Upland Cotton Farm Policy Proposal

National Conference on the 2012 Farm Bill
November 7-8, 2011
Fargo, ND
Addressing the Challenges

• Sound farm policy is essential to the economic viability of the cotton industry

• ‘08 program structure has served the industry well

• Looking ahead, industry faced the challenge of designing the most effective safety net while addressing
  1. Reduced budget resources
  2. Brazil WTO dispute
Budget Pressures

• Deficit reduction will reduce the funds available for the next farm legislation

• Concerns that simply downsizing the current program structure would not provide the most effective safety net for upland cotton

• Design an alternative that would use remaining upland cotton baseline funds for DPs, CCPs & ACRE
CBO’s Upland Cotton Baseline

FY13-21 Average

- Other Net Loan
- MLG/LDP
- ACRE
- CCP
- DP

Million $

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<thead>
<tr>
<th>Year</th>
<th>Other Net Loan</th>
<th>MLG/LDP</th>
<th>ACRE</th>
<th>CCP</th>
<th>DP</th>
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<tbody>
<tr>
<td>Mar '11 Baseline</td>
<td>590</td>
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<td>Mar '11 w/Assumed Deficit Red.</td>
<td>416</td>
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• Cotton’s unique challenge is the longstanding dispute with Brazil

• In ’02, Brazil challenged essentially all elements of the upland cotton program as well as the export credit guarantee programs across all crops
Brazil WTO Case

• In ‘05, the WTO panel found against portions of the program
  1. Significant price suppression for marketing loan, CCP and Step 2
  2. Step 2 and export credit guarantees are prohibited export subsidies

• The panel concluded that DPs and insurance did not cause significant price suppression
Brazil Framework Agreement

• Signed in ‘10, Brazil delays retaliation through development of the ‘12 farm bill

• Goal is to find mutually agreed solution as part of the farm bill

• Panel findings call for changes to the target price/CCP and marketing loan
Stacked Income Protection Plan

• Similar to a GRIP-type program; Available at county level, county groupings or CRD; Designed to cover shallow losses.

• Program is designed to complement current individual crop insurance purchase decisions; no changes are proposed for current crop insurance products
Stacked Income Protection Plan

Some deductible remains

Better protection is needed for shallow losses

This is STAX

Current products offer opportunities to cover deep losses
Stacked Income Protection Plan

• Program is designed to address shallow losses in revenue on an area-wide basis, in most cases that would be at the county-level

• A **REFERENCE INCOME** for the county is established using current crop insurance price elections and expected county yields
  
  o Relative to GRIP, a proposed change would be the inclusion of a **REFERENCE PRICE**
Stacked Income Protection Plan

• REALIZED INCOME for the county is determined based on the crop insurance harvest price and the actual county yield.

• If REALIZED INCOME is below a defined percentage of the REFERENCE INCOME, then an INDEMNITY to all program participants in the county is triggered.
Key Assumptions

• Budget pressures can determine levels of key variables
  1. Reference price of $0.65 per pound
  2. Coverage can be selected for losses starting at 5% and extending to 30%
     a. Exact levels of coverage selected by the producer
  3. Producer pays percent of premium similar to existing enterprise unit policies
Marketing Loan
Brazil’s Primary Argument
AWP consistently below LR

Chart 2: Difference between loan rate and AWP
Changes to Marketing Loan

• Allow level of LR to change based on historical AWP
  
  o Set LR equal to 2-Yr moving average of AWP with limits
    • Maximum LR = $0.52
    • Minimum LR = $0.47

• All other features of marketing loan remain unchanged from current law