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## **Will the Buy American Cotton Act (BACA) Save the U.S. Cotton Industry?**

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The Buy American Cotton Act (BACA) of 2026 [H.R. 7230/S. 1919], introduced in the Senate by Sen. Cindy Hyde-Smith (R-MS) and in the House of Representatives by Rep. Gregory Murphy (R-NC) and Rep. Terri Sewell (D-AL), would authorize a set of domestic tax credits designed to incentivize the consumption of U.S. cotton and products manufactured from U.S. cotton produced both domestically and imported. U.S.-based retailers are eligible to apply for a credit for sales of eligible cotton-containing articles but must provide a detailed tracing of cotton from U.S. origin through manufacturing and then sales. While the program is designed specifically to increase demand for U.S. cotton and promote domestic consumption of U.S. cotton, the question is how effective a program like this is to lead to improved markets for U.S. cotton producers.

The tax credits are an escalating set of credits for products made with U.S. cotton with various degrees of processing that occurs in the U.S. The lowest credit is for a product made with U.S. cotton that was shipped to a country without a Free Trade Agreement (FTA) with the United States—higher for cotton shipped to an FTA—higher for yarn spun in the U.S. to an FTA country, etc.

The highest tax credit goes to eligible items that are made from U.S. cotton made into yarn and fabric in the U.S. using processing multipliers. For example, products containing U.S. cotton made from U.S. manufactured yarn would have the eligible tax credit multiplied by 1.6, while fabric manufactured in the U.S. containing U.S. cotton would see a 6.5 multiplier applied to the credit.

Not everything is 100% cotton nor is every product made from 100% U.S. cotton. The BACA also contains a series of adjustments to address these issues based on fabric/cotton content, but the tax credits are lowered on that basis. Clearly the design is to promote U.S.



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cotton use and to expand domestic use of cotton, but how does that benefit U.S. cotton producers?

## **Potential Benefits**

The largest and most consequential price effect on U.S. producers is overall global cotton demand. Global demand has been stagnant for nearly a decade, which has led to limited growth in U.S. farm price. Overall, real demand/price expansion can only occur if the world uses more cotton. The BACA could, for the U.S. at least, increase cotton consumption. The U.S. already maintains relatively high tariffs (20-30%) on polyester apparel imports. The BACA further disincentivizes polyester content through lower tax credits for polyester-containing cotton apparel. This may encourage more brands/retailers to refocus apparel orders to higher cotton content to (1) avoid the high tariffs and (2) increase the size of potential tax credit on sales. Ultimately, though, to increase the base level of U.S. cotton prices, global demand for cotton needs to grow.

To be eligible for the tax credits, brands/retailers must (reliably documented) source U.S. cotton for the products sold into the U.S. The U.S. is a very large market, consuming about 18 million bale equivalents of cotton products. Thus, for supply chains to benefit from the credit, they must source limited U.S. cotton likely resulting in a premium for U.S. cotton in the global market. While one cannot expect 100% of that premium to make its way back to the producer, some could be realized due to increased competition for limited bales. Many brands/retailers are already participating in electronic supply chain tracking and it would be reasonable to expect firms with pre-existing tracking capabilities to immediately seek to participate in the tax credits. Other firms will be able to participate but it will take a bit longer for them to comply with the tracking standards needed to capture the potential credit. Nevertheless, one would expect an immediate benefit to materialize, with real potential for growth over time as more firms compete for the tax credits through U.S. cotton.

For cotton that is processed in the U.S. (currently around 2 million bales), the basis for bales purchased is naturally better because of lower transport cost compared to bales sent abroad. To the extent the BACA can encourage an expansion of domestic spinning and fabric production, additional bales will benefit from increased competition for U.S. cotton



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and a better basis (resulting in higher realized price to the producer). This potential benefit is likely longer-term (it takes time to build capacity) but would be a significant direct benefit to U.S. producers.

This latter point is less discussed, but no less important. Realigning the U.S. supply chain to be less dependent on Southeast Asia, and especially China, that present strategic challenges to the United States in general is an important benefit. At the same time, realignment to the Western Hemisphere could also lower overall costs of production and lead to increased overall demand. This outcome is, of course, speculative and would require examination and implementation of policies to support that investment.

## Conclusions

The question in the title of this comment is a bit misleading. The BACA is not intended to “save” the U.S. cotton industry. If global demand for cotton increases, that does the heavy lifting. But the BACA is aimed at nudging existing demand, within the framework of the U.S. consumer base, in favor of U.S. cotton. The immediate benefits accrue to those firms that have functional electronic tracking systems, which are already the largest consumers of cotton. The scaled tax credits do create more incentive for these firms to source U.S. cotton to fill supply chains that deliver cotton goods to U.S. consumers. The benefit to U.S. growers, of course, is limited by the size of the credit and the manufacturing pathway their cotton takes before landing in a U.S. retail environment. The National Cotton Council conservatively puts that net benefit at around 5 cents per pound for U.S. cotton in total. We see no reason why that projection is too high but of course estimating these things before the implementation of the policy is difficult.

The ultimate benefit of BACA would be to increase U.S. spinning and fabric production which would yield the highest tax credit and have the most direct impact on U.S. cotton through better price for producers. The question remains whether the tax credits will be enough to spur growth in domestic spinning and fabric manufacturing capacity. The benefits are generous, especially for fabric produced in the U.S. For example, the National Cotton Council estimates that the total tax credit would be in the range of \$1.30/lb of cotton content for eligible products made from U.S. cotton, spun, and made into fabric. In



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the U.S. Investment in new capacity is expensive, but a primary benefit of the BACA is that it is permanent policy rather than transient tariffs and will allow interested firms the ability to create long-term investment plans.