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Effects of the Bipartisan Budget Act on U.S. Upland Cotton

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Invited Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2018 Annual Meeting: Interlinkages among Global Value Chains, Trade, and Transformation of the AgriFood Industry, July 25-27, 2018, Whistler, BC, Canada.

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Background on U.S. upland cotton policy

- **2008 farm bill**

- Direct and Countercyclical Payments (DCP)
- ACRE
- Marketing loans
- Regular crop insurance

- **WTO dispute**

- WTO panel convened in 2003 to hear case brought by Brazil against US over programs
- WTO ruled against U.S. in 2005 and 2008
- In 2009, agreement between U.S. and Brazil signed to avert counter-measures
 - U.S. made monthly payments to the Brazil Cotton Institute
 - U.S. farm programs temporarily continued



2014 farm bill

- **Termination of WTO case**
 - \$300 million settlement to BCI
 - Changes to export credits
 - Changes in U.S. cotton programs
- **U.S. cotton programs**
 - Upland cotton not eligible for ARC or PLC
 - Cotton base acres become generic base acres
 - Retains marketing loan program
 - Option of Supplemental Coverage Option (SCO) or
 - Stacked Income Protection (STAX)
 - Transition payments for 2014

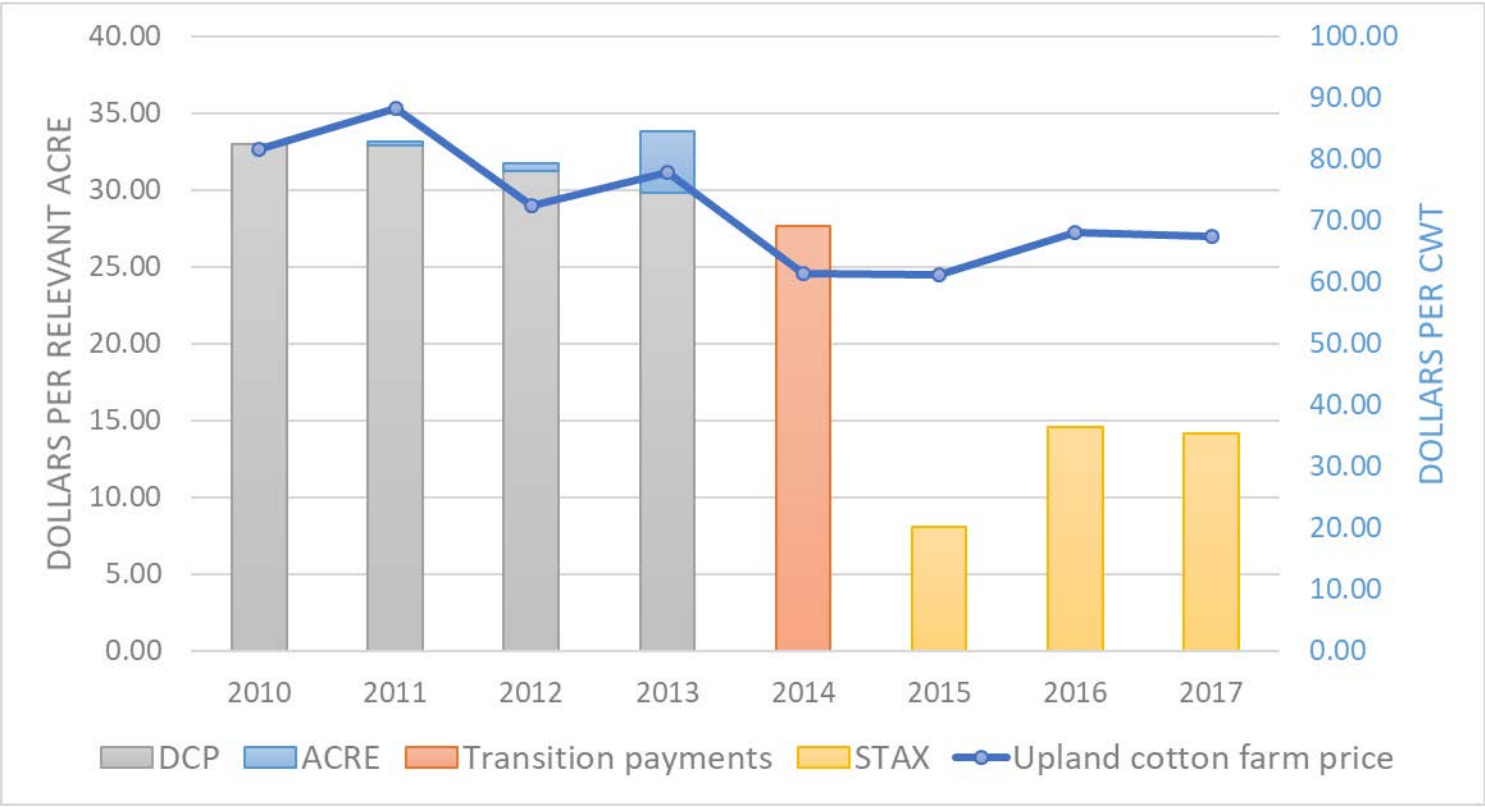
STAX

- **Area-based insurance for range between up to 90% and higher of individual coverage level or 70%, specified in increments of 5%**
- **Individual policies do not effect eligibility**
- **Operates at the county level**
- **80% subsidized**
- **Option of “protection factor” of up to 120%**
- **Started in 2015**

STAX enrollment

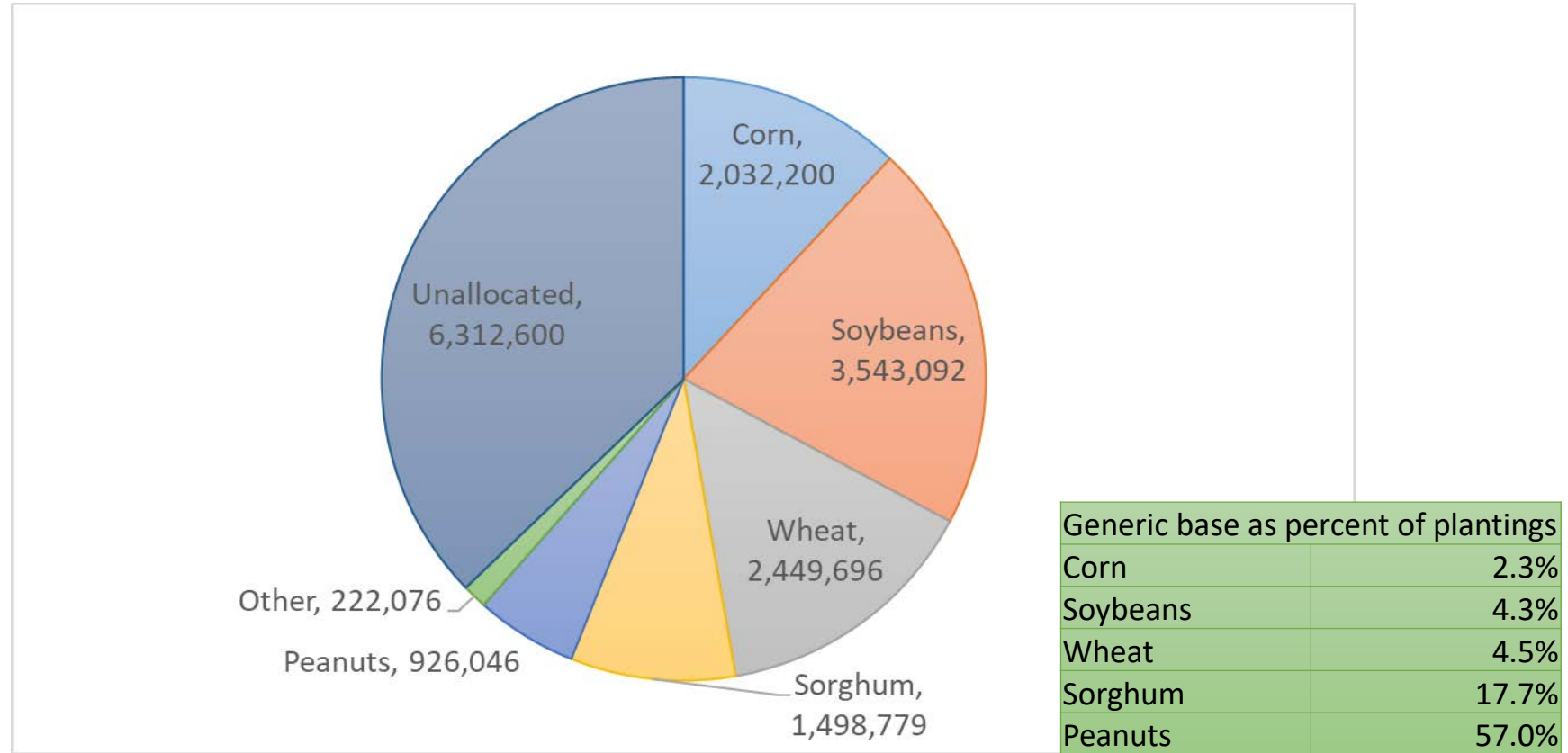


Net benefits to upland cotton



STAX is per participating acre

2015 generic base acres



Seed cotton

- “Unginned upland cotton that includes both lint and seed”
- Added as covered commodity in the Bipartisan Budget Act of 2018
- **Effective price** =
$$\frac{P_L Y_L + P_S Y_S}{Y_L + Y_S}$$
 - P_L and P_S are the price of the lint and seed, respectively, in dollars per pounds
 - Y_L and Y_S are the U.S. total production of lint and seed, respectively, pounds

Seed cotton policies

- **Seed cotton eligible for choice of PLC or ARC**
 - Enrolling in one eliminates STAX as an option (starting in 2019)
- **Reference price = \$.367 per pound**
- **Payment yield = 2.4 x updated upland cotton payment yield**
- **Base acres = option of...**
 - Average seed cotton plantings + prevented plantings for 2009-2012
 - Limited between bounds of 80% to 100% of generic base
 - Reallocate all base acres based on 2009-2012 years
- **Deemed loan rate = \$.25 per pound**

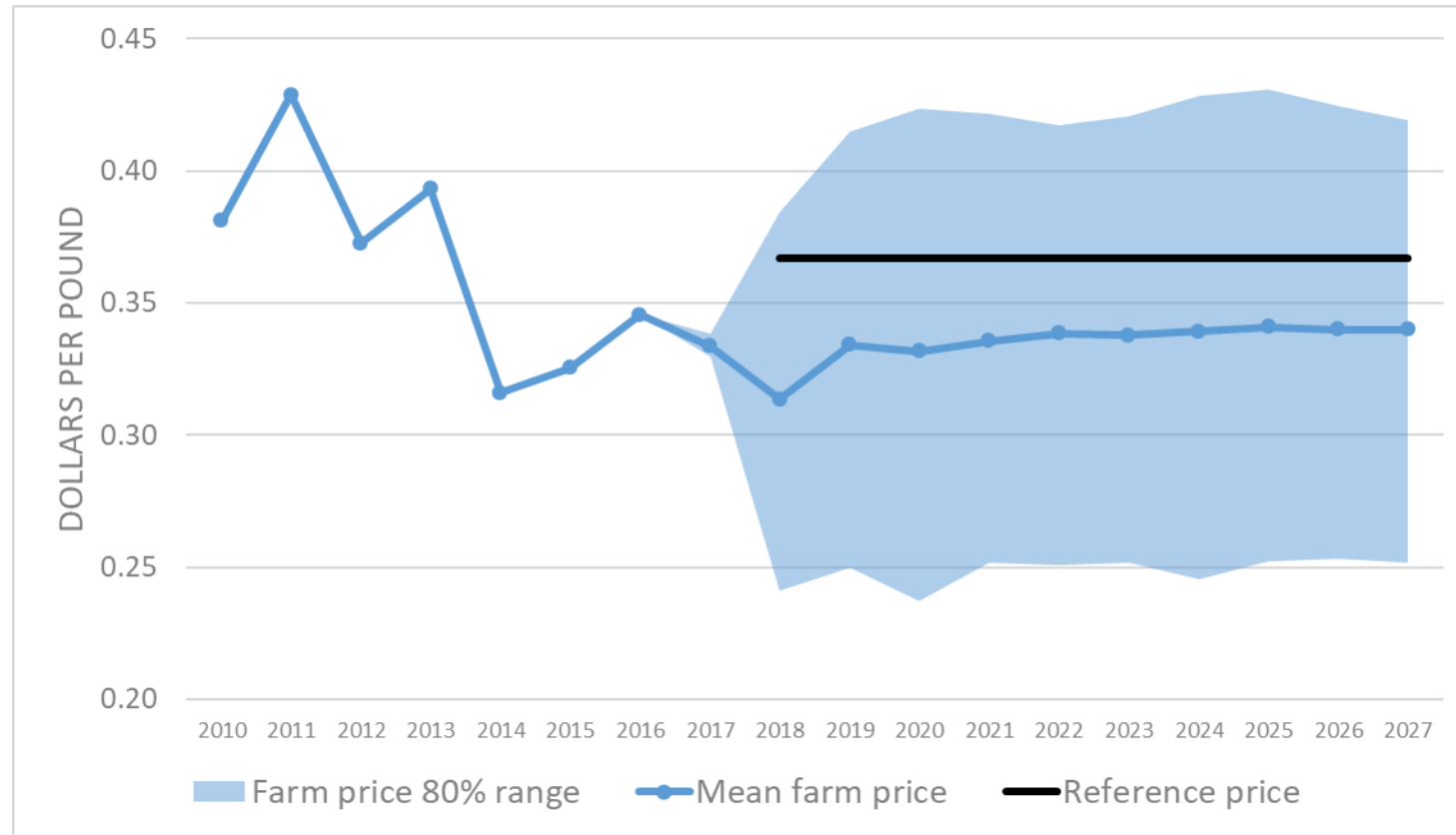


FAPRI-MU stochastic models

- **Covers many U.S. crops, livestock, dairy, biofuels, farm income and government costs**
- **Exports represented by reduced form equations**
- **Projects 10 years**
- **Over 2,000 equations**
- **500 Monte Carlo draws from error terms for some equations and some key inputs**
- **Baseline prepared from January to March**



Seed cotton prices

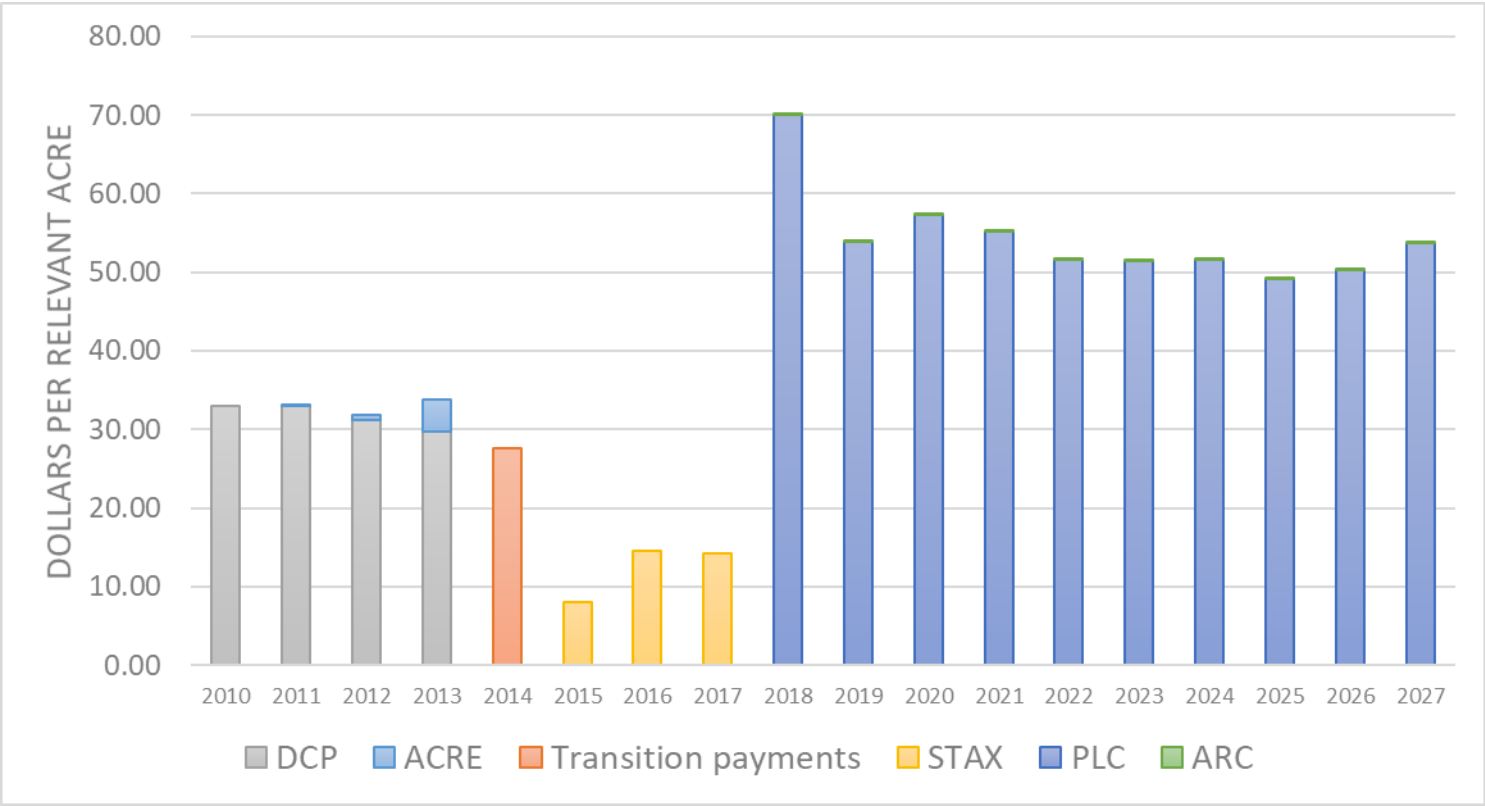


Modeling assumptions

- **99% of upland cotton producers choose PLC**
 - No one chooses STAX starting in 2018
- **Generic base reallocation:**
 - 13 million to seed cotton
 - .4 million to corn
 - 1.2 million to soybeans
 - -.1 million to sorghum
- **National payment yield of 1,632 lbs per acre (680 x 2.4)**

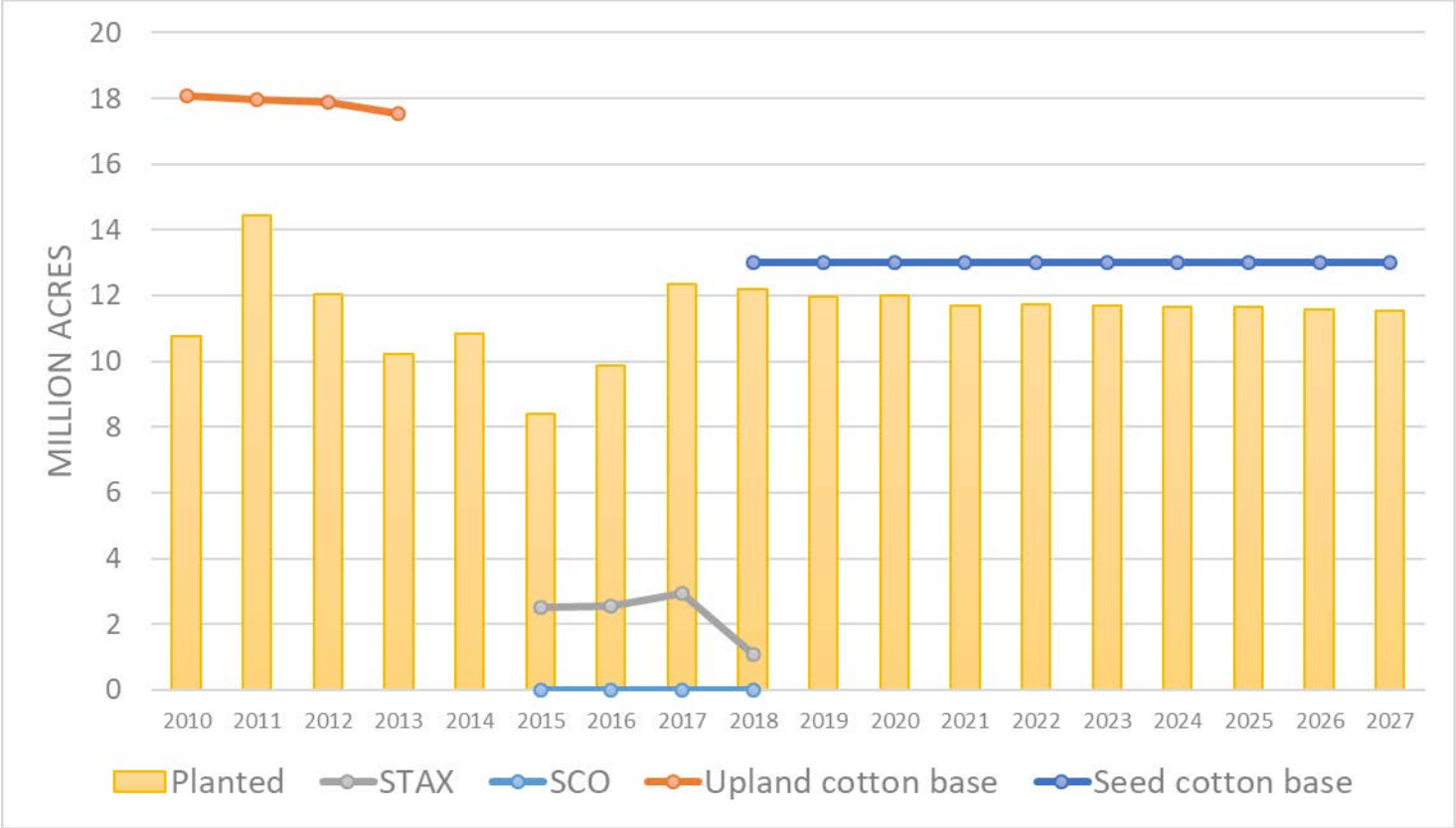


Net benefits to upland cotton

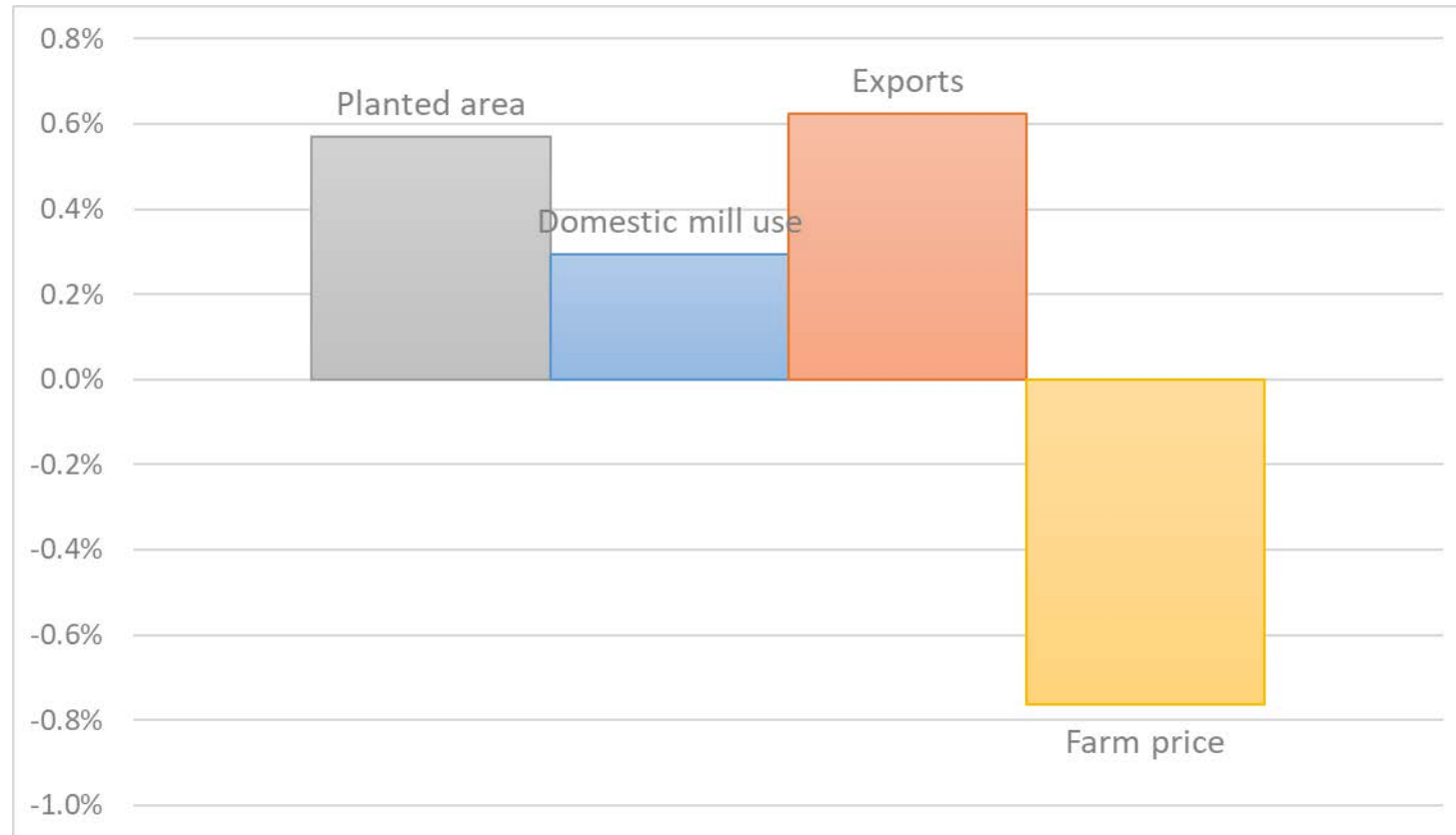


STAX is per participating acre, PLC and ARC are for seed cotton

Base has changed

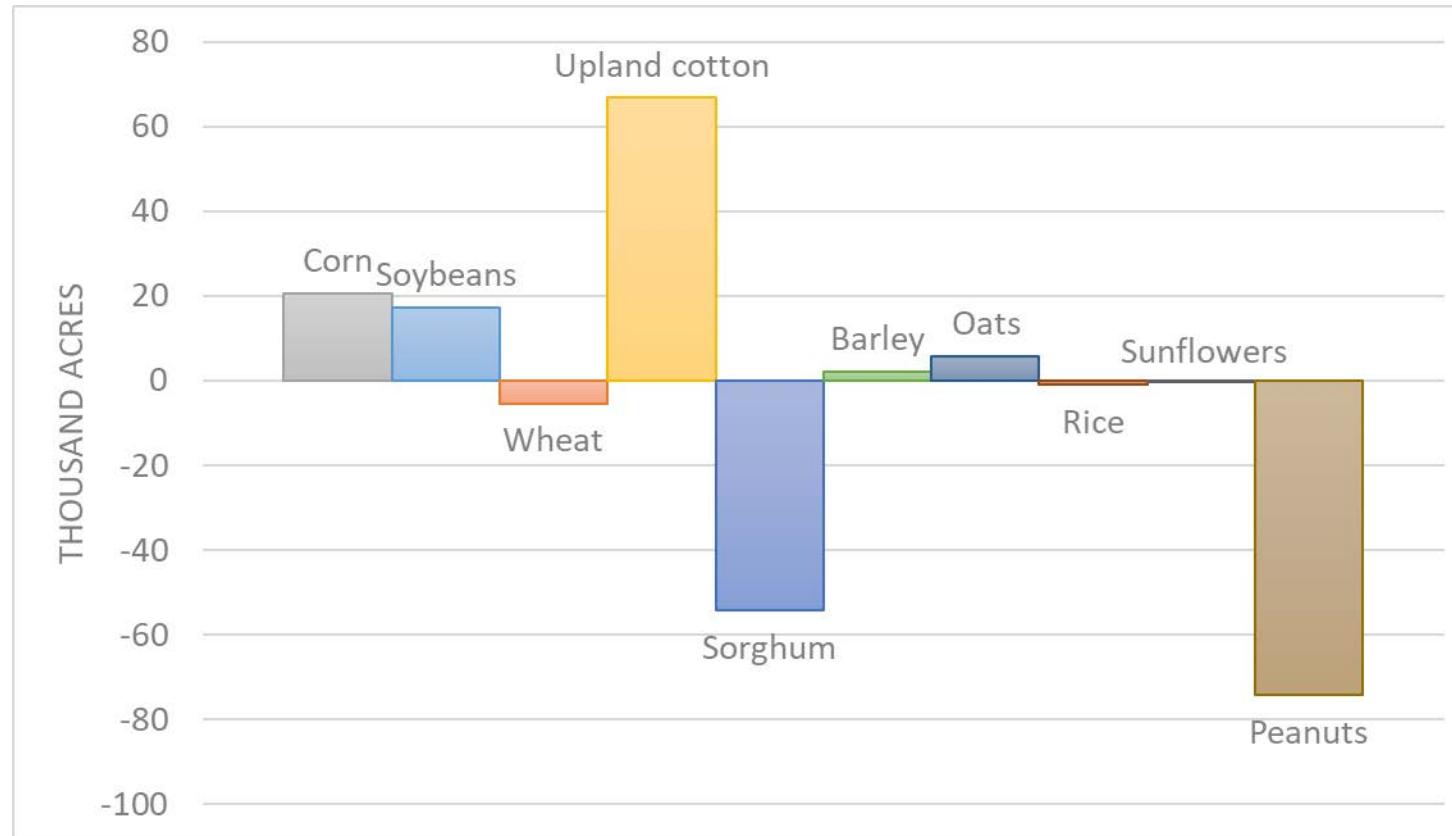


Cotton results



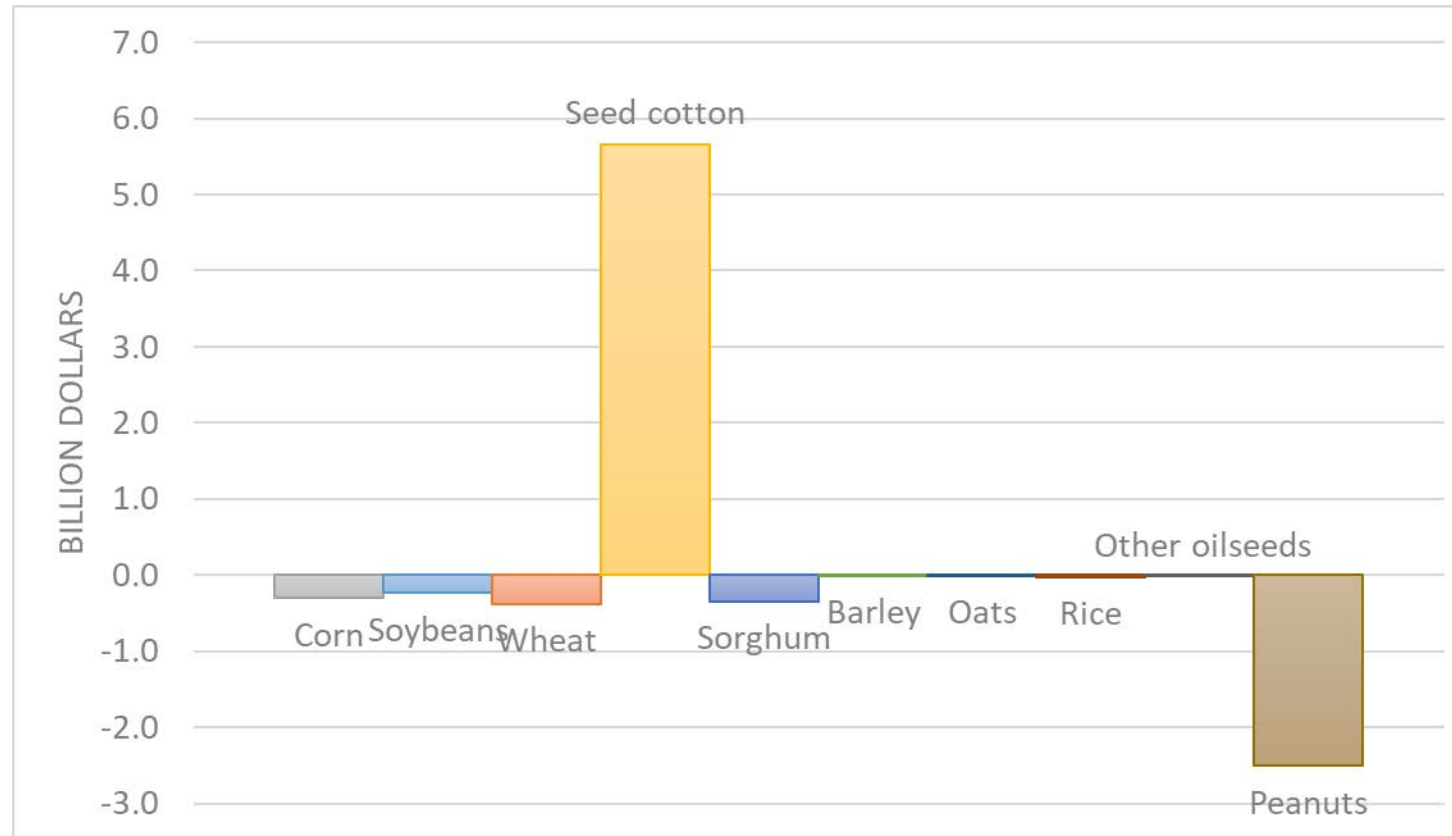
2018-2027 average

Changes in planted area



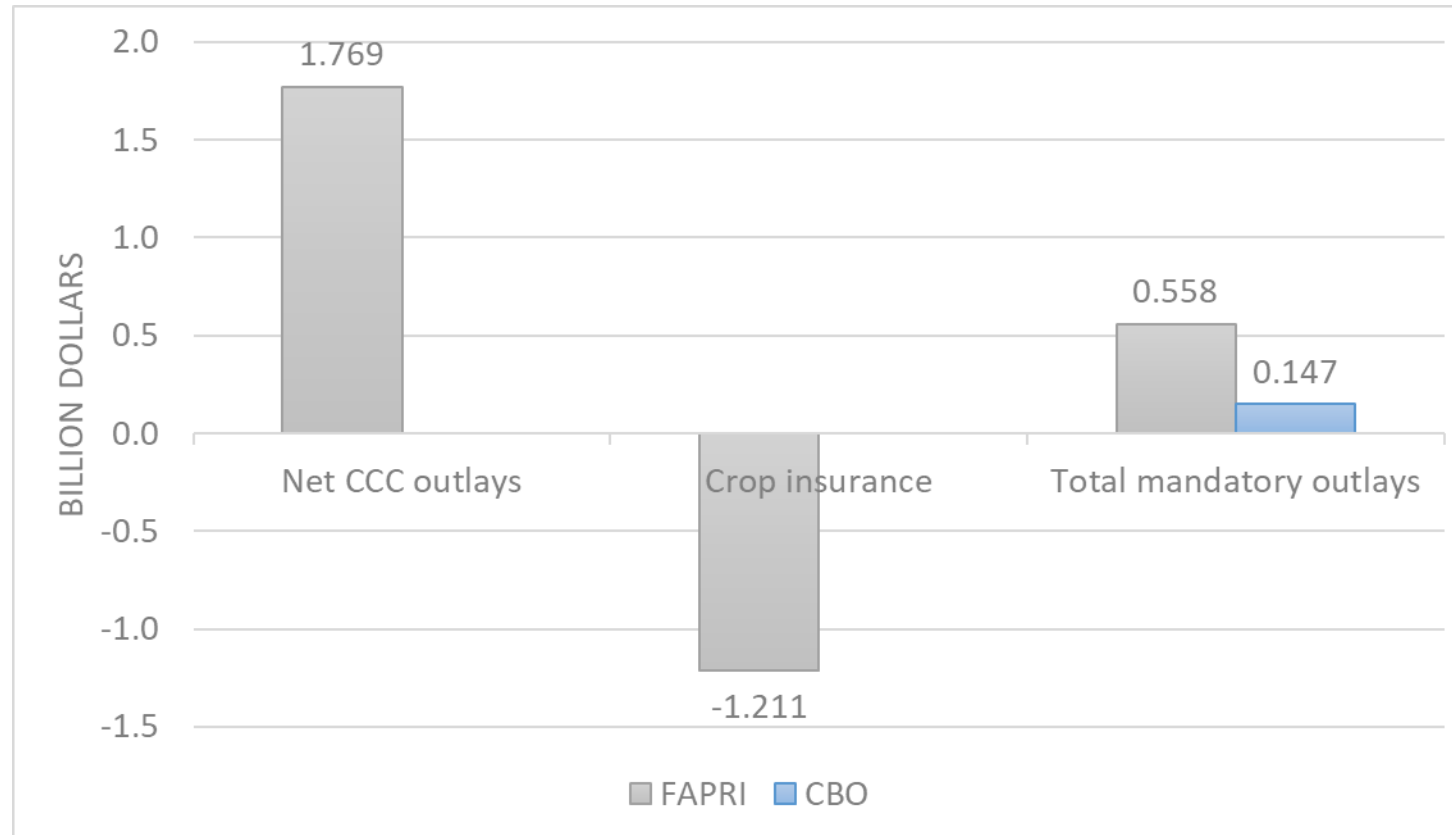
2018-2027 average

Change in mandatory outlays



2018-2027 totals, Title I only

Change in mandatory outlays



2018-2027 totals

Summary

- Minimal changes in upland cotton supply and use
- Less coupling of payments
- Peanut planted area falls
- Cotton receives more support than before, but less coupled
- Crop insurance costs fall

- Thanks!