Understanding Corn and Soybean Counter-Cyclical Payments in the Farm Security & Rural Investment Act of 2002

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Farmers, land owners, and agricultural lenders should be aware of important differences between Counter-Cyclical Payments of the new farm program and the old Deficiency Payment system that was involved in pre-1996 federal farm programs. Both are based on Target Prices established by Congress, but there are some important differences which give Target Prices a different role than past programs.

The Farm Security & Rural Investment Act of 2002 (FSRIA) provides a three-tier safety net for producers of corn, soybeans, and other crops, which includes the Counter-Cyclical Payments. Two of these safety-net components are price-sensitive. The first price-sensitive safety net component is the **Loan Deficiency Payments or LDPs**. This system of payments is calculated in the same way as in the last several years, except that loan rates have been increased for almost all major field crops except soybeans and cotton. The national average soybean loan rate has been lowered $0.26 per bushel from the 2001 rate, while the corn loan rate has been increased by $0.09 per bushel. Exact changes in county loan rates vary slightly from county to county. The second component of the safety net is the **Direct Payments**, which are $0.28 per bushel for corn and $0.44 per bushel for soybeans for the 2002 through 2007 crops. Direct payments are made on 85% of the FSA base acreage **and historical yields** for the respective crops. ***These payments remain unchanged, even at extremely high or extremely low prices for their respective crops.***

Counter-Cyclical Payments

The third component of the safety net is the Counter-Cyclical Payments (CCPs). CCPs, like LDPs, are price-sensitive. They also are made on 85% of FSA base acreage and yields, but the base and yield may be updated to a recent four-year average. With marketing year average prices moderately above the loan rates, Counter-Cyclical Payments (CCPs) drop to zero. An example of how the corn CCP is determined will help explain the variables involved. First, ***CCPs are based on a weighted national average marketing year price paid to farmers.*** For corn and soybeans, the marketing year runs from September 1 through August 31. The marketing year average price is calculated by weighting monthly average prices by the volume of grain farmers sell each month during the year. ***If CCPs are made, each farmer receives the same CCP per bushel, regardless of geographic location.***

Corn CCPs are paid based on the difference between the national average target price ($2.60/bu.) and the higher of

- the loan rate plus the direct payment of $0.28 per bushel or
- the marketing year average price plus the direct payment

Maximum Counter-Cyclical Payments

The maximum corn CCP is $0.34 per bushel for 2002 and 2003 corn crops. It will increase by $0.06 per bushel for the 2004 through 2007 corn crops because of a $0.03 reduction in the loan rate and a $0.03 increase in the target price for those years. ***This calculation procedure indicates that CCPs for 2002 through 2007 corn crops drop to zero at a U.S. marketing year average price of $2.35 per bushel.*** Soybean CCPs are calculated in the same way as for corn, but using the soybean loan rate of $5.00 per bushel, the direct payment of $0.44 per bushel, and the soybean target price of $5.80 per bushel. Maximum soybean CCPs for the 2002 through 2007 crops are $0.36 per bushel. The soybean CCPs for 2002 through 2007 crops decline to zero at a U.S. marketing year average price of $5.36 per bushel.

Payment Schedule

The FSRIA provides for Counter-Cyclical Payments to be made available to farmers in three stages. In years when a CCP is anticipated, as indicated by USDA, Economic Research Service price projections for the year ahead, the first installment of the CCP is made available to producers in the fall for the next year's crop. The second payment becomes available in February, and the final payment is made in early fall after the marketing year has ended and the marketing year average price has been determined by USDA.

Corn and soybean CCPs that would be paid for various marketing year average prices are as follows:

U.S. Average Price	Corn CCP, 2002 & 03 crops	Corn CCP, 2004-07 crops
$1.90	$0.34	$0.40
2.00	0.32	0.35
2.10	0.22	0.25
2.20	0.12	0.15
2.30	0.02	0.05
2.32	0.00	0.03
2.35	0.00	0.00

U.S. Average Price	Sobyean CCP, 2002-07 crops
$4.90	$0.36
5.00	0.36
5.10	0.26
5.20	0.16
5.30	0.06
5.36	0.00

For the 2002 corn and soybean crops, USDA price projections through February 2003 indicate that marketing year average prices will be above the level that would generate CCPs. There is still a chance that prices will decline enough as the season progresses so that CCPs will be made, but as of early March 2003 that appears unlikely. To see how approximate weighted average prices so far this marketing year compare with prices needed to generate CCPs, and prices needed for the rest of the year to generate CCPs, see our web site: http://www.econ.iastate.edu/faculty/wisner/ The section discussing this is in the left-hand column of the web site.