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Background for 1990 Farm Legislation

Linwood A. Hoffman
Mark Ash

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OATS: BACKGROUND FOR 1990 FARM LEGISLATION. By Linwood A. Hoffman and Mark Ash. Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture. Staff Report AGES 89-46.

Abstract

Oats acreage has trended downward since the 1950's. Domestic production has not met domestic needs, thereby spurring imports. Production has declined due, in part, to current Government programs. Oats have rapidly become a specialty feed mostly for race and pleasure horses. Human food consumption of oats, once a stable component of disappearance, has begun to grow. Exports have become very small. Price support loans have been available to oats producers since 1945. However, deficiency and diversion payments were not made to them until 1983. Program costs in fiscal year 1989 are estimated at \$40 million, about 5 percent of the 1988 crop value.

Keywords: production, domestic use, farm programs, farm returns, oats, prices, program effects, world trade

Foreword

Congress will soon consider new farm legislation to replace the expiring Food Security Act of 1985. In preparation for these deliberations, the Department of Agriculture and many groups throughout the Nation are studying preceding legislation to see what lessons can be learned that are applicable to the 1990's. This report updates Oats: Background for 1985 Farm Legislation, (AIB-473) by Mack N. Leath and William Lin. It was updated by Linwood A. Hoffman and Mark Ash with statistical assistance provided by Andrew Novick. Brenda Toland provided assistance during table preparation. This report is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize in a nontechnical form the experience with various farm programs and the key characteristics of the commodities and the farm industries which produce them. For more information, see the Additional Readings listed at the end of the text.

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Summary

Federal programs affected oats only indirectly through corn price supports until the late 1940's. Price support loans have been available to oats producers since 1945 and the 1981 farm act provided deficiency and diversion payments to oats producers. Since 1982, the program acreage bases for oats and barley have been combined into a common oats and barley acreage base. The 1985 farm act provided flexibility in setting loan rates but inflexibility with respect to planting decisions. Producers could not respond to market price signals and instead had to stick with the commodities for which they had a program base and the highest target prices.

The principal domestic use of oats is for livestock feed. Oats are a preferred ingredient in feed for horses and mules and many dairy farmers prefer to include some oats in the rations of breeding animals and young stock for the high fiber content. Although oats have a higher protein content than corn, oilseed meals and grain byproduct feeds are more economical sources of protein. However, since the price of oats has risen above the competitive value based on relative feeding value, it has rapidly become a specialty feed, used mostly by the race and pleasure horse industry.

The U.S. role in the world oats market has changed from net exporter to net importer since the 1982 crop year. The U.S. market share of world imports rose to an annual average of 44 percent in 1985-88, largest of all importing countries. Economic advantages, domestic agricultural policy, generally good quality, and a short domestic crop justify oats imports. Most imports originated in Canada, Sweden, Finland, and Argentina.

As the domestic supply of oats declines, market prices have strengthened, making imports more attractive. Oats imports have served as a counterbalancing force to the extent that Government program provisions have provided disincentives for oats production.

Despite the income protection provided by deficiency payments in the 1981 farm act, returns per bushel produced have not kept up with the level experienced in 1981 of \$0.96 per bushel, except for 1988's return of \$1.75 per bushel. Prices received by farmers between 1982 and 1987 were less than the 1981 level, while cash costs per planted acre tended to rise slightly. The return per bushel produced was raised in 1988 with the help of drought assistance provided by the Drought Assistance Act of 1988.

Price and income supports for oats are set in relation to corn on the basis of relative feeding values. These supports provide oats producers with a comparable degree of price and income protection vis-a-vis other feed grain producers. The market price for oats, however, has risen above the level indicated by feeding value relative to corn. Oats production is lagging behind potential domestic consumption.

Deficiency, diversion, and storage payments totaled \$17.3 million in fiscal year 1987. Each participating farm received an average of \$159 in program payments, or nearly 5 cents per bushel of oats produced.

A number of policy issues are identified in this report based on present and past legislation and programs:

- o Since the price of oats no longer reflects its feed value relative to corn, should the price and income support levels be changed to reflect oats' new specialty use value?
- o How can the existing program be changed to allow more flexibility for crop selection? Should the current barley-oats acreage base be expanded into a feed grain base?
- o If oats are in short supply, should the acreage reduction requirement be eliminated?
- o Should the common base acreage provision between oats and barley remain? If so, how can the target prices and loan rates be set on a more equitable basis between these two commodities?