



Reviewing Cottonseed Provisions in the Senate Agriculture Appropriations Bill

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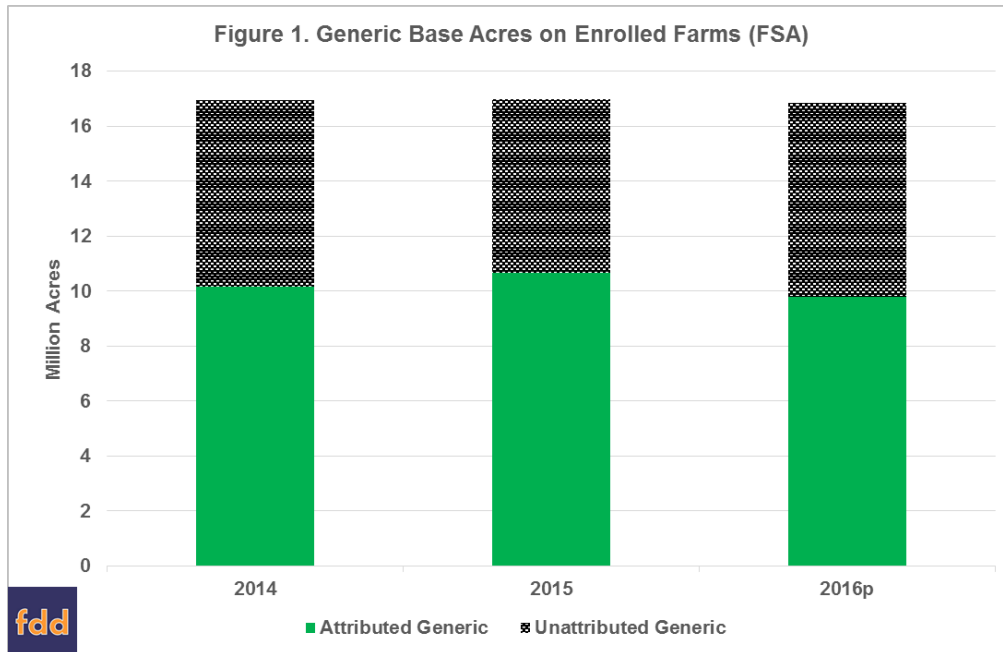
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As the farm bill debate continues to pick up speed, cotton remains one of the most prominent issues. The most recent development can be found in the Senate Agriculture Appropriations bill ([S.1603](#)), which contains a provision directing the Secretary of Agriculture to designate cottonseed as a covered commodity. Doing so would make cottonseed eligible for farm program payments beginning with the 2018 crop year. This article reviews the provisions for cottonseed. The appropriations bill also contains changes to the dairy program which will be discussed in a future article.

Background

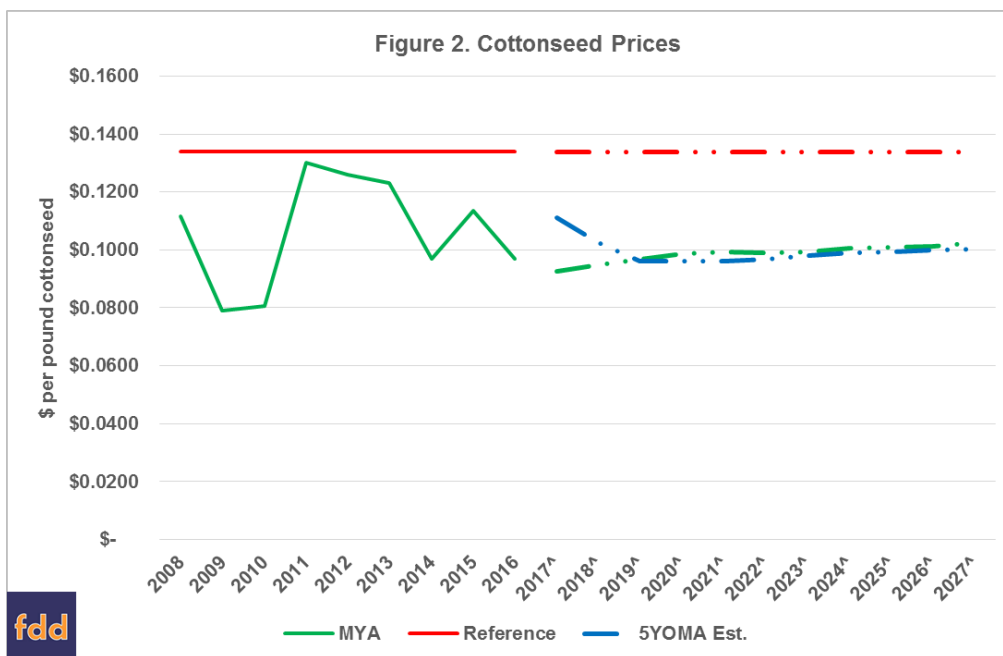
The Agricultural Act of 2014 removed upland cotton from the list of commodities covered by Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) payment programs; change was necessitated by the loss before the World Trade Organization in a dispute with Brazil. Former upland cotton base was converted to "generic base" acres and Congress provided that generic base acres planted to a covered commodity would be attributed to that covered commodity and receive ARC or PLC payments for that commodity (see, *farmdoc daily*, [April 13, 2017](#)). As recently by the Farm Service Agency (FSA), there are 17.6 million generic base acres; roughly 60 percent of the generic base acres were attributed to other commodities in the 2014, 2015 and 2016 crop years (Figure 1).

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Cottonseed in the Ag Appropriations Bill

The Senate Ag Appropriations Bill contains a provision that directs the Secretary to add cottonseed to the list of covered commodities for purposes of ARC and PLC. It establishes a \$15.00 per hundredweight reference price, which is \$0.1339 per pound and provides for an \$8.00 per hundredweight loan rate (\$0.0714 per pound). Data from USDA's National Agricultural Statistics Service (NASS) indicates that the average price for cottonseed from 2008 to 2016 was \$0.1064 per pound, ranging from \$0.0790 per pound in 2009 to a high of \$0.1300 per pound in 2011 (NASS, [Quick Stats](#)). The Congressional Budget Office (CBO) June 2017 Baseline forecast for cottonseed marketing year average (MYA) prices for the 2018 to 2027 crop years equal an average of \$0.0993 per pound (CBO, [June 2017](#)). Figure 2 compares the proposed cottonseed reference price to NASS historic prices and CBO forecast prices. It also compares the reference price to estimated 5-year Olympic Moving Average (5YOMA) prices used in ARC-CO.

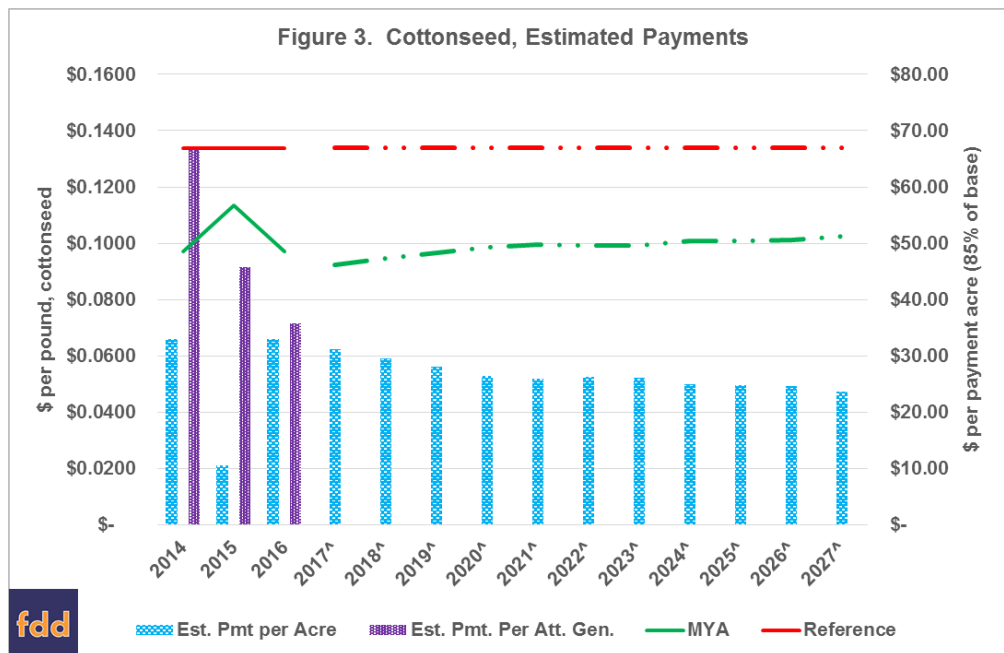


The appropriations bill provides for a payment yield of 1.4 times the payment yield for upland cotton under the 2008 Farm Bill. The May 2013 CBO Baseline used a 632 pound per acre average upland cotton payment yield, which would result in 884.8 average for cottonseed (CBO, [May 2013](#)). For PLC, the

difference between the reference price and the marketing year average price equals the payment rate, which is multiplied by the payment yield for the payment. Payments are made on 85 percent of the base acres for the commodity.

The appropriations bill also provides for the creation of cottonseed base acres, calculated as the greater of: (a) 80 percent of the generic base acres on the farm; or (b) the average cottonseed acres planted during the 2009 to 2012 crop years, but not to exceed generic base acres on the farm. NASS data indicates average acres planted to upland cotton from 2009 to 2012 at 11.558 million acres. Comparatively, 80 percent of the 17.6 million generic base acres would equal 14.08 million acres. It is difficult at this point to arrive at an accurate estimate for cottonseed base but it is unlikely to fall below 14.08 million acres and could be higher. Past experience would indicate that those farms that could add cottonseed acres based on 2009 to 2012 plantings would do so while those that would lose acres would take 80 percent of the generic base. Finally, all remaining generic base acres would be considered “unassigned” base for which records are to be maintained but no payments made, which effectively terminates the generic base acre system.

Figure 3 illustrates expected payments for cottonseed using the reference price in the appropriations bill, MYA prices (NASS and CBO) and the estimated average payment yield of 884.8 per acre. The payments are factored by 85 percent to represent the total base acres that can receive payments. Figure 3 indicates that had the cottonseed provisions been included in the 2014 Farm Bill, payments would have been expected for 2014 through 2017 crops. FSA and CBO data on acres and payments for attributed generic base acres are used to estimate the payment comparison for the 2014 through 2017 crops (FSA, [ARC/PLC Program](#); CBO, June 2017 Baseline). It also provides a preliminary estimate for potential payments going forward under CBO price assumptions (see, *farmdoc daily*, [July 14, 2017](#) and [May 11, 2017](#)).



Preliminary Perspective on the Cottonseed Provision

Revising mandatory farm programs in an appropriations process is unusual. Generally, House and Senate rules prohibit legislation on appropriations bills (Saturno, Heniff and Lynch, 2016). There are considerable unknowns about the appropriations process at this time, including whether this provision will make it into law.

WTO implications could add complications as well. The final October 2014 settlement between the U.S. and Brazil included a temporary Peace Clause with respect to any new WTO actions while the 2014 Farm Bill was in operation. The Peace Clause applies to “any current domestic support program or policy specific to upland cotton” as well as “payments under any such program or policy, or support to upland cotton producers under any other domestic support program under current agricultural domestic support policies . . . until September 30, 2018” (USTR, [Memorandum of Understanding Related to the Cotton](#)

Dispute (WT/DS267); Schnepf, 2014). It is uncertain how Brazil would react if cottonseed is added as a covered commodity. Notably, the appropriations language applies to the 2018 crop year with payments in October of 2018, which would appear to place them outside the Peace Clause. Further analysis is needed to assess the potential WTO implications.

From the perspective of the 2018 Farm Bill, adding cottonseed in the appropriations process might alleviate some of the baseline challenges but it depends on how CBO scores the provision. Generally, CBO estimates the baseline using the provisions of the statute as they exist in the final year of program operation, projecting out 10 years into the future. The cottonseed revision changes the underlying statute and would apply to the 2018 crop year. Presumably, this would add baseline to the farm bill for cottonseed but eliminating generic base acres could limit how much is added.

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