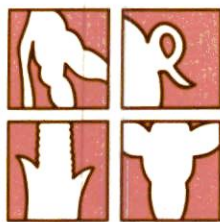




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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PAID DIVERSION--HOW ATTRACTIVE FOR CORN PRODUCERS?

ON SEPTEMBER 29, 1986, THE SECRETARY OF AGRICULTURE announced a 20 percent acreage reduction program for the 1987 crop of feed grains. Producers who participate in that program will be eligible for the Commodity Credit Corporation (CCC) loan program and deficiency payments. With a loan rate of \$1.82 per bushel and a target price of \$3.03 per bushel, the maximum deficiency payment for corn will be \$1.21 per bushel.

Cost and return analysis suggests that corn producers with a "reasonable" acreage base and program yield will find participation in the program attractive if the market price of corn is expected to average below about \$2.40 per bushel. With the current price of corn about \$1.00 below that level, participation is expected to be quite high.

On October 24, the Secretary announced a 15 percent voluntary paid diversion program. Producers who participate in the 20 percent acreage reduction program and who idle an additional 15 percent of their corn base acreage will receive a payment of \$2.00 per bushel on the additional diverted acres. Payment will be based on the farm's program yield.

How attractive is participation in the paid diversion program? The answer depends upon a number of factors--yield expectations relative to program yield, magnitude of production and storage cost savings, and tenure arrangements are some of the important factors to consider.

An Example. A simple example will illustrate the calculations an individual producer must make in order to arrive at the participation decision. This example assumes an owner operated farm with a 100-acre corn base. The program yield and expected yield are assumed to be identical at 130 bushels per acre. The estimated cash or variable cost of producing and storing an acre of corn is set at \$140 and the cash cost of maintaining the diverted acres is estimated at \$20 per acre.

By participating in the 20 percent acreage reduction program, the producer is essentially guaranteed a price of \$3.03 per bushel on 80 percent of the production. In this example, the gross returns are estimated at \$31,512 (80 acres x 130 bushels x \$3.03).

Participation in the additional 15 percent diversion program would result in gross returns from corn production of \$25,603.50 (65 acres x 130 bushels x \$3.03). In addition the producer would receive a diversion payment of \$3,900 (15 acres x 130 bushels x \$2), yielding gross returns of 29,503.50. The producer would also have cost savings of \$1,800 (15 acres x \$120) for an adjusted gross of \$31,303.50.

In this example, estimated returns from participation and nonparticipation are almost identical. If the expected yield is above the program yield, nonparticipation becomes more attractive. Producers would receive at least the CCC loan rate on the additional yield. An additional 10 bushels would increase the estimated

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gross returns from nonparticipation by \$1,456 (80 acres x 10 bushels x \$1.82). A yield that is 10 bushels below the program yield would reduce the gross return from nonparticipation by \$1,456.

A greater differential between the cash cost of producing corn and the cash cost of maintaining diverted acreage would increase the gross returns to participation in the 15 percent diversion program. A smaller differential would favor nonparticipation.

Tenure arrangements will affect the estimated gross returns from participation and nonparticipation. In the case of crop share leases, for example, the way cash costs are shared between the tenant and the land owner will determine the amount of cost saving for each.

At first glance, a payment of \$2 per bushel for diverting corn acreage seems extremely attractive. Further analysis shows that estimated returns from participation and nonparticipation are extremely close. The reason that the diversion payment must be as high as \$2 to attract participation is due to a \$3.03 target price. Producers will be paid \$3.03 per bushel to grow corn and \$2 per bushel not to grow corn.



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