increased plantings may be limited.