Understanding Counter-Cyclical Payments

Counter-Cyclical Payments (CCPs), the Farm Bill’s new safety net are a mystery for many. That’s probably because, so far, soybean and corn farmers have yet to receive a CCP. National average prices have been too high for them to be paid. However, with cash corn prices at harvest expected to be $2 to $2.20 per bushel, it appears that a first partial CCP for corn is likely sometime in October.

Here’s how it works for corn. Start with the $2.60 target price established by the USDA. You get a 28¢-per-bushel direct payment every year (half at sign-up and the other half in October). Subtract that payment to get $2.32 per bushel, the real CCP trigger price. If the national average market price stays below that trigger for the entire market year ending next August, you’ll get a final payment. The payment maxes out at 34¢-per-bushel, but only if prices averaged at or below the national loan rate of $1.98 for the entire year. The USDA now projects a national average price of $2.30 per bushel for the current marketing year. This reflects a potential final CCP of 2¢-per-bushel.

The first opportunity to collect this CCP is in October of 2003. A payment would likely be made by your local FSA office, but only for those producers that checked “yes” for first partial payment on form CCC-509 at sign-up. The actual payment will reflect the national average cash price for corn in the month of September. This price is determined by a survey conducted nationwide by the USDA National Ag Statistics Service (NASS) of grain purchasers (elevators, processors, terminals, feed lots, etc.).

Some key differences

Unlike LDPs, a producer does not have to have beneficial interest in the crop to collect a CCP. These payments are based on national average prices determined three times annually: first partial – September, second partial – February, final – August. All those prices are weighted averages that calculate the months of heavy cash sales more than months when fewer bushels are sold.

The CCP is unlike direct payments which derived from old base acres and yields. You might get a bigger CCP if you updated base acres as well as yields when signing up for the six-year farm program. All the fuss about updating yields boiled down to receiving a larger CCP should the national average price be below the CCP trigger of $2.32/bu for corn and $5.36/bu for soybeans for the entire marketing year.
You can determine whether you want to receive the first partial and/or second partial CCP. That choice is made when you sign up for the 2004 farm program later this fall. Consider checking “yes” on form CCC-509, the Direct and Counter-Cyclical Program Contract. That decision can be made for either the first partial and/or the second partial payments. If the USDA later wants these advance payments back, it’s still an interest-free loan due 30 days after a USDA notice, or in the fall of 2004. Repayment may be taken out of your second-half direct payment, so you wouldn’t actually be writing a check to FSA unless you choose to. In order to keep track of the actual CCP received for your records, you may want to write such a check.

The University of Illinois has created a table that features the U.S. average price for various program crops. This information appears on a website that features the calculations for the projected CCP based on both USDA projected average price and the estimated average price to date. It is updated monthly and available online at www.farmland.uiuc.edu/marketing/CounterCyclical/CCP.html.

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