



Thinking About Cotton in the Farm Bill: How Much Difference Will it Make?

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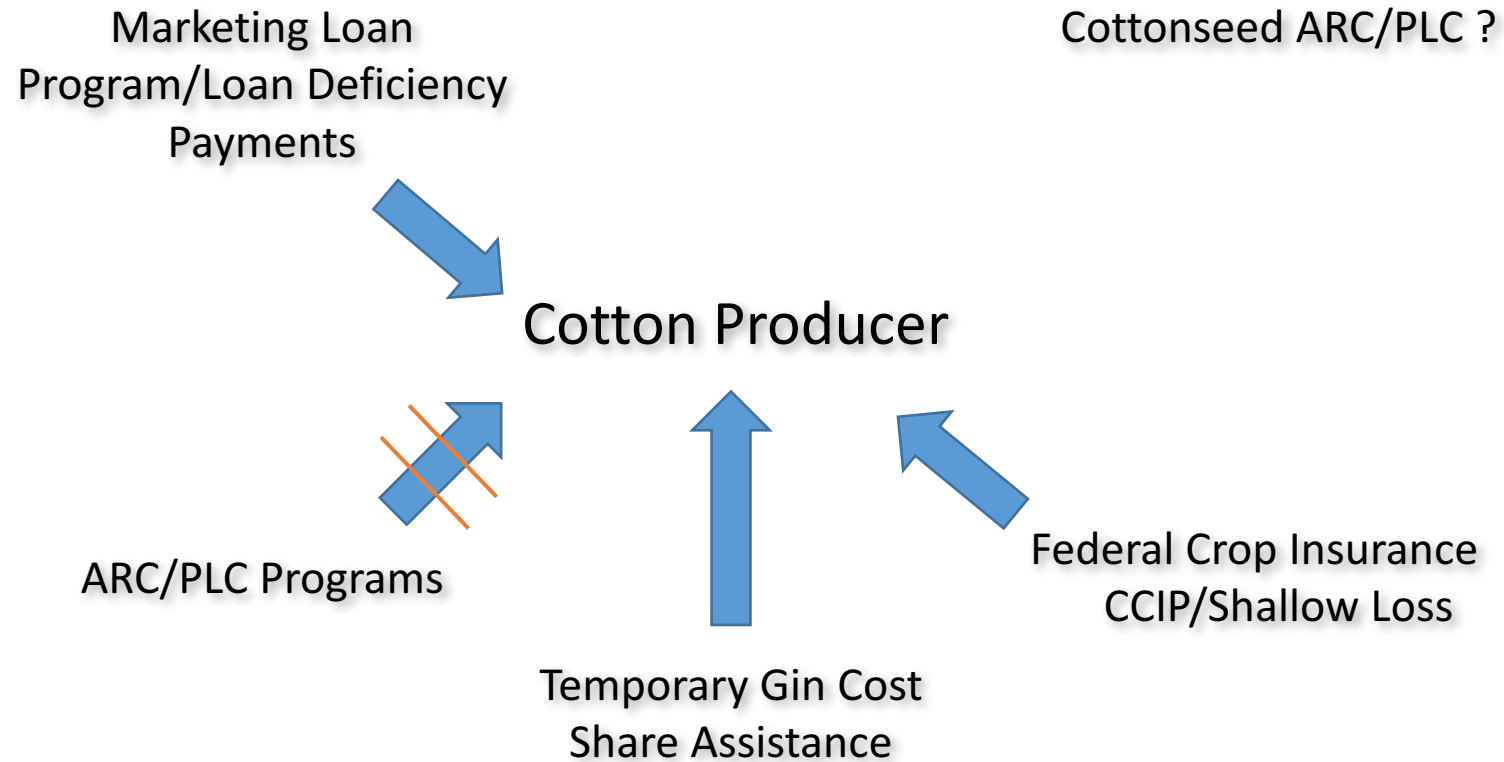
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Current Policy



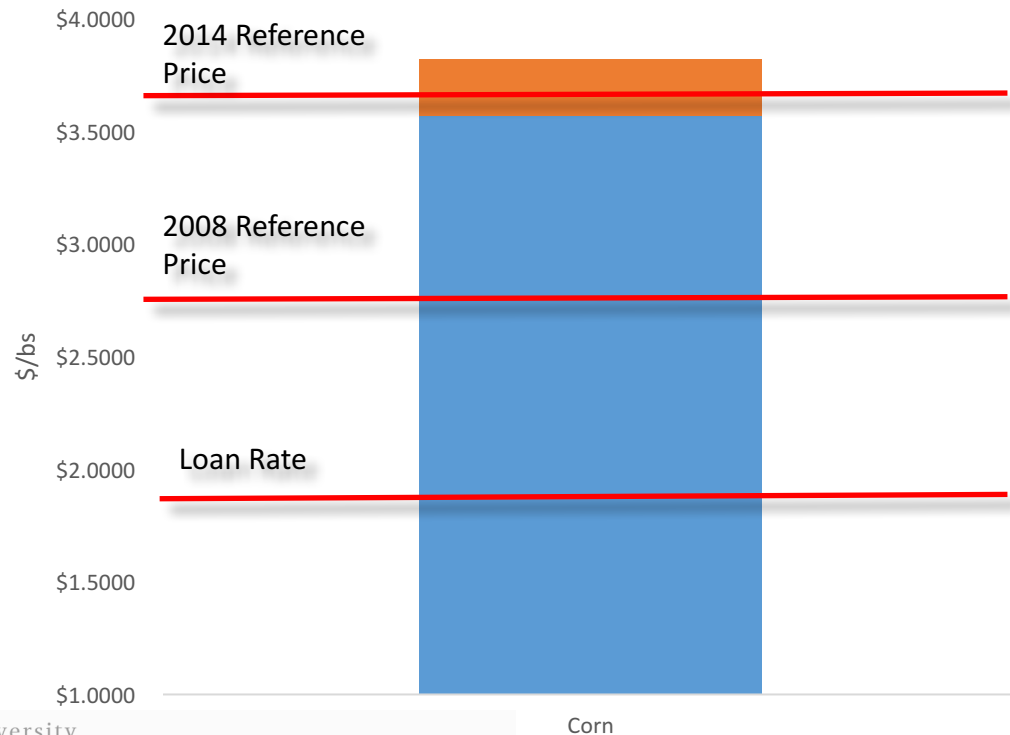
Current Policy

- Because of the WTO ruling against the US, cotton was left out of Title I programs.
- Marketing loan program remains, and appears to not be an issue of contention.
- STAX/SCO programs, while on paper having large expected benefits, have never been widely adopted like believed and, despite attempts, has had limited impacts on farm income and risk reduction.



Comparison of Income/Price Protection with Corn and Cotton

- Corn



- Cotton



Note: 2016 is based on estimates for ARC/PLC for corn through May 7, 2017. As of May 7, 2016, there were no MLGs or LDPs for cotton. Reference price for cotton is the 2008 farm bill reference price for comparison purposes.



Cost of Production Adjustments

- Title I crops all received a “cost of production” adjustment in their PLC prices.

2014 Farm Bill: Designed with the belief that corn prices would remain above \$4

September 5, 2017

- No current prices discussed for cotton are higher than the previous counter-cyclical price.



Challenges

- Insurance provides limited downside protection when prices decline.
- ML program functioning, but only provides temporary cash flow assurances and price protection at low levels
- Insurance provides limited assistance in securing producer financing



Cotton as a Title I Crop?

- Potentially include cotton lint in an ARC/PLC framework?
 - Would provide a price floor for lint higher than current loan rates and price a basis for calculating cash flows for financing decisions.
 - But, how high can the price be given budgetary constraints? 68? 72?
- How does that impact crop insurance?
 - CCIP policies not likely affected; they are functioning well
 - STAX is likely to be scrapped to save money for the Title I programs
 - May increase preferences/use for yield policies as opposed to revenue as price protection becomes “free”



Challenges

- Currently no baseline for expenditures on which to budget
 - Senate Approps currently proposing expenditures for 2018 for the cottonseed ARC/PLC program...that would generate some base and shift it away from “generic base” to cottonseed
 - STAX elimination could serve as a basis for money, if it can be kept in cotton and not diverted to other crops.
- Competition between cotton and other crops
- “Inter-regional” competition in cotton...where will the “base” be located for Title I payments
- Potential challenges from WTO??



Will It Make A Difference?

- On the negative:
 - For budget scoring, there is likely to be little added money in the system for cotton support...”budget neutral”
 - Depending on where the “base” is located, monies may go to support acres no longer growing cotton
- On the positive:
 - Payments would be more focused on price support rather than the “prospect” of payments from insurance
 - Price supports offer new options for risk management through insurance as well
 - Price supports provide solid foundation for bank financing

