ANALYZING THE POTENTIAL IMPACT OF COTTON OILSEED SUBSIDIES ON THE TEXAS SOUTHERN HIGH PLAINS

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Abstract

Agricultural producers often face both financial and production challenges. Falling prices combined with rising input costs and volatile weather patterns have resulted in substantial losses for many operations. According to a new study from CoBank, 2016 farm incomes declined for a third consecutive year, leading to rising debt levels and difficulty obtaining operating capital. While most growers experience economic hardships, cotton producers may be particularly susceptible to falling prices. This situation is due in part to unfavorable farm policy provisions.

The Agricultural Act of 2014 made substantial legislative changes, most notably eliminating Direct Payments in favor of Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. Under ARC, payments are issued for a covered commodity when individual or county crop revenues fall below an established guarantee. PLC offers payments when the marketing year average price of a covered commodity is less than an established reference price. Both programs compensate primarily on historical base acres and are designed to provide income support during times of weak market conditions.

While many farmers benefit under these new policies, cotton producers typically do not. Due in part to a World Trade Organization dispute, cotton was not listed as a covered commodity in the Agricultural Act of 2014 and is therefore ineligible to receive PLC or ARC payments. In response to this issue, cotton industry representatives advocate designating cottonseed as an "other oilseed" similar to soybeans and canola, thus allowing inclusion in the Farm Bill. This study analyzes the financial impact of cottonseed becoming a covered commodity and participating in the Price Loss Coverage program. A case study is conducted on five Texas Southern High Plains operations with 24 FSA farms and 3,740 acres of generic base that could potentially be eligible for cotton seed payments.

This study uses Texas A&M AgriLife Extension Service's FARM Assistance financial analysis program to simulate two possible scenarios. The first projects government support outlined under the Agricultural Act of 2014, continued through 2021. A second simulates cottonseed program eligibility in the PLC program beginning with a potential payment in the fall of 2017. This scenario assumes a direct conversion of generic acres to oilseed acres, with a lint to seed calculation factor of 1.3 and a PLC reference price of $20.15/cwt.

Results indicate that the implementation of a cottonseed PLC program would be beneficial to all operations analyzed. Farms that exhibited a larger percentage of generic base acres in relation to total base acres and planted mostly cotton from 2017-2021 showed the most significant change in overall profitability and liquidity. In contrast, operations that had a lower percentage of generic base acres and planted a more diversified cropping mix (allowing complete allocation of generic acres to other crops) showed a less significant advantage.