POLICY MINUTE

The Answer on Counter-Cyclical Payments Is Still No

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On Friday, January 31, USDA made its second announcement regarding counter-cyclical payments for 2002-harvested program crops.

As the language of the Farm Security and Rural Investment Act of 2002 dictates, counter-cyclical payment rates are based on the target prices, direct payment rates, national average loan rates, and marketing year average prices for each program commodity. Specifically, the counter-cyclical payment is equal to the target price minus the direct payment minus the higher of the national average loan rate or the national marketing year average price.

The marketing year for each crop generally begins at harvest and runs into the following year. For wheat, barley, and oats, the marketing year begins in June of the year of harvest and runs through the following May. For corn, sorghum, and soybeans, it runs from September through August. For cotton, it runs from August through July.

The legislation also dictates that USDA estimate the counter-cyclical payments such that the first partial payments of 35 percent of the expected counter-cyclical payment can be made in October of the year of harvest. A second estimate is made the following January to make a second partial payment the February of up to 70 percent of the expected counter-cyclical payment less the first partial payment.

The estimated counter-cyclical payments are based on estimated national marketing year average prices for each program crop for the marketing year. If the estimated marketing year average price is greater than the target price minus direct payment, then the estimated counter-cyclical payment would be zero and thus the partial payments would be zero.

Table 1. Expected Marketing Year Average Prices and Counter-Cyclical Trigger Prices

Crop	Marketing Year Average Price ($/bu - midpoint of range)[a]	Trigger Price ($/bu - target price minus direct payment)
Wheat	$3.65	$3.34
Corn	$2.35	$2.32
Grain Sorghum	$2.40	$2.19
Barley	$2.65	$1.97
Oats	$1.75	$1.376
Soybeans	$5.45	$5.36
Other Oilseeds ($/lb)	$0.096[b]	$0.090

[a] Based on USDA Supply and Demand Estimates, January 10, 2003.
[b] Since the weighted-average loan rate for other oilseeds of $9.60 per hundredweight for 2002-2003 is higher than the trigger price, there can be no counter-cyclical payment.

USDA's announcement on January 31 indicates there will be no second partial payments for the commodities listed in Table 1. Just as in October, there is no second partial counter-cyclical payment due because the projected prices exceed the price that would trigger counter-cyclical payments (target price minus direct payment). As a note, USDA's supply and

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demand estimates project a range for the marketing year average prices. The midpoints of those ranges in the January reports compare to the trigger prices in Table 1.

USDA will calculate final estimates of marketing year average prices after the marketing year for each commodity is complete. At that time, if there is a counter-cyclical payment due for any of the commodities listed in Table 1, it would be paid out in full, since no advance partial payments have been made.

For upland cotton, rice, and peanuts, there is in fact a second partial counter-cyclical payment due. In October, these three commodities received a first partial payment of 35% of the estimated counter-cyclical payment for the year. The estimated payments happened to be at the maximum rates since estimated prices for the three commodities were all well below their respective marketing loan rates. Now, there will be a second partial counter-cyclical payment that is also estimated at the maximum rate, since price projections for all three commodities remain below the respective marketing loan rates. The second partial payment was announced as \$0.0960 per pound for upland cotton, \$1.16 per hundredweight for rice, and \$72.80 per ton for peanuts. These payments are equal to 70% of the estimated counter-cyclical payment, so any payments already received under the first partial payment would reduce the amount of the second partial payment. If producers had taken the first partial payments already, the remaining amount available for payment now would be \$0.0480 per pound for upland cotton, \$0.58 per hundredweight for rice, and \$36.40 per short ton for peanuts.

For these crops, it is important to remember that the first and second partial payments are only based on estimates. If the actual counter-cyclical payment based on the marketing year average price is determined to be less than the total partial payments already made, then producers will be responsible for repaying the amounts already received. While this is technically possible, for the three crops in question, current prices are below the marketing loan rates, so the chances of needing to repay any advance counter-cyclical payments seems unlikely.

Finally, it is important to remember that the counter-cyclical payments are tied to the acreage base and payment yield option selected at program sign-up. For any Kansas cotton producer selecting the new base option and adding cotton to their base, this partial counter-cyclical payment is due, but remember that it cannot be paid until the producer has completed sign-up at their local FSA office.