

POLICY MINUTE Partial Counter-Cyclical Payments Due on the 2003 Crop

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The end of September signaled the end of the 2002-2003 marketing year for the last of the 2002 crops. Soon after, USDA announced that based on marketing year average prices, there would be no counter-cyclical payments for corn, sorghum, and soybeans, just as there were none for wheat, barley, and oats. In the end, only cotton, rice, and peanuts received any counter-cyclical payments for the 2002 crop year.

Thus, while counter-cyclical payments were advertised as a major component of the three-part safety net in the new Farm Bill, Kansas producers saw no payments for the 2002 crop unless they had updated their acreage base at farm program sign-up to include cotton. Table 1 shows details of the 2002 crop counter-cyclical payments.

2003-Crop Counter-Cyclical Payments

In contrast to the 2002 crop, the 2003-2004 marketing year has begun with projections of

prices low enough to result in counter-cyclical payments for a number of crops. Based on current estimated prices, counter-cyclical payments will be due at the end of the marketing year and thus, partial payments are due now for wheat, corn, sorghum, upland cotton, rice, and peanuts.

On Friday, October 17, USDA announced the availability of partial counter-cyclical payments for the 2003 crop year for those six crops based on estimated national average prices for the 2003-2004 marketing year. Calculations for the estimated 2003-crop counter-cyclical payments are shown in Table 2. For barley, oats, and soybeans, the estimated market price is above the level that would trigger counter-cyclical payments, thus no partial payments are currently available. For minor oilseeds, the target price, direct payment rate, and marketing loan rate are such that no counter-cyclical payment can be due.

Table 1. Program Rates, National Marketing Year Average Prices, and Counter-Cyclical Payments for the 2002 Crop Year.

Crop	Target Price	Direct Payment Rate	Loan Rate	Marketing Year Average Price ^a	Trigger Price	Effective Farm Price	Counter-Cyclical Payment ^a
	(A)	(B)	(C)	(D)	(E = A - B)	(F = max of C or D)	(G = max of E-F or 0)
Corn (bu)	\$2.60	\$0.28	\$1.98	\$2.32	\$2.32	\$2.32	\$0.00
Sorghum (bu)	\$2.54	\$0.35	\$1.98	\$2.32	\$2.19	\$2.32	\$0.00
Soybeans (bu)	\$5.80	\$0.44	\$5.00	\$5.53	\$5.36	\$5.53	\$0.00
Wheat (bu)	\$3.86	\$0.52	\$2.80	\$3.56	\$3.34	\$3.56	\$0.00
Barley (bu)	\$2.21	\$0.24	\$1.88	\$2.72	\$1.97	\$2.72	\$0.00
Oats (bu)	\$1.40	\$0.024	\$1.35	\$1.81	\$1.376	\$1.81	\$0.00
Minor oilseeds (cwt)	\$9.80	\$0.80	\$9.60	--	\$9.00	\$9.60 ^b	\$0.00
Upland cotton (lb)	\$0.7240	\$0.0667	\$0.52	\$0.4450	\$0.6573	\$0.52	\$0.1373
Rice (cwt)	\$10.50	\$2.35	\$6.50	\$4.22	\$8.15	\$6.50	\$1.65
Peanuts (ton)	\$495.00	\$36.00	\$355.00	\$364.00	\$459.00	\$364.00	\$95.00

^a Based on marketing year weighted national average prices as published by USDA and resulting final counter-cyclical payment rates as announced by USDA for the 2002-2003 marketing year.

^b The trigger price for minor oilseeds is below the loan rate. Thus, there can be no counter-cyclical payment for minor oilseeds.

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Table 2. Program Rates, Estimated National Marketing Year Average Prices, and Estimated Counter-Cyclical Payments for the 2003 Crop Year.

Crop	Target Price	Direct Payment Rate	Loan Rate	Estimated Market Price ^a	Trigger Price	Effective Farm Price	Estimated Counter-Cyclical Payment ^a
	(A)	(B)	(C)	(D)	(E = A - B)	(F = max of C or D)	(G = max of E-F or 0)
Corn (bu)	\$2.60	\$0.28	\$1.98	\$2.10	\$2.32	\$2.10	\$0.22
Sorghum (bu)	\$2.54	\$0.35	\$1.98	\$2.15	\$2.19	\$2.15	\$0.04
Soybeans (bu)	\$5.80	\$0.44	\$5.00	\$6.50	\$5.36	\$6.50	\$0.00
Wheat (bu)	\$3.86	\$0.52	\$2.80	\$3.25	\$3.34	\$3.25	\$0.09
Barley (bu)	\$2.21	\$0.24	\$1.88	\$2.60	\$1.97	\$2.60	\$0.00
Oats (bu)	\$1.40	\$0.024	\$1.35	\$1.40	\$1.376	\$1.40	\$0.00
Minor oilseeds (cwt)	\$9.80	\$0.80	\$9.60	--	\$9.00	\$9.60 ^b	\$0.00
Upland cotton (lb)	\$0.7240	\$0.0667	\$0.52	\$0.60 ^c	\$0.6573	\$0.60	\$0.0573
Rice (cwt)	\$10.50	\$2.35	\$6.50	\$6.35	\$8.15	\$6.50	\$1.65
Peanuts (ton)	\$495.00	\$36.00	\$355.00	<=\$355.00 ^d	\$459.00	\$355.00	\$104.00

^a USDA does not publish official marketing year national average price estimates, but rather price ranges for the projected marketing year average prices in each month's supply and demand reports. The estimated counter-cyclical payments announced on October 17, 2003 are based on the midpoints of the estimated price ranges in the October 10 Supply and Demand report.

^b The trigger price for minor oilseeds is below the loan rate. Thus, there can be no counter-cyclical payment for minor oilseeds.

^c USDA is prohibited by law from publishing a price estimate for cotton, but is required to publish an estimated counter-cyclical payment. The estimated market price is inferred from the estimated counter-cyclical payment as announced by USDA.

^d USDA does not publish a price estimate for peanuts similar to other commodities. Based on an announced estimated maximum counter-cyclical payment, the estimated market price is inferred to be less than or equal to the loan rate.

Remember that the partial counter-cyclical payments due now to producers are based on 35 percent of estimated counter-cyclical payments due for the full marketing year. Thus, the partial payments currently available are equal to 35 percent of the estimated total payment in column G of Table 2, or \$0.0315 per bushel for wheat, \$0.077 per bushel for corn, \$0.014 per bushel for sorghum, \$0.0201 per pound for cotton, \$0.5775 per hundredweight for rice, and \$36.40 per ton for peanuts. And, all estimated counter-cyclical payment rates will be revised based on updated price estimates in February. At that time, 70 percent of the total estimated payments will be available less any partial payments already received. At the end of the marketing year for each crop, national marketing year average prices will be determined and final counter-cyclical payments calculated. If additional payments are due, they will be paid at that time. If the partial advance payments amount to more than the total due, producers will be responsible for paying back the amount of overpayment.

Remember too that counter-cyclical payments are based on the crops, acres, and yields in the farm's program base. The counter-cyclical payments are tied to 2003-2004 marketing year average prices, but not to any actual production from the 2003 crop year.

Calculating Counter-Cyclical Payments

The mathematics of Tables 1 and 2 provide an explanation of how counter-cyclical payments are calculated. The trigger price is the real determinant of when counter-cyclical payments are made. The trigger price (E) is equal to the target price minus the direct payment rate (A - B). If the market price (D) is above this trigger, no counter-cyclical payment will occur. If the market price is below the trigger, a counter-cyclical payment will occur. The counter-cyclical payment (G) is equal to the trigger price (E) minus the effective farm price (F) which is the higher of the loan rate (C) or market price (D).