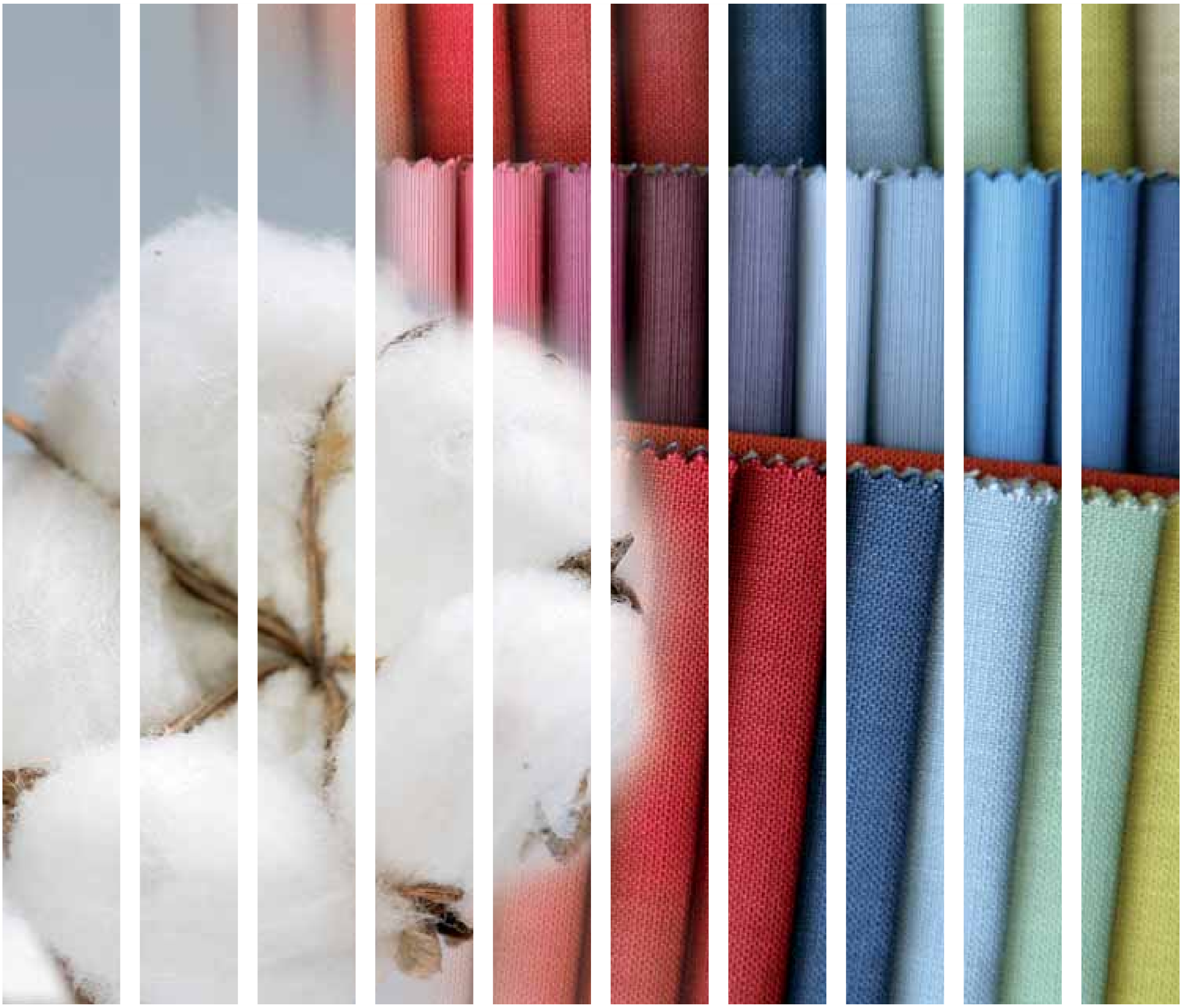
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

THE 2014 US FARM BILL AND ITS IMPLICATIONS FOR COTTON PRODUCERS IN LOW-INCOME DEVELOPING COUNTRIES



UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United States Farm Bill of 2014 and its Implications for Cotton Producers in Low-income Developing Countries*

*The official name of this bill is the United States Agricultural Act of 2014.

UNITED NATIONS
New York and Geneva, 2014

NOTE

Acknowledgements

This report was commissioned by UNCTAD's Special Unit on Commodities. It was written by Dr. Terry Townsend, an independent consultant and a former Executive Director of the International Cotton Advisory Committee (ICAC). It was prepared under the general direction and supervision of Samuel Gayi, Head, Special Unit on Commodities, UNCTAD. Comments on an earlier draft were provided by the following persons from the Special Unit on Commodities, UNCTAD: Janvier Nkurunziza, Chief, Commodity Research and Analysis Section, and Kris Terauds and Yan Zhang, Economic Affairs Officers.

Disclaimer

UNCTAD/SUC/2014/3

Table of contents

The United States Farm Bill of 2014 and its Implications for Cotton Producers in Low-income Developing Countries*

*The official name of this bill is the United States Agricultural Act of 2014

Introduction

Cotton is produced on a commercial scale by about 45 million households in about 80 countries, and provides annual incomes to an estimated 250 million people. For many households, cotton is the sole source of cash income and provides finance for inputs for food production, while also being used as a rotation crop. Because cotton is a storable commodity, and because it can be grown in arid regions, it connects people in interior locations within countries and continents to markets, thus serving as an engine of economic growth.

Accordingly, cotton has always been a commodity of interest to policymakers. From the invention of the cotton gin in the 1790s to the present, the United States has always played a leading role in the world cotton industry because of trade relations with the United Kingdom, the major textile producer from the 1700s to the 1950s, and favourable agronomic conditions. With the exception of disruptions caused by war or extraordinary weather conditions, the United States has almost always been the world's largest cotton exporter, and therefore its policies and programmes have implications for producers in all countries.

United States farm policies have changed substantially since the 1920s. During the Great Depression, the United States Government began trying to boost the incomes of domestic cotton producers by restricting the amount of cotton produced each year and by limiting imports so as to increase cotton prices. It continued to restrict production during the 1970s, and also began to make direct payments to farmers when prices fell below certain thresholds. In the 1980s, realizing that policies to restrict domestic cotton production were resulting in the United States' loss of world market share, the Government abandoned efforts to raise prices by restricting production, and instead began to support farm incomes with direct payments. It also implemented policies to encourage increased mill use and exports. During the 1990s and 2000s, it adjusted the formulas used to determine payments to individual cotton growers to meet budget targets, and some payments were "decoupled" from current production decisions to reduce distortions. Nevertheless, those payments remained significant, accounting for about one third of gross receipts from cotton production, on average.

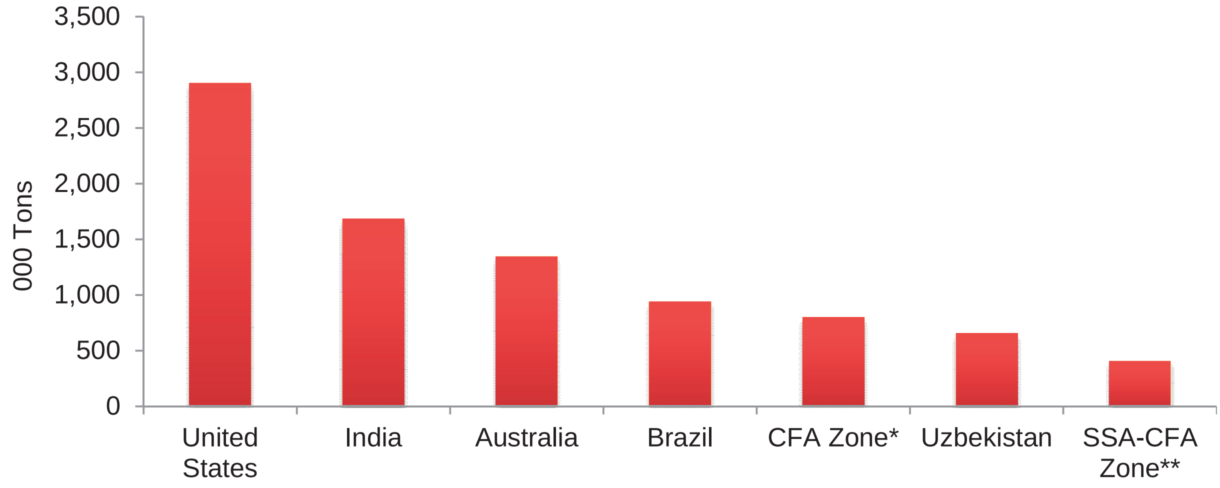
There is widespread agreement that subsidies distort production and trade. Brazil was able to successfully challenge the United States cotton subsidies programme within the dispute settlement mechanism of the World Trade Organization (WTO) by showing that United States cotton exports was causing "serious prejudice" to Brazilian cotton exports. In addition, four African cotton-exporting countries, Benin, Burkina Faso, Chad and Mali (collectively known as the "Cotton 4" or simply, C4), raised the issue of subsidies paid to cotton growers in developed countries at the WTO's Doha Round of negotiations. During the Hong Kong Ministerial in December 2005, members of the WTO agreed to treat cotton expeditiously, ambitiously and specifically within the talks on agriculture. Accordingly, there is much interest worldwide about the evolution of United States cotton policies, which could affect global production, consumption and trade.

Legislation setting the broad parameters of United States agricultural policies covering subsidies, food safety, soil and water conservation measures, and other issues is renewed approximately every five years. The most recent "farm bill", the Agricultural Act of 2014, (H.R. 2642), which was passed by the United States Congress and signed by President Obama in February 2014,will affect the basic structure of agricultural programmes in the United States until 2018. The bill authorizes $956 billion in spending over the 2014 to 2023 period,[1] including $756 billion on food and nutrition programmes, $89.8 billion on crop insurance, $56 billion on conservation programmes, $44.4 billion on commodity programmes, including for cotton, and $9.8 billion on other miscellaneous provisions.

This report aims to provide an analysis of the United States Agricultural Act of 2014 (hereinafter referred to by the commonly used term, the 2014 Farm Bill), focusing on its potential implications for cotton prices worldwide and especially its impacts on cotton producers in low-income developing countries and least developed countries (LDCs). It does not attempt to determine whether the cotton provisions of this Act are compliant with WTO rules or explain the findings of the Brazil cotton case; rather, it seeks to examine whether the subsidies paid to United States cotton growers are likely to lead to increased or decreased United States cotton production by 2018.

The report is divided into six sections. Section 1 discusses the trends in United States cotton production and exports. Section 2 describes the 2014 Farm Bill and Stacked Income Protection Plan (STAX). Section 3 focuses on the outlook for subsidies paid to United States cotton farmers. Section 4 examines long-term trends in the world cotton market and trends in cotton production by major region. Section 5 discusses the opportunities for African cotton producers and highlights some policy recommendations to enhance income from cotton production in Africa. Section 6 concludes.

Figure 1: Major cotton exporters, 2012/13



Note: * Cotton producing countries of Francophone Africa, including Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Cote d'Ivoire, Guinea, Madagascar, Mali, Niger, Senegal and Togo. ** Cotton producing countries of Sub-Saharan Africa other than those in the CFA Zone.

1. Trends in United States cotton production and exports[2]

The breakup of the Soviet Union in the early 1990s resulted in a fundamental demarcation in the structure of world commodity industries, including cotton. Therefore, it is appropriate to use 1990 as the first year in an analysis of the structure of the cotton market.

Over the past 25 years, the United States has produced an annual average of 3.8 million tons of cotton. It has always ranked among the top five producers globally, and has been the largest exporter each season (figure 1).

United States cotton production rose in an impressively strong trend, from 2.4 million tons in 1980/81 to a record 5.2 million tons in 2005/06, but declined steadily thereafter, to 3.8 million tons in 2012/13 and 2.9 million tons in 2013/14 (figure 2). This was partly due to competition from grains and soybeans as a result of mandates to grow crops for biofuel production. With competition from biofuels boosting grain prices, and with cotton yields rising slowly, United States cotton production may continue its downward trend until about 2020.

Cotton production in the United States is gradually consolidating in the south-east (Georgia, North Carolina, Alabama and South Carolina) and Texas. Production in what is referred to as the mid-south (Missouri, Arkansas, Mississippi, Tennessee and Louisiana) is declining, while in the so-called Far West (California and Arizona) it has been about 8 per cent of the country's total for a decade. Higher prices for grain and soybeans in the mid-south, linked to biofuel mandates, have encouraged a shift away from cotton, while water constraints and various alternative crops, ranging from almonds to tomatoes, are gradually exerting greater pressure cotton production in the west (figure 3).

Figure 2: Cotton production, consumption and exports in the United States, 1990/91–2010/2011

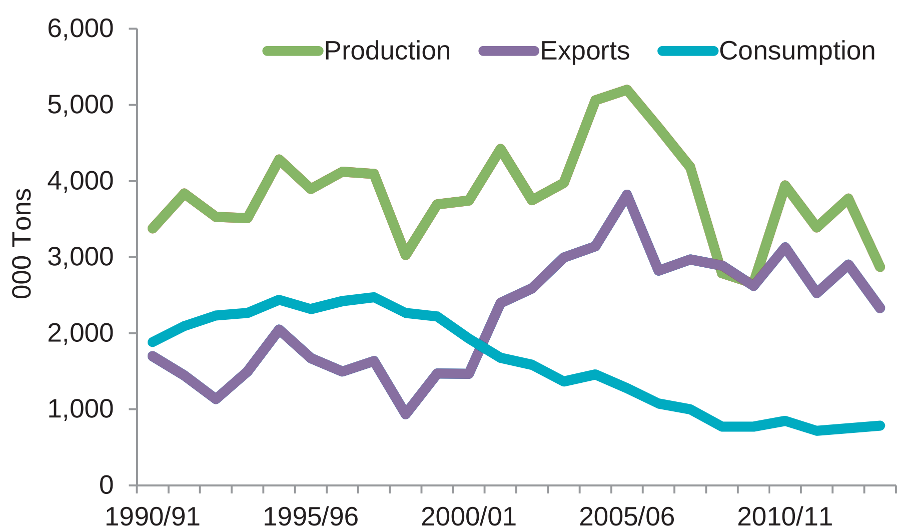


Figure 3: United States cotton production by region, 1990/91–2010/2011

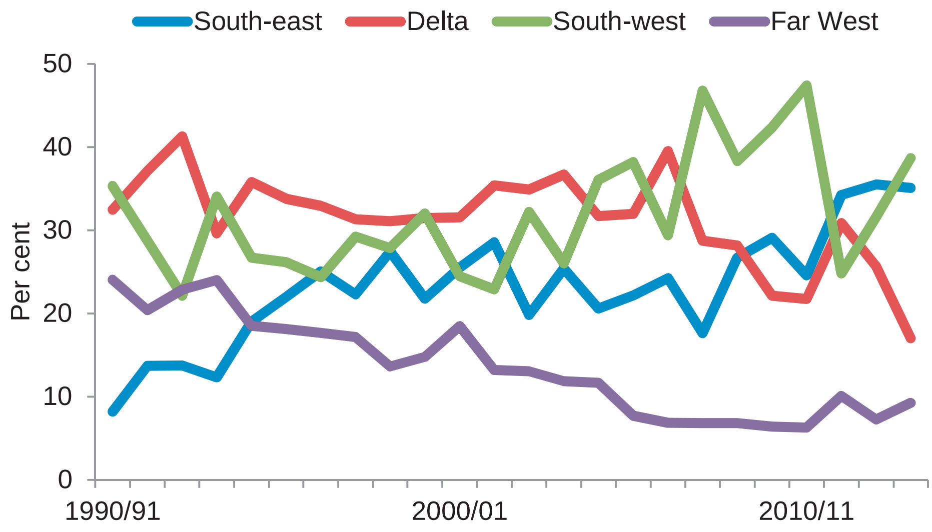


Figure 4: Share of cotton in total area for corn, soybeans and cotton in the United States, 1990/91–2010/2011