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Cotton

Background for 1995 Farm Legislation

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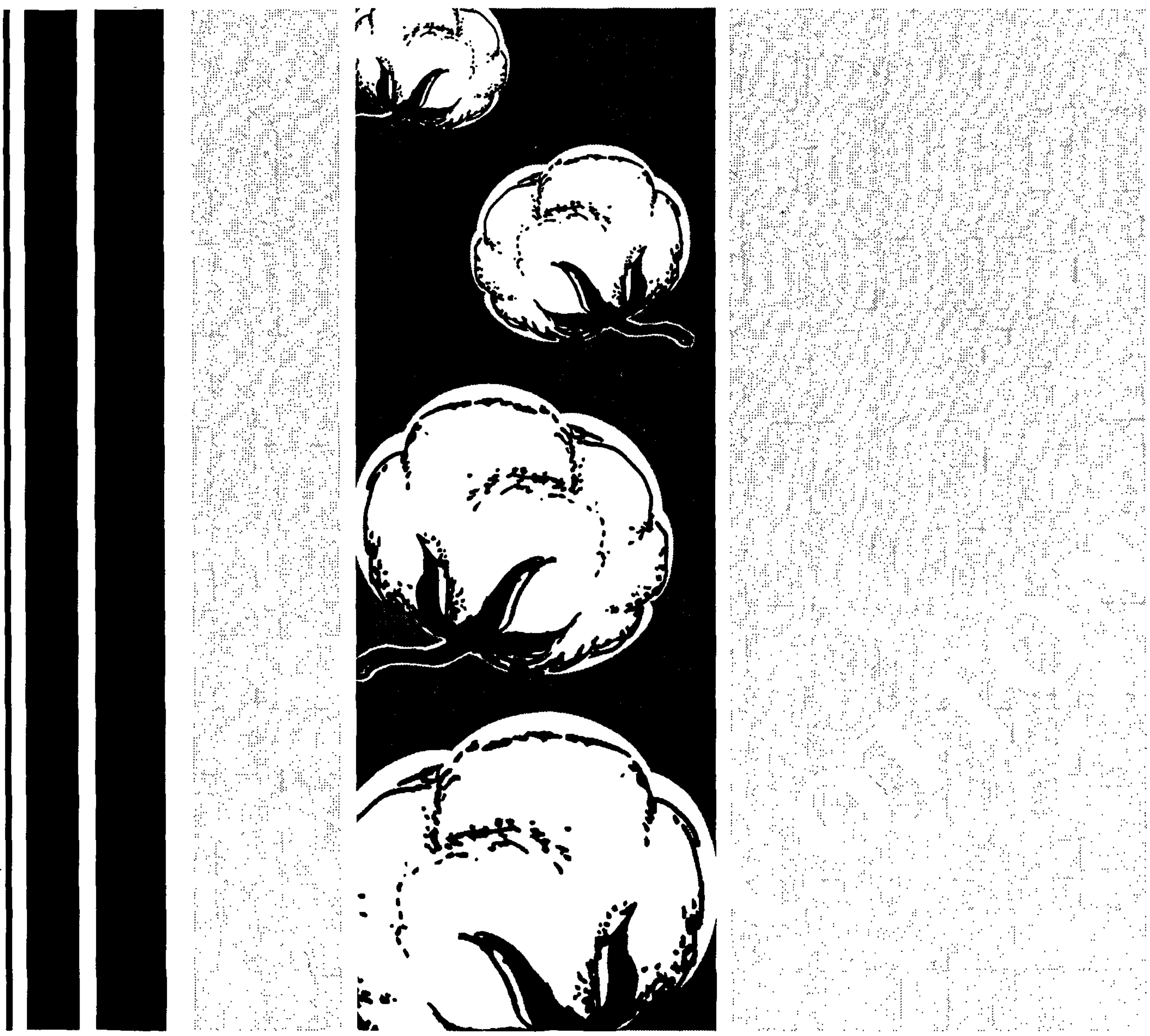

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Cotton: Background for 1995 Farm Legislation. By Edward H. Glade, Jr., Leslie A. Meyer, and Stephen MacDonald. Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 706.

Abstract

The Food Security Act of 1985, and subsequent cotton marketing loan modifications, are analyzed, as they formed the basic provisions of the Food, Agriculture, Conservation, and Trade Act of 1990. Cotton provisions of the 1990 Act attempted to ensure that cotton remained competitive in domestic and world markets. Program performance is discussed, including the effects on producers, consumers, and taxpayers. Important issues and policy options to be addressed during the 1995 farm bill debates are presented. Background information is also provided on the characteristics of the U.S. cotton industry including current trends in production, consumption, and foreign trade. Financial aspects of the cotton sector including prices, costs, and producer returns give additional perspective and understanding to the report.

Keywords: cotton, farm programs, costs and returns, production and consumption, policy, program benefits.

Foreword

Congress will soon consider new farm legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates *Cotton: Background for 1990 Farm Legislation* (AGES 89-42), by Harold Stults, Edward H. Glade, Jr., Scott Sanford, and Leslie A. Meyer. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characterisitics of the commodities and the industries that produce them.

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Summary

The current government program for cotton has worked well in encouraging production and consumption and stabilizing farm income, but at a relatively high cost to the taxpayers. Direct government payments to producers totaled only $260 million in 1994/95, a boom year for cotton, but averaged about $1.1 billion annually during 1986-93. Direct payments accounted for 21 percent of cotton gross farm income during the 1986-93 period. Gains from marketing loans are not included in direct payments.

Of major concern during the farm legislation debate this year will be budget considerations and how to most effectively target programs with declining appropriations. Conservation and environmental requirements also will most likely be incorporated into the legislation. The anticipated benefits of the North American Free Trade Agreement (NAFTA) and the Uruguay Round agreement of the General Agreement on Tariffs and Trade (GATT) on the U.S. cotton sector likewise will affect policy proposals.

The U.S. cotton economy is highly dependent on both domestic and foreign policies and programs, many of which are beyond the control of U.S. producers.

The cotton provisions of the 1990 Farm Act were designed to keep U.S. cotton competitive in world and domestic markets, and to maintain a better balance between production and total use by giving producers more flexibility to respond to market prices. The 1985 Farm Act originated most of the guiding principles and provisions of the current cotton program. The marketing loan program, introduced in the 1985 act, and the competitive adjustment procedures to make the marketing loan more effective, have supported the significant turnaround in the overall health of the U.S. cotton economy.

Cotton production and offtake (mill use and exports) have increased sharply. Since 1980, total cotton production has varied from a low of 7.8 million bales in 1983 to a record of about 19.5 million bales in 1994. Since 1991/92, annual cotton production has exceeded 15 million bales, the most in over 40 years. Total offtake has exceeded 15 million bales, representing a growth of over 50 percent in market demand. Also, large carryover stocks of cotton have been eliminated, and the specified carryover target has not been surpassed since 1988/89.

Cotton acreage has fluctuated since the early 1980's as acreage reduction programs were used to help balance supplies from year to year. Yields also have varied, but have trended upward during this period.

Although government programs and prices of cotton and competing crops have influenced acreage, weather impact on yield has been the primary determinant of the variability in cotton output. The westward movement of cotton production has ceased, and production is shifting back toward the Delta and Southeast.

Also, the long-term decline in domestic demand for cotton has been reversed. U.S. mill use totaled 5.2 million bales in 1981, but rose steadily to 10.4 million bales in 1993/94 (August-July). Use in 1994/95 is projected to increase further, perhaps exceeding 11.0 million bales. Competitive cotton prices and strong growth in consumer demand for cotton products are responsible for cotton's comeback.

World cotton trade patterns have changed in recent years as the volume of world raw cotton exports stabilized. Many traditional importing countries have been increasing purchases of value-added products (yarn, fabric, and apparel) because their competitive advantage lies in other products. The United States remains the world's largest cotton exporter, accounting for 20-30 percent of world trade since 1986.

U.S. imports of cotton textiles continue to make substantial inroads in the total domestic market for cotton. Growing from 1.7 million bale equivalents in 1980 to an annual record of 7.9 million in 1994, textile imports represent 48 percent of domestic cotton use.

U.S. textile exports have also risen rapidly, especially during the past 6 years. In 1988, cotton textile exports totaled 688,000 bale equivalents, but by 1994 reached a record high of 2.3 million bale equivalents. Nevertheless, the U.S. cotton textile trade deficit continues to climb.