



2008 Farm Bill

Education and Implications for Georgia

Special Cotton Provisions

Don Shurley
Department of Agricultural and Applied Economics
The University of Georgia

AGECON-FB-08-05

July 2008

The **Food, Conservation, and Energy Act of 2008** (the 2008 Farm Bill) contains several provisions which address issues related specifically to upland cotton. These provisions are intended to reduce cost and/or improve the efficiency and competitiveness of US cotton and the cotton program.

Loan Premiums and Discounts

The national average Loan Rate for cotton will be unchanged at 52 cents per pound. This “base” Loan Rate is established for Color 41-Leaf 4/Staple 34 cotton. US base grade is unchanged. Loan premiums and discounts or “differences” are established for fiber quality higher or lower than the base of 41-4/34.

Several changes are made, however, in location and fiber quality differences.

- In Georgia, for example, the base Loan Rate in 2007 varied from 52.7 to 53.3 cents per pound depending on the county (location) of the warehouse where the cotton is stored. This difference in Loan Rate is referred to as “warehouse location differentials”. The 2008 Farm Bill eliminates warehouse differentials. The base Loan Rate, for 41-4/34, will now be 52 cents per pound regardless of state and county.
- The new farm bill also eliminates any difference in Loan premiums and discounts for micronaire based on Staple length. For 2007, for example, the discount for high mike of 5.1 was 260 points (2.6 cents/lb) if the cotton was Staple 33 or longer but 235 points if Staple 32 and shorter. The '08 farm bill eliminates such micronaire differences due to Staple length.
- Loan premiums and discounts are associated with the “bundle” or combination of Color, Leaf, and Staple. The 2008 Farm Bill makes adjustments in premiums associated with this “bundle”. Prior to 2008, Loan premiums and discounts were associated with 6 Leaf grade categories-- 1 and 2, 3, 4, 5, 6, and 7 *regardless of Color*. Beginning with the 2008 crop, however, there will be no premium for a Leaf grade more than 1 grade better than the Color grade. For example, the Leaf grade categories for Colors 41, 42, etc. will be 1-3, 4, 5, 6, and 7. For a “4” Color, for example, there will no longer be a Loan premium for Leaf grades 1 and 2.
- Loan premiums and discounts for fiber quality will be the average of the cash market differences paid for the previous 3 marketing years (actually 31 months—Aug-Feb of the previous/most recent crop year and Aug-July of the prior 2 years), weighted by production in each of the 4 cotton-producing regions. The previous calculation was the simple average of the cash differences for the previous 19 months (Aug-Feb of the previous/most recent crop year and Aug-July of the prior year).

Loan Repayment Rate

In addition to the Loan Rate, there is a Loan Repayment Rate. The Commodity Credit Corporation (CCC) allows the Loan to be repaid at the Repayment Rate if the Repayment Rate is less than the Loan Rate. This difference is what is referred to as a Loan Deficiency Payment (LDP) or Marketing Loan Gain.

For cotton, the Loan Repayment Rate is the AWP (Adjusted World Price). The AWP is determined from the A-Index which is referred to as the world price for cotton. The AWP is the prevailing world price for cotton adjusted for US base quality and location.

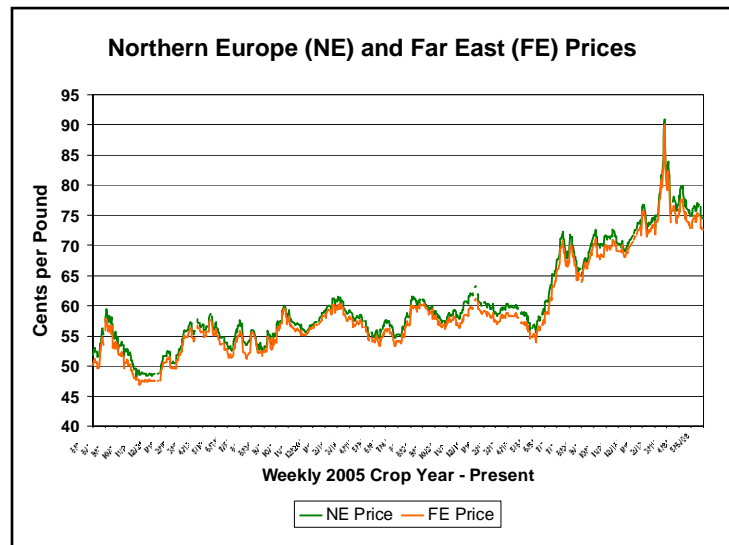
For 2007 and preceding years, the A-Index has been a northern Europe (NE) price—the weekly average price of the 5 cheapest (lowest price quotes) for 31-3/35 cotton delivered c.i.f. (including cost, insurance, and freight) to northern Europe.

The textile industry and cotton trade is now concentrated in countries such as China, Indonesia, Thailand, and Philippines. The majority of US cotton is now exported and much of it to these countries, especially China. Effective with the 2008 cotton crop, the A-Index or world price will now be a Far East (FE) quote.

The AWP is the A-Index, minus a price differential for US base quality, minus transportation costs. An LDP or Loan Gain is the Loan Rate minus AWP, if the AWP is less than the Loan Rate.

An increase in the A-Index increases the AWP and reduces the LDP/Loan Gain. A decrease in the A-Index reduces the AWP and increases the LDP/Loan Gain. The FE price has averaged about 1 cent/lb less than the NE price. This would increase the LDP.

Transportation costs are estimated to be 2 cents/lb less to FE than NE. This would raise the AWP and thus lower the LDP. Under the new farm bill, however, full transportation cost must be used when calculating the AWP (previously this was capped at 85% of cost). This may offset the impact of lower cost to FE-- i.e. 85% of NE and 100% of FE could be about the same. Therefore, the net impact of moving to an FE price could be minimal or even result in slightly higher LDP.



Storage Cost

When cotton is stored under Loan and the AWP is less than the Loan Rate, the Loan is repaid at the AWP. CCC interest is forgiven and warehouse storage charges are paid fully by CCC. For the 2008 through 2011 crops, however, payment of storage charges will be capped at 90% of the 2006 level. For the 2012 crop, payment is capped at 80%. This should have no impact on LDP (taken in lieu of placing cotton in Loan storage) but could reduce merchant equity offered for cotton in Loan.

Economic Adjustment Assistance

The US textile industry has declined over the past 10-15 years. More US cotton is now exported to foreign mills than the highest amounts ever used by US mills. Under the 2008 Farm Bill, US mills will receive payment for upland cotton utilized. For the 2008 through 2011 crop years beginning August 1, 2008 the payment will be 4 cents per pound of lint. For the 2012 crop year beginning August 1, 2012 the payment will be 3 cents per pound. This payment is required to be used to acquire, construct, install, modernize, develop, convert, or expand land, plant and buildings, facilities, machinery and equipment.

The University of Georgia College of Agricultural and Environmental Sciences, Fort Valley State University, US Department of Agriculture, and counties of the state cooperating. The University of Georgia College of Agricultural and Environmental Sciences Cooperative Extension Service offers educational programs, assistance and materials to all people without regard to race, color, national origin, age, gender, or disability.

An equal opportunity / affirmative action organization committed to a diverse work force.

Issued in furtherance of Cooperative Extension Acts of May 8 and June 30, 1914, the University of Georgia College of Agricultural and Environmental Sciences and US Department of Agriculture cooperating.

J. Scott Angle, Dean and Director
Beverly Sparks, Associate Dean for Extension