Fact Sheet *May 2003*

United States Department of Agriculture

Direct and Counter-cyclical Payment Program

Background

The Direct and Counter-cyclical Payment Program (DCP) provides payments to eligible producers on farms enrolled for the 2002 through 2007 crop years. There are two types of DCP payments – direct payments and counter-cyclical payments. Both are computed using the base acres and payment yields established for the farm. DCP was authorized by the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) and is administered by the U.S. Department of Agriculture's Farm Service Agency (FSA).

Eligible Producers

To be eligible for payments under DCP, owners, operators, landlords, tenants, or sharecroppers must:

- share in the risk of producing a crop on base acres on a farm enrolled in DCP, and be entitled to share in the crop available for marketing from the base acres or would have shared had a crop been produced;
- annually report the use of the farm's cropland acreage;
- comply with conservation and wetland protection requirements on all of their land;
- comply with planting flexibility requirements;
- use the base acres for agricultural or related activities; and
- protect all base acres from erosion, including providing sufficient cover as determined necessary by the county FSA committee, and control weeds.

Eligible Commodities

Base acres and payment yields are established for the following commodities:

- barley;
- corn;
- grain sorghum, including dual purpose varieties that can be harvested as grain;
- oats;
- canola, crambe, flax, mustard, rapeseed, safflower, sesame and sunflower, including oil and non-oil varieties;
- peanuts, beginning in 2003;
- rice, excluding wild rice;
- soybeans;
- upland cotton; and
- wheat.

Direct Payments

The 2002 Farm Bill replaced production flexibility contract (PFC) payments (which were established by the Federal Agriculture Improvement and Reform Act of 1996) with direct payments. Direct payment rates for the eligible DCP commodities are as follows:

barley	$0.24 per bushel
corn	$0.28 per bushel
grain sorghum	$0.35 per bushel
oats	$0.024 per bushel
other oilseeds	$0.80 per hundredweight
peanuts	$36 per ton
rice	$2.35 per hundredweight
soybeans	$0.44 per bushel
upland cotton	$0.0667 per pound
wheat	$0.52 per bushel

For each commodity, the direct payment for each crop year equals 85 percent of the farm's base acreage *times* the farm's direct payment yield *times* the direct payment rate. The following is an example for corn:

Base acres planted to corn	100 acres
	x 85%
Payment acres	85 acres
Direct payment yield	x 110 bushels
Direct payment rate	x $0.28 per bushel
Direct payment	$2,618.00

Direct payments are not based on producers' current production choices, but instead are tied to acreage bases and yields. Because direct payments provide no incentive to increase production of any certain crop, the payments support farm income without distorting producers' current production decisions.

For the 2002-crop year only, producers' final direct payments are reduced by the 2002 PFC payments they have already received.

Counter-cyclical Payments

The Farm Bill added counter-cyclical payments, which provide support counter to the cycle of

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market prices as part of a "safety net" in the event of low crop prices. Counter-cyclical payments for a commodity are only issued if the effective price for a commodity is below the target price for the commodity. Target prices for each commodity are as follows:

Commodity	Unit	2002-2003	2004-2007
barley	per bushel	$2.21	$2.24
corn	per bushel	$2.60	$2.63
grain sorghum	per bushel	$2.54	$2.57
oats	per bushel	$1.40	$1.44
other oilseeds	per hundredweight	$9.80	$10.10
peanuts	per ton	$495.00	$495.00
rice	per hundredweight	$10.50	$10.50
soybeans	per bushel	$5.80	$5.80
upland cotton	per pound	$0.7240	$0.7240
wheat	per bushel	$3.86	$3.92

The counter-cyclical payment rate is the amount by which the target price of each commodity exceeds its effective price. The effective price for each commodity equals the direct payment rate *plus* the higher of:

- the national average market price received by producers during the marketing year *(see Example A)*; or
- the national loan rate for the commodity *(see Example B)*.

Example A:
If the national average market price for soybeans is $5.10 per bushel:

Direct payment rate	$0.44
Average market price*	+ $5.10
Effective price	$5.54

(*Average market price is used since it is higher than the national loan rate)

Target price	$5.80
Effective price	- $5.54
Counter-cyclical payment rate	$0.26

Example B:
If the national average market price for soybeans is $4.90 per bushel:

Direct payment rate	$0.44
National loan rate*	+ $5.00
Effective price	$5.44

(*National loan rate is used since it is higher than the average market price)

Target price	$5.80
Effective price	- $5.44
Counter-cyclical payment rate	$0.36

For each commodity, the counter-cyclical payment for each crop year equals 85 percent of the farm's base acreage *times* the farm's counter-cyclical payment yield *times* the counter-cyclical payment rate. An example for soybeans (using the counter-cyclical payment rate of $0.26) is:

Base acres planted to soybeans	100 acres
	x 85%
Payment acres	85 acres
Counter-cyc. payment yield	x 110 bushels
Counter-cyc. payment rate	x $0.26 per bushel
Counter-cyclical payment	$2,431.00

Counter-cyclical payments are not available for other oilseeds because the sum of their national loan rate and direct payment rate is equal to or greater than their target price.

Timing of Payments

Producers may elect to receive their direct payments in two installments per year:

- The first payment, available in December of the fiscal year, is up to 50 percent of the total payment.
- The balance of the total direct payment is available in October of the fiscal year after the fiscal year the payment is earned. Producers who do not elect to take the first direct payment will receive the entire direct payment at this time.

Producers may elect to receive up to three counter-cyclical payments per year:

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- First partial payments are available in October of the calendar year in which the crop is harvested. These payments cannot exceed 35 percent of the total projected payment.
- Second partial payments, up to 70 percent of the projected payment, minus the amount of the first partial payment, are available the following February (the year after the crop is harvested).
- Final payments are made after the end of the marketing year for the crop. Producers who do not elect to take the first and second advance payments will receive the entire counter-cyclical payment at this time.

Producers must refund to FSA counter-cyclical payments that exceed the actual counter-cyclical payment for each respective crop. This situation may occur when actual market prices exceed the projected market prices used in determining the partial counter-cyclical payment rates.

The DCP payment schedule for 2002 and 2003 crop years is in the following table. The payment schedule for the 2004-2007 crop years parallels the schedule for the 2003 crop year.

TIMETABLE FOR ISSUING DCP PAYMENTS				
Month/Year	**Commodity**			
	Barley Oats Wheat	**Corn Sorghum Soybeans**	**Peanuts Rice Upland Cotton**	**Other Oilseeds**
Fall 2002	2002 First Adv. CC	2002 First Adv. CC	2002 First Adv. CC	—
	2002 Final Direct	2002 Final Direct	2002 Final Direct	2002 Final Direct
December 2002	2003 Adv. Direct	2003 Adv. Direct	2003 Adv. Direct	2003 Adv. Direct
February 2003	2002 Second Adv. CC	2002 Second Adv. CC	2002 Second Adv. CC	—
July 2003	2002 Final CC	—	—	—
September 2003	—	—	2002 Final CC	—
October 2003	—	2002 Final CC	—	—
	2003 First Adv. CC	2003 First Adv. CC	2003 First Adv. CC	—
	2003 Final Direct	2003 Final Direct	2003 Final Direct	2003 Final Direct
February 2004	2003 Second Adv. CC	2003 Second Adv. CC	2003 Second Adv. CC	—
July 2004	2003 Final CC	—	—	—
September 2004	—	—	2003 Final CC	—
October 2004	—	2003 Final CC	—	—

Note: CC - Counter-cyclical, Adv. - Advance

Base Acres

Farm owners, or their designees, were provided a one-time opportunity to choose from five options in determining DCP base acres. “Base acres” means, with respect to a covered commodity on a farm, the number of acres of the crop established by the election of the owner or owners of the farm. The options in determining DCP base acres were:

- to use 2002 PFC acreage to establish DCP base acres;
- to use 2002 PFC acreage and add oilseed base history for the 1998-2001 crop years (three options were available under this scenario that allowed flexibility between oilseed base acres and other crop base acres); and
- to calculate all base acres using the farm’s planted and approved prevented planted history from 1998-2001.

Direct Payment Yields

Direct payment yields for wheat, feed grains, cotton, and rice on a farm are the 2002 PFC payment yields for the applicable crops on the farm. Yields used to calculate direct payments cannot be updated; the yields must be those used for PFC.

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For covered commodities without PFC program payment yields, FSA will assign a direct payment yield using the PFC yield of similar farms. The direct payment yield for oilseeds shall be equal to multiplying the 1998 through 2001 average yield for the oilseed times the historic yield ratio for the oilseed.

Counter-cyclical Payment Yields

Farm owners, or their designees, who update their base acres had a one-time opportunity to also partially update their counter-cyclical payment yields using one of the following two methods:

- 93.5 percent of the 1998-2001 average yield; or
- the direct payment yield (PFC yield) *plus* 70 percent of the difference between the 1998-2001 average and the direct payment yield.

Farm owners had to use the same counter-cyclical payment yield method for all eligible commodities on a farm. If farm owners did not choose to partially update their counter-cyclical payment yields, then their established PFC payment yields are used to calculate counter-cyclical payments.

Sign-up Period

The DCP sign-up period for fiscal years 2002 and 2003 is October 1, 2002, to June 2, 2003. Sign-up for 2004-2007 is from October 1 to June 1 of the applicable fiscal year. The CCC-509 form, "Direct and Counter-cyclical Program Contract," includes base acres, payment acres, payment yields, producer payment shares, advance direct and counter-cyclical payment selections, and signatures of the producer and county office representative.

The CCC-509 must be submitted by June 1 (June 2 for 2002 and 2003) of the fiscal year. All owners and operators who will share in the DCP payments on the farm must sign the CCC-509. Forms with signatures that are obtained after June 1, but before September 30, will be accepted, but the farm will be assessed a late-file sign-up fee of $100.

Farm producers must apply for DCP on an annual basis and can opt out of participating in DCP for any year if they so choose.

The following documents are required and applicable determinations must be made before the county committee can approve a producer's share on the CCC-509 for payment:

- a farm operating plan (CCC-502 and related forms);
- an average adjusted gross income certification (CCC-526);
- a certification of compliance with highly erodible land and wetland conservation provisions (AD-1026).

A certification of the acreage of all cropland on the farm (FSA-578) is needed before final payments can be issued.

Planting Flexibility Provisions

Producers who participate in DCP may plant cropland in excess of the total base acreage on the farm to any commodity. However, producers are subject to certain restrictions on the planting of wild rice, fruits, and vegetables (WR/FAV). Information on WR/FAV restrictions is contained in the FSA fact sheet "Direct and Counter-cyclical Payment Program: Wild Rice, Fruit, and Vegetable Provisions." This fact sheet is available on FSA's Web site at:
http://www.fsa.usda.gov/pas/publications/facts/html/fav03.htm

For More Information

Further information on DCP and other FSA programs are available at local FSA offices or on FSA's Web site at: www.fsa.usda.gov