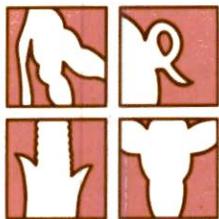




Cooperative  
Extension Service  
University of Illinois  
at Urbana-Champaign



# WEEKLY OUTLOOK

Department of Agricultural Economics  
College of Agriculture  
University of Illinois at Urbana-Champaign

May 7, 1986

## IN-KIND PAYMENTS TO BEGIN

PARTICIPANTS IN THE 1986 WHEAT AND FEED GRAIN programs will soon receive advance deficiency and diversion payments. Some of those payments will be in kind rather than in cash. Twenty-five percent of the advance deficiency payments and all of the payment for the 2.5 percent diversion program, for example, will be in kind.

Participants who have any commodity under a Commodity Credit Corporation (CCC) loan at the time payment is requested must make those commodities available as their in-kind payment. The quantity of loan commodity to be redeemed by the in-kind payments is equal to the value of the in-kind payments divided by the posted county price (PCP) of that commodity on the day payment is requested. The PCP is based on the appropriate terminal price adjusted by the previously established average difference between that terminal price and the local elevator price. The county Agricultural Stabilization and Conservation Service (ASCS) will calculate the PCP on a daily basis using the fixed differential.

Participants have until September 30 or the maturity date of outstanding loans to redeem those loans. Participants with more than one outstanding loan must redeem loans in the following order: Regular loan, Special Producer Storage Program loans, and Grain Reserve Program loans.

Those receiving in-kind payments and not having sufficient quantities of commodities under CCC loan to satisfy payments will receive commodity certificates (officially designated as CCC-6). These certificates will be denominated in dollars. Recipients of these certificates may redeem them for cash from October 1 to October 14, 1986 at the county ASCS office, but payment will be reduced by 4.3 percent in order to comply with Gramm-Rudman requirements. Alternatively, recipients of commodity certificates may sell the certificates or redeem them for uncommitted CCC-owned commodities. A fourth alternative is to hold the certificates and redeem them against subsequent CCC loans. Wheat producers, for example, could use these certificates to redeem 1986 crop loans. In any case, recipients must do something with the certificates before the first transfer deadline of September 30.

Because many participants in 1986 programs have commodities under CCC loan, the total value of commodity certificates may be relatively low, but a market for

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those certificates is developing. Many recipients may choose to sell those certificates because the market is offering a premium over face value. The premium reflects the use that the purchaser has for the certificates.

The purchaser (referred to as the subsequent holder) may use the certificates to redeem commodities under CCC loan, obtain CCC commodities, or resell the certificates. The subsequent holder may *not* redeem the certificates for cash. Subsequent holders must use the certificates in some manner before the expiration date, December 31, 1986.

A number of entities may find use for the certificates and be willing to bid above face value. Grain companies, for example, could use the certificates to acquire CCC grain that is in an advantageous location. The certificates could also be used to clear storage space of CCC stocks in order to make more room for the upcoming harvest. Livestock feeders may desire certificates to redeem loan grain held on the farm and then feed it. Grain producers could use the certificates to redeem CCC loans, thus saving storage charges between now and the time of loan maturity. Producers could also use the certificates to eventually redeem 1986 crop loans.

Although the volume of commodity certificates issued between May 1 and September 30 may be relatively small, it appears that in-kind payments and certificates may continue to be part of the 1986-87 and 1987-88 commodity programs. In addition, in-kind payments will be used to satisfy the annual rental payments to producers with approved Conservation Reserve Program contracts. Such payments will be available October 1, 1986.

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