U.S. Cotton Program Changes Under the 2014 Farm Bill

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Agricultural Act of 2014 (aka, the 2014 Farm Bill)

- A new five-year farm bill was signed into law on February 7, 2014.
- New law eliminates Direct and Counter-cyclical payment programs for all major commodities.
- Introduced two new programs that provide a minimum threshold price or revenue (ARC and PLC) for most major commodities (grains and oilseeds).
- Cotton is not eligible for ARC/PLC as a result of negotiations intended to address the issues raised in the Brazil WTO cotton case.
- New cotton program called STAX.

Cotton STAX program

- Dramatic departure from historical safety net programs
  …shallow-loss revenue insurance
- STAX only covers up to 20% of potential revenue losses; the remainder must be covered under traditional crop insurance 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 declines in cotton prices from one season to the next.

Cotton Transition Payments

- Since STAX not available until the 2015 cotton crop, the farm bill provided for transition payments to cotton growers on 60% of base acreage in 2014.
- In counties where the program is not available in 2015, growers can apply for payments on up to 36.5% of base acreage.
- Transition payment rate is 9 cents per pound, compared to the maximum combined Direct and Counter-cyclical payment rate under the previous farm bill of 19.25 cents per pound.

Supplemental Coverage Option (SCO)

- Shallow loss revenue coverage like STAX, intended to supplement traditional insurance coverage.
- Available to growers of all covered commodities, as well as cotton. Not available to cotton producers participating in STAX.
- Expectation is that cotton producers will favor STAX due to larger premium subsidy and lower trigger for payment (10% loss for STAX vs 14% loss for SCO).

Cotton Marketing Loan Program

- Intent is to provide producers with a cash loan at harvest, with the crop as collateral.
- Nine-month loan allows growers to simultaneously repay creditors and await more favorable prices for marketing their crops.
- Loan must be repaid (redeemed) within 9 months or crop is forfeited to USDA.

2014 Farm Bill Change: base cotton 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 from the previous 2 marketing years.

2014-crop base loan rate is 52 cents.

Other Cotton Assistance

- Economic Adjustment Assistance Program (EAAP) remains fixed at 3 cents per pound (as opposed to 4 cents per pound for the 2008-2011 cotton crops) on all cotton spun in the U.S.
- Special Competitiveness Provisions for ELS Cotton continued (last payment in March 2010)
- Special Import Quota for Upland Cotton (available but unused for several years)