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FARM BUREAU® 2018 Farm Bill

September 30, 2016

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Should Cottonseed be Made Eligible to be a Covered Commodity?

BACKGROUND

In response to the elimination of direct payments and to Brazil's successful challenge of the U.S. cotton program at the World Trade Organization (WTO), the current cotton safety net is a county crop insurance program called the Stacked Income Protection Program (STAX) and marketing assistance loans. Payments can also be received from Agriculture Risk Coverage (ARC) or Price Loss Coverage (PLC) if a program crop is planted on former upland cotton base (generic base) and if that crop is eligible for a payment.

The STAX program for cotton producers is intended to complement existing risk management tools. STAX is a shallow-loss insurance product that provides coverage on a portion of expected revenue. STAX premiums are subsidized 80 percent. Low enrollment in STAX has left many cotton producers unprotected against recent shallow-loss declines in upland cotton and cottonseed prices.

STAX Enrollment Data for the 2015 Crop Year	
	2015 Commodity Year
Policies Sold	11,952
Policies Indemnified	2,508
Subsidy ($)	$74,583,191
Farmer Paid Premiums ($)	$18,434,132
Total Premiums ($)	$93,017,323
Indemnity ($)	$34,665,189

ISSUE

In December 2015, the National Cotton Council (NCC) requested that USDA designate cottonseed as an "other oilseed" in order for it to be deemed eligible for ARC and PLC payments. Supportive of this request, AFBF urged USDA to use its authority to act on the designation and to assist cotton producers without opening the Farm Bill. In early February 2016, USDA announced it did not believe it had the authority to approve NCC's request.

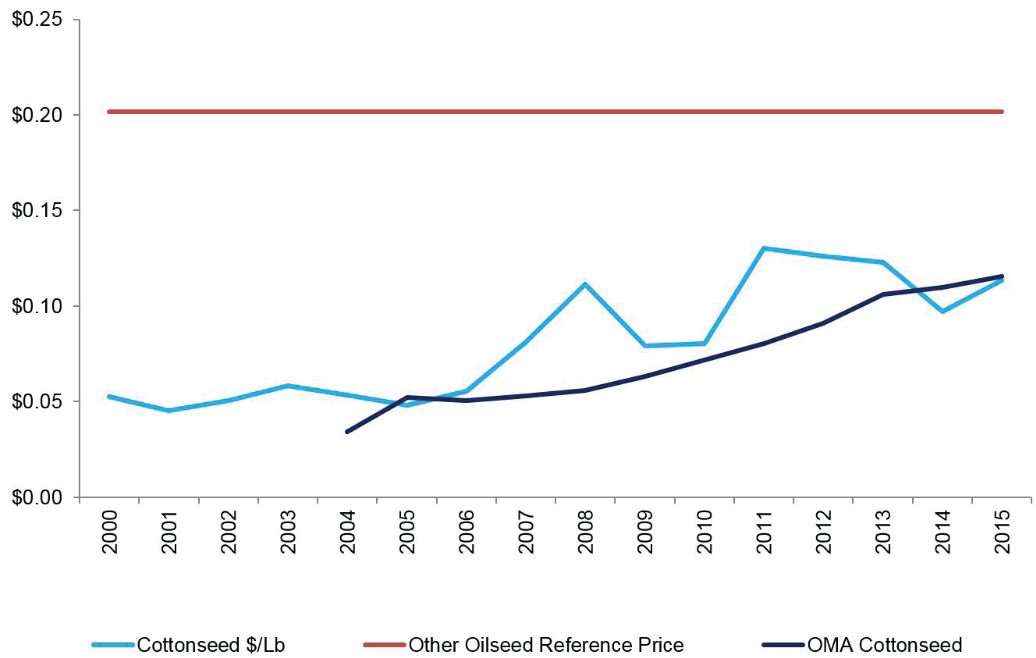
There has been hesitation in Congress to make such a designation because it would likely be viewed as "opening the Farm Bill." Instead of the designation, USDA attempted to help cotton producers by implementing a cotton ginning cost share program for 2016 providing approximately $300 million ($4,200 per farm) in assistance.

Cotton producers hope to have Congress make the "other oilseed" designation soon. Based on the 2014 and 2015 marketing year average cottonseed prices, if cottonseed had been eligible for other oilseed program payments, total PLC payments on cotton base acres would be approximately $1.2 billion for the 2014 marketing year and $975 million for the 2015 marketing year.

Some believe Congress is likely to reduce the amount that might be granted if and when such a designation is made. Over the last 10 years, the "other oilseeds" reference price has been approximately 216 percent higher than the cottonseed price. Making cottonseed an "other oilseed" without reflecting the historical price relationship could lead to large PLC cottonseed payments, so a modification to the cottonseed reference price may be needed to reduce total government outlays if cottonseed does become eligible as a covered commodity.

Efforts to tie cottonseed payments to generic acres would also result in cottonseed payments being tied to planting decisions. Such a scenario would change the incentives to plant on all the generic base acres and would contribute to farmers reallocating resources to plant based on expected program returns. Decoupling cottonseed program payments would allow cottonseed to become a covered commodity without altering planting decisions substantially.

Cottonseed price, Olympic Moving Average cottonseed price and other oilseed PLC reference price from 2000 to 2015



Excerpt from Secretary Vilsack's letter indicating he did not believe he had the authority to administratively designate cottonseed as an "other oilseed."

> *..."we determined that such a designation is not authorized under the 2014 Farm Bill. The reason is very clear: The Farm Bill expressly removed eligibility of cotton for such payments, as cotton is no longer listed as a "covered commodity." In other words, the Farm Bill intended to exclude cotton from ARC and PLC payments and USDA was provided with clear direction that it would not be included nor covered. Instead, at the request of the cotton industry, the Farm Bill created two new programs for cotton as an alternative to ARC and PLC: STAX, or the Stacked Income Protection Plan, and the Cotton Transition Assistance Program (CTAP). While STAX payments will be calculated and made early this coming summer, USDA has already disbursed more than $1 billion in crop insurance payments to cotton producers in 2014 and 2015. Since 2014, USDA has provided over $2 billion in safety net support and nearly $3.5 billion in credit. For example, Marketing Assistance Loans (MAL) and Loan Deficiency Payments continue to provide both a price support and credit function for producers: Over 7.9 million bales with a loan value of over $2.1 billion were covered by MALs in 2014 and over 4.3 million bales worth over $1.1 billion have already gone under loan in 2015. Although cotton is no longer a covered commodity, cotton producers received over $246 million in ARC and PLC payments related to other types of plantings on their farms this fall."*

Excerpt from an op-ed article by House Ag Committee Chairman Mike Conaway:

> *…"Cotton farmers in America are facing a crisis. Extreme drought, predatory trade practices by countries like China and India, and the lack of a viable safety net are threatening the livelihoods of thousands of American farm families. While the general farm economy is experiencing the largest three-year percentage decline in net farm income since the Great Depression, a whopping 56 percent, the cotton industry is facing an existential threat.*

The Secretary argues that Congress removed cotton from Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) in the 2014 Farm Bill and, thus, his hands are tied. Here's what Congress actually did in the 2014 Farm Bill: As a result of a WTO settlement with Brazil, Congress effectively removed cotton lint from ARC and PLC. Cottonseed has not historically been a covered commodity, and Congress never discussed adding cottonseed to the list of covered commodities. Rather, Congress left intact the Secretary's authority to designate any oilseed as an "other oilseed."

The Secretary has also argued he cannot designate cottonseed as an oilseed because the provision is reserved for "emerging oilseeds." That is also not the case. The Farm Bill defines an oilseed as "a crop of sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed, or any other oilseed designated by the Secretary" (emphasis added). The Farm Bill does not restrict this authority to "emerging oilseeds." The Secretary imposes this limitation on himself.

The Secretary further claims he cannot designate cottonseed as an oilseed because USDA already made a decision to make cottonseed eligible for STAX instead. While USDA may have accommodated the industry's request, that does not change the fact that the law says nothing about cottonseed being eligible for STAX.

The second solution regarding ginning cost share is temporary in nature and, I am afraid, much more a band-aid than a cure. While the Secretary has the authority to deliver that assistance now, it would not stop the bleeding and barely cover the wound."

From an article in Politico:

"An Embassy of Brazil official told Morning Agriculture that if the USDA carried out the U.S. cotton industry's request to be eligible for certain commodity support programs, it would "in principle" violate the terms of a memorandum of understanding between two countries that settled a 12-year trade dispute over U.S. cotton subsidies. The U.S. committed to keep the 2014 Farm Bill provisions on cotton intact, which eliminated many subsidy programs to satisfy Brazil. In return, Brazil agreed to not bring new actions for the duration of the five-year farm law.

But at this stage, no final decisions have been made in the U.S. so Brazil can't analyze any impact on the world cotton market or consider actions, the embassy official said. Developments are just being closely monitored. Should the USDA offer more assistance to cotton growers, Brazil would assess the financial impact, whether it harms its industry and to what extent. And no matter the result, another case at the World Trade Organization would be the last resort, the official said."

OPTION #1

Should cottonseed be defined as an "other oilseed" within the Title 1 commodity program?

OPTION #2

If cottonseed is defined as an "other oilseed", should it receive the same support price as all the other designated oilseeds or a reference price for PLC that reflects the long-term cottonseed price?

OPTION #3

If cottonseed is defined as an "other oilseed", should it receive the same support price as all the other designated oilseeds or a reference price for PLC that reflects the long-term relationship between cottonseed and the price of other oilseeds?

OPTION #4

Should the cottonseed yield be calculated for each individual producer (as for other PLC programs) and on a county basis for the ARC-CO program?

OPTION #5

Should eligibility for ARC-CO or PLC cottonseed oil program payments be coupled to current plantings or should cottonseed oil be decoupled from future plantings with generic base converted to an "other oilseed" base?