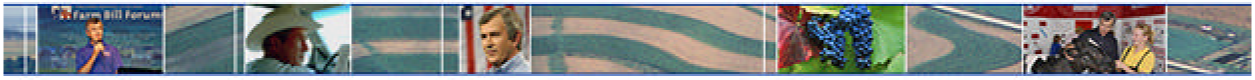

DIRECT AND COUNTER-CYCLICAL PROGRAM

Background

The Direct and Counter-Cyclical Program (DCP) provides payments to eligible producers on farms enrolled for the 2002 through 2007 crop years. Both direct and counter-cyclical payments are computed using the base acres and payment yields established for each farm.

DCP payments are available for barley, corn, grain sorghum, oats, canola, crambe, flax, mustard, rapeseed, safflower, sesame and sunflower, peanuts, rice, soybeans, upland cotton, and wheat. To be eligible for payments for DCP payments, owners, operators, landlords, tenants, or sharecroppers must:

(1) share in the risk of producing a crop on base acres on a farm enrolled in DCP, and be entitled to a share in that crop (or would have shared had a crop been produced);
(2) annually report the use of the farm's cropland acreage;
(3) comply with highly erodible land conservation and wetland conservation compliance provisions;
(4) comply with planting flexibility requirements;
(5) use the base acres for agricultural or related activities; and
(6) protect all base acres from erosion, including providing sufficient cover and weed control.

Direct payment rates for the eligible DCP commodities are as follows:

Barley	$0.2400 per bu.
Corn	$0.2800 per bu.
Grain Sorghum	$0.3500 per bu.
Oats	$0.0240 per bu.
Other Oilseeds	$0.8000 per cwt.
Peanuts	$36.00 per ton
Rice	$2.3500 per cwt.
Soybeans	$0.4400 per bu.
Upland Cotton	$0.0667 per lb.
Wheat	$0.5200 per bu.

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. 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 particular crop, the payments support farm income without affecting producers' current production decisions.

Counter-cyclical payments provide support counter to the cycle of movement of 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.

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:

(a) the national average market price received by producers during the marketing year; or

(b) the national loan rate for the commodity.

FINAL 2004-CROP COUNTER-CYCLICAL PAYMENT (CCP) RATES FOR WHEAT, BARLEY, OATS, PEANUTS, CORN, SORGHUM, SOYBEANS, UPLAND COTTON, AND RICE

Item	Wheat	Barley	Oats	Peanuts	Corn	Sorghum	Soybeans	Upland cotton	Rice
	$/bushel	$/bushel	$/bushel	$/short ton	$/bushel	$/bushel	$/bushel	$/pound	$/cwt
CCP parameters									
Target price	3.92	2.24	1.440	495.00	2.63	2.57	5.80	0.7240	10.5000
Direct pay rate	0.52	0.24	0.024	36.00	0.28	0.35	0.44	0.0667	2.3500
Loan rate (LR)	2.75	1.85	1.330	355.00	1.95	1.95	5.00	0.5200	6.5000
Marketing year average (MYA) price1/	3.40	1.73	1.480	378.00	2.06	1.79	5.74	0.4160	7.33
Effective price									
Higher of LR or MYA price	3.40	1.85	1.480	378.00	2.06	1.95	5.74	0.5200	7.33
plus direct payment rate	0.52	0.24	0.024	36.00	0.28	0.35	0.44	0.0667	2.3500
= effective price	3.92	2.09	1.504	414.00	2.34	2.30	6.18	0.5867	9.68
CCP payment rate									
Target price	3.92	2.24	1.440	495.00	2.63	2.57	5.80	0.7240	10.5000
minus effective price	3.92	2.09	1.504	414.00	2.34	2.30	6.18	0.5867	9.68
equals CCP payment rate 2/	0.00	0.15	0.000	81.00	0.29	0.27	0.00	0.1373	0.82
CCP payment rates									
First partial payment rate 3/	0.0350	0.0525	0.0056	25.55	0.1400	0.0945	0.0910	0.0481	0.3150
Net second partial pay rate 4/	0.0000	0.0525	0.0056	15.75	0.1400	0.0945	0.0910	0.0480	0.2100
Net final payment rate less first & second 5/	-0.0350	0.0450	-0.0112	39.70	0.0100	0.0810	-0.1820	0.0412	0.295

1/ Source: Wheat, barley, and oats--National Agricultural Statistics Service/USDA, *Agricultural Prices*, June 29, 2005.

Peanuts--National Agricultural Statistics Service/USDA, *Agricultural Prices*, August 31, 2005.

Upland cotton--National Agricultural Statistics Service/USDA, *News Release*, October 12, 2005.

Corn, sorghum, and soybeans--National Agricultural Statistics Service/USDA, *Agricultural Prices*, September 29, 2005.

Rice--National Agricultural Statistics Service/USDA, *Agricultural Prices,* January 31, 2006.

2/ Zero when effective price equals or exceeds target price.

3/ Based on MYA price projections published in the October 12, 2004 World Agriculture Supply and Demand Estimates (WASDE) report. Rate equals 35 percent of the projected total rate.

4/ Based on MYA price projections published in the February 9, 2005 WASDE report. Rate equals 70 percent of the projected total rate *less* the first partial.

5/ Final payment rate equals CCP payment rate *less* the first and second partial rates. Negative numbers denote a refund rate.

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. 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.

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

(a) The first payment, available in December of the calendar year before the crop is harvested.

(b) For the 2006 crop year, the advance direct payments may be up to 40 percent of the total payment and 22 percent for the 2007 and later crop years.

(c) The balance of the total direct payment is available in October of the calendar year in which the crop is harvested. Producers who do not elect to take the advance direct payment will receive the entire direct payment at this time.

If authorized by the Secretary, producers may elect to receive up to three counter-cyclical payments per year:

(a) 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.

(b) 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).

(c) 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.

The chart below shows the amount of money paid as "direct" and "counter-cyclical" payments over the past 3 years in thousands of dollars.

DIRECT AND COUNTER-CYCLICAL PAYMENTS (in $1,000)			
Fiscal year	2003	2004	2005
	Direct		
CORN	1,407,727	2,115,407	2,100,530
GRAIN SORGHUM	129,670	199,044	197,285
BARLEY	57,135	82,424	81,189
OATS	2,109	3,065	2,987
WHEAT	753,346	1,146,161	1,135,788
UPLAND COTTON	476,521	622,194	608,119
RICE	311,401	426,811	423,993
PEANUTS	97,269	70,692	69,133
SOYBEANS	886,820	602,832	595,701
MINOR OILSEEDS	29,274	20,016	19,874
TOTAL	4,151,272	5,288,646	5,234,599
	Counter-Cyclical		
CORN	0	338,726	905,762
GRAIN SORGHUM	0	3,885	45,106
BARLEY	0	0	51,551
OATS	0	0	341
WHEAT	0	27,897	-281
UPLAND COTTON	1,263,628	216,827	1,420,998
RICE	318,289	123,986	10,611
PEANUTS	161,082	98,060	191,098
SOYBEANS	0	0	146,317
MINOR OILSEEDS	0	0	0
TOTAL	1,742,999	809,381	2,771,503

General Opinions Expressed

- Commenters generally expressed support for the current DCP and its continuation in the next farm bill.
- Many commenters believed that DCP payments are a viable form of rural development because the payments go back to the agricultural community.
- Many commented that the best part of DCP was the freedom to plant crops based on market signals instead of crop base acres. Also, the program provides market protection and counter-cyclical payments only when needed.
- Others maintained that the current commodity support program fuels overproduction, lowers market prices, increases taxpayer support, and damages rural communities.
- Some commenters believed that DCP harms or penalizes livestock producers that devote many acres for hay and forage production. DCP is based on prior history of crops planted and there is no means to build a crop base history when producing feed (e.g., alfalfa) for livestock.

Detailed Suggestions Expressed

- The crop yields established 20 years ago under the 1985 farm bill are not representative of the conditions today. There has been no opportunity or mechanism for change. This inequity needs to be addressed.
- Replace base acres with an annually recalculated base determined by actual and most recent 6-year average acres planted to each applicable crop. The old base acres have nothing to do with what is done now.
- Any producers that grow alfalfa receive no compensation from the Government for conserving the land. The next farm bill should provide some direct payments or compensation for growing alfalfa.
- Change the current DCP to base the direct payments on the level of commodities used domestically, while exported production receives no support. This would provide an adequate safety net and still remain internationally competitive.
- To assist farmers in the calculation of cash-flow projections, the new farm bill should increase the guaranteed portion of the crop program payment and eliminate the counter-cyclical or nonguaranteed portion.
- For fair and effective distribution of assistance, provide flexibility to receive 50 percent or 100 percent of the payments, and the option of what month(s) to receive the payments.
- A target revenue program based on crop price and yield should replace the DCP, coupled with revenue reserve accounts to provide incentives for savings in good years and withdrawals for disaster years.
- Replace the current DCP with a system of minimal farm income guarantees coupled with tax-sheltered savings accounts to balance income year to year.
- Instead of DCP payments that go to the landowners who do not farm and, in effect, take the payments through higher rents, offer assistance or aid that is only redeemable for

agricultural inputs. This would deliver financial aid to producers by helping them pay for major crop and operational expenses only.

- Discontinue all DCP payments. Instead, continue with a crop loan structure and loan deficiency payments on limited bushels per operator.
- The next farm bill should concentrate on the marketing loan rather than direct payments as all the direct payments do is increase land rents. A crop must be produced for a marketing loan. This will reward the producers that grow bushels and have less impact on higher land costs, which will give a start to our next generation of farmers.
- Land prices and production costs are increasing while the prices for commodities are declining. The target prices and counter-cyclical payments are not effective and must be addressed.
- Forage crops are a critical component of the agriculture industry. The new farm bill offers a unique opportunity to provide greater incentives for utilizing the environmental and conservation benefits of forages; forages need parity with other leading crops.
- In many areas of the West, irrigation has been the only cropping practice for over 100 years. It is not possible to grow crops without applying irrigation water. However, the 1985 Act, as amended, only allows a nonirrigated yield for program payment calculation purposes. To correct this inequity, a provision should be considered in the new farm bill to allow State and local committees to identify only irrigated cropland and for the establishment of corrected crop yields.
- More financial emphasis on direct payments, while possibly passing WTO rules, may have undesired consequences. In the 2007 farm bill, consideration might be given to targeting the direct payments to activities of the farmer rather than strictly to production history and ultimately to landowners.