The US Farm Bill: Implications for Cotton Producers

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
The 2014 U.S. Farm Bill: A Win for the WTO

UNCTAD
2015 Global Commodity Forum

13-14 April 2015

Terry Townsend
Cotton Analytics
U.S. Government Expenditures on Cotton

US$ Billion

1990 2000 2010

STAX
Cumulative Subsidies
00/01-09/10

$ Billions

USA  China  Greece  Spain  Turkey  Brazil  Others

45% of USA Farm Value
2014 Farm Bill

• Eliminated Direct Payments based on Area
• Eliminated Countercyclical Payments based on Target Prices
• Kept Marketing Loan

• Added Revenue Insurance (Price x Yield)
2014 Farm Bill

For Cotton:

• STAX: Stacked Income Protection Plan

Short-term revenue insurance

(yield x price)
USA Cotton Programs

Pre-2015

13¢

6¢

52¢ Loan Rate

Counter Cyclical & Direct Payments

45¢-52¢ Loan Rate

STAX

STAX
2014 Farm Bill

For Cotton:

STAX:

• Yields: county-wide averages
• Prices: ICE futures
• Farmers pay 20% of insurance premiums
• Within-Season Insurance Coverage Only!
  – (Price declines from one season to the next are not covered)
Example: Old Program*  
2015/16

Target Price $0.71
Farm Price (guess) $0.55
Direct Payment $0.06
Deficiency Payment $0.10
Total $0.17
Per Acre $136.00

*Simplified: base acres, program yields and other variables not considered
Example: STAX
2015/16

Proj. Price, ICE Futures Jan 2015 $0.63
5-Year Avg Yield for the County 800
Expected County Revenue $504
  90% $454
  70% $353
Max Indemnity $101
Premium $10
Max Net Benefit/Ac $91
Example: STAX 2015/16

<table>
<thead>
<tr>
<th>Percent</th>
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Harvest Price, ICE Futures Oct 2015 | $0.63
Actual County Yield                | 800
Actual County Revenue              | $504
Indemnity in County per acre minus | -$10
$10 premium                         |
U.S. Cotton Production,
Million Tons
Net Cost of Cotton Production

U.S. $/Kg of Lint

Argentina, Australia, Brazil, Cameroon, China, Ethiopia, Pakistan, Senegal, Sudan, Tanzania, Turkey, Uganda, United States, Zimbabwe
Nitrogen Use in Cotton Production, Kg/Ha

PAN-AFRICAN COTTON ROAD MAP
A continental strategy to strengthen regional cotton value chains for poverty reduction and food security