

Direct and Countercyclical Payment (DCP) Program

Don Shurley and Nathan Smith
Department of Agricultural and Applied Economics
The University of Georgia

AGECON-FB-08-02

Revised November 2008

Fixed (decoupled) payments were initiated with the 1996 Farm Bill and referred to then as PFC or AMTA payments. Such payments were then continued as Direct Payments (DP) in the 2002 Farm Bill. The Countercyclical Payments (CCP) program began in 2002. ***The Food, Conservation, and Energy Act of 2008*** (the 2008 Farm Bill) continues the Direct and Countercyclical Payments (DCP) program from the 2002 Farm Bill with some modifications.

Base Acres and Payment Acres

Direct Payments (DP) will be received on 85% of the farm's Base Acres for 2008 and 2012 crops. DP will be received on only 83.3% of Base Acres for the 2009 through 2011 crops. Countercyclical Payments (CCP), if applicable, will be received on 85% of the farm's Base Acres for the entire farm bill—2008 through 2012 crops.

For the 2008 Farm Bill, Base Acres are not updated as in 2002. For farm's enrolled, the Base of a crop will be as it was on September 30, 2007 but continue, however, to be adjusted annually or reduced if needed as determined for such purposes as changes in Conservation Reserve Program (CRP) acres, conversion of land to non-farming uses, etc.

Minimum Base Required. If a farm has 10 acres or less total Base, producer(s) on that farm are not eligible for DCP payments. Exceptions apply for socially disadvantaged and limited resource producers. This "10 acre rule" will not be implemented until the 2009 crop. Producers may or may not be able to reconstitute farms to combine bases to total over 10 acres. This must be determined by FSA.

Payment Yield

The Payment Yield is the yield at which DCP payments are made. For the 2008 Farm Bill, the Payment Yield for a crop will be the same as determined for the 2002 Farm Bill and in effect as of September 30, 2007. The Direct Payment (DP) will be made at the Direct Yield and Countercyclical Payment (CCP) at the Countercyclical Yield.

Direct Payments

Direct Payments (DP) are provided for all crops with Base Acres on a farm. Direct Payments are fixed, decoupled—not tied to production or market prices. For the 2008 Farm Bill (2008-2012), Direct Payment rates are the same as the 2002 Farm Bill. The following are payment rates for major Georgia crops:

Table 1. 2008 Farm Bill Direct Payment Rates

Base Crop	DP Rate (2008-2012)
Corn	28 cents per bushel
Cotton	6.67 cents per lb
Grain Sorghum	35 cents per bushel
Oats	2.4 cents per bushel
Oilseeds ¹	80 cents per cwt
Peanuts	\$36 per ton
Soybeans	44 cents per bushel
Wheat	52 cents per bushel

^{1/} Sunflowers, canola, etc.

The Direct Payment for a crop on a farm is calculated as:

$$\text{Payment Acres} \times \text{Direct Payment Yield} \times \text{Direct Payment Rate}$$

Timing of Payments. The Direct Payment will be made not earlier than October 1 of the harvest year. Producers may, however, elect to receive up to 22% of the payment in advance. The advance payment may be available and received in any month beginning in December of the year prior to harvest. The month selected may be changed from year to year. The remaining payment will then be made not earlier than October of the year harvested.

Target Prices

In the DCP program, the Target Price for a commodity is used to determine the amount of Countercyclical Payment (CCP). CCP is received when market price for the commodity (the US Market Year Average Price or MYA) is low. For the 2008 Farm Bill, Target Prices for major Georgia commodities are:

Table 2. 2008 Farm Bill Target Prices

	2008	2009	2010-2012
Corn	\$2.63/bu	\$2.63/bu	\$2.63/bu
Cotton	\$0.7125/lb	\$0.7125/lb	\$0.7125/lb
Grain Sorghum	\$2.57/bu	\$2.57/bu	\$2.63/bu
Oats	\$1.44/bu	\$1.44/bu	\$1.79/bu
Oilseeds ¹	\$10.10/cwt	\$10.10/cwt	\$12.68/cwt
Peanuts	\$495/ton	\$495/ton	\$495/ton
Soybeans	\$5.80/bu	\$5.80/bu	\$6.00/bu
Wheat	\$3.92/bu	\$3.92/bu	\$4.17/bu

1/ Sunflowers, canola, etc.

Compared to the 2002 Farm Bill, Target Prices during the 2008 Farm Bill are unchanged for corn and peanuts; higher in 2010-2012 for grain sorghum, soybeans, oilseeds, and wheat; and lower for cotton.

Countercyclical Payments

Payments (CCP) are provided for all crops with Base Acres on a farm. Countercyclical Payments are decoupled from production but are dependent on market prices. The CCP rate is calculated as:

$$\text{Target Price} - \text{Direct Payment Rate} - \text{the higher of the Loan Rate or MYA Price}$$

Amount of Payment. CCP is received when the MYA Price is less than the Target Price minus Direct Payment Rate. For cotton, for example, CCP is received when the MYA price is less than 64.58 cents/lb (71.25 – 6.67 = 64.58). The maximum CCP is the Target Price minus the Loan Rate minus the Direct Payment. For cotton, for example, the maximum CCP is 12.58 cents/lb (71.25 – 6.67 – 52.0) and remains at the maximum amount if the MYA price is equal to or less than the Loan Rate.

The Countercyclical Payment for a crop on a farm is calculated as:

$$\text{Payment Acres} \times \text{Countercyclical Payment Yield} \times \text{CCP Rate}$$

Because Direct Payments are unchanged from the 2002 Farm Bill, an increase in the Target Price (as in 2010-2012 for grain sorghum, oats, oilseeds, soybeans, and wheat) increases the potential CCP. A decrease in Target Price, as the case in cotton, reduces the potential CCP.

Timing of Payments. The marketing year for peanuts and cotton is August-July. The marketing year for corn, grain sorghum, and soybeans is September-August. The marketing year for wheat is June-May. The Countercyclical Payment will be made not earlier than October 1 after the end of the 12-month marketing year for the commodity. However, if USDA projects that the MYA price will be such that a CCP will be made, producers may elect to receive up to 40% of the projected CCP in advance. This advance partial payment will be made not earlier than 180 days after the beginning of the marketing year for the commodity. This is approximately February 1 for cotton and peanuts; approximately March 1 for corn, soybeans, and grain sorghum (Table 3). The final payment will be the actual CCP minus any advance/partial payment. If the advance partial payment is greater than the actual CCP (if prices increase and the actual CCP much less than expected), producers must repay any overpayment.

Table 3. Approximate Calendar For DCP Payments

Year Prior To Harvest	Year Crop Is Harvested		Year Following Harvest		
Dec	Oct	Dec	Feb	March	Oct
22% advance DP	Final DP	40% Partial CCP June-May marketing year	40% Partial CCP Aug-July marketing year	40% Partial CCP Sept-Aug marketing year	Final CCP

ACRE-- An Alternative to the DCP Program

The "safety net" provided by the 2002 Farm Bill consists of the Marketing Loan and the DCP Program (Direct and Countercyclical Payments). This program is continued in the 2008 Farm Bill with the modifications as discussed.

Producers may, however, elect an alternative means of income support-- the Average Crop Revenue Election (ACRE). The ACRE provision is discussed in a separate fact sheet of this series.

Payment Limitations

In general, for producers participating in the DCP program, the payment limit on Direct Payments in total for all crops excluding peanuts is \$40,000 per person or legal entity per crop year. The payment limit on peanuts is a separate \$40,000 per person or legal entity.

In general, for producers participating in the DCP program, the payment limit on Countercyclical Payments in total for all crops excluding peanuts is \$65,000 per person or legal entity per crop year. The payment limit on peanuts is a separate \$65,000 per person or legal entity.

Definitions, conditions, and specific technical regulations regarding payment limitations are best addressed by the Farm Service Agency.

The University of Georgia College of Agricultural and Environmental Sciences, Fort Valley State University, US Department of Agriculture, and counties of the state cooperating. The University of Georgia College of Agricultural and Environmental Sciences Cooperative Extension Service offers educational programs, assistance and materials to all people without regard to race, color, national origin, age, gender, or disability.

An equal opportunity / affirmative action organization committed to a diverse work force.

Issued in furtherance of Cooperative Extension Acts of May 8 and June 30, 1914, the University of Georgia College of Agricultural and Environmental Sciences and US Department of Agriculture cooperating.

**J. Scott Angle, Dean and Director
Beverly Sparks, Associate Dean for Extension**