OVERVIEW OF U.S. COTTON PROGRAM

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Background

- The Agricultural Act of 2014 is in effect for the 2014-2018 crops.
- The new law eliminated two programs and replaced them with two new programs that provide a minimum threshold price (PLC-Price Loss Coverage) or revenue (ARC-Agricultural Risk Coverage) for most major commodities.
- Cotton was eligible for the 2 old programs but not for ARC or PLC due to a WTO case against U.S. cotton support. Instead, the Farm Bill legislated STAX (Stacked Income Protection for Upland Cotton) as a cotton-specific shallow-loss revenue insurance, with premiums subsidized by the government.
- Marketing assistance loans continue for program crops and cotton.

Cotton Marketing Assistance Loan Program

- The intent of the marketing loan is to provide producers with a cash loan at harvest, with the crop pledged as collateral. Allows growers to repay creditors and await favorable prices for marketing crops.
- The MAL for upland cotton is a nonrecourse loan, which means that producers can forfeit the collateral without penalty instead of repaying the loan.
- Upland cotton MAL is not new, but the 2014 Farm Bill made a simple yet significant change: the base loan rate is no longer fixed at 52 cents per pound. Instead, it can range from 45 to 52 cents per pound based on a simple average of the Adjusted World Price (AWP) from the previous 2 marketing years.
- Base loan rates for 2014, 2015, and 2016 are 52 cents per pound. 2017-crop loan rate will be 49.49 cents due to AWP's below 52 cents during 2014/15 and 2015/16.

How the Loan Program Operates

- The cotton must be ginned, classed, and placed in approved storage.
- The producer provides the warehouse receipt to the government's Commodity Credit Corporation (CCC) and receives a loan at the base loan rate (52 cents at present for upland cotton), adjusted to the quality of the cotton.
- The farmer must repay the loan within 9 months or the commodity is forfeit.
- If the weekly Adjusted World Price decreases below the base loan rate, the farmer can repay the loan at the lower price during the effective week. For example, if the AWP is 50 cents, producers can repay loans through following week at that rate and keep the 2.00 cent difference, called a marketing loan gain.

Extra Long Staple Cotton

- ELS cotton also has a marketing assistance loan program. The loan duration is 9 months, and the loan rate is 79.77 cents per pound, adjusted for quality.
- Unlike Upland cotton, ELS cotton loans must be repaid at full loan value, plus interest.

Special Competitiveness Provisions for ELS Cotton provide ELS price support if 2 conditions are met:

1. The world price for the lowest-priced competing growth of ELS cotton is below the U.S. price for a competing growth of ELS cotton, for 4 consecutive weeks.

2. The lowest price competing growth of ELS cotton is less than 134 percent of the ELS loan rate.

Cotton STAX Program

- Dramatic departure from historical safety net programs.
- No fixed target price as in previous CCP—support is based on the December futures price for a given crop year.
- STAX provides intra-seasonal risk coverage, but does not support against price declines from one season to the next.
- Administered by the Risk Management Agency.
- Cotton producers who do not participate in STAX can participate in SCO (Supplemental Coverage Option).

Generic Base Acres

- Like previous direct and counter-cyclical payment programs, ARC and PLC program participation are determined by a farm's historical acreage, called base acres.
- Upland cotton is no longer a covered commodity, meaning it is not eligible for programs that use base acres to determine payments; as a result, all previous cotton base acres are now designated as generic base acres.
- Generic base acres may qualify for payments under ARC or PLC, but only if planted to a covered commodity (i.e. corn, soybeans, wheat, peanuts, etc).

Other Cotton Assistance

- Economic Adjustment Assistance Program (EAAP) provides payments to domestic users of upland cotton at a rate of 3 cents per pound. Participants must certify that payments are used for capital expenditures, such as purchase or development of land, buildings, equipment, or machinery.
- Special Import Quota for Upland Cotton allows importation of one week's worth of upland cotton during weeks when the U.S. Far East price is higher than the prevailing world market price. Importers have 3 months to purchase the cotton and 6 months to import it. The Special Import Quota is rarely used.