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Farm Bill Primer: Support for Cotton

Title I of the Agriculture Improvement Act of 2018 (2018 farm bill; P.L. 115-334) reauthorized commodity support for domestic producers of cotton for the 2019-2023 crop years. Titles I and XII of the 2018 farm bill reauthorized support for domestic users of cotton for various periods that do not align with crop years. Although U.S. farm policy has included support for cotton producers since the 1930s, the 2018 farm bill restored certain commodity support previously eliminated in the Agricultural Act of 2014 (2014 farm bill; P.L. 113-179). Since 2002, all enacted farm bills have included support payments for cotton users.

The United States is the world's third-largest cotton producer and the leading cotton exporter, accounting for nearly one-third of global trade in raw cotton. Imports constitute less than 1% of domestic textile mill usage. Between 2000 and 2020, U.S. cotton production decreased by more than 15%, and U.S. textile mill usage decreased by more than 80%.

Support for Cotton Producers

The 2018 farm bill authorizes support for *seed cotton*—the unginned bolls containing cotton lint and cottonseed—and two types of cotton lint used for fiber manufacturing: *upland cotton* and *extra long staple* (ELS) *cotton*. U.S.-grown ELS cotton is also referred to as Pima cotton.

Producers of seed cotton—including upland and ELS types—may be eligible to receive income support from the Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs. PLC provides payments to producers when annual average market prices decline below the statutory level of $36.70 per hundredweight (cwt.) for seed cotton. ARC payments augment farm revenues during periods of declining crop revenues. PLC cannot be combined with ARC for the same commodity. Payments are proportional to enrolled *base acres* (i.e., units of production allocated to eligible farms based on historical plantings). Farms with seed cotton base acres enrolled in either program are ineligible to purchase Stacked Income Protection Plan (STAX) coverage through the federal crop insurance program.

Producers of cotton lint are eligible to receive support from the Marketing Assistance Loan (MAL) and Loan Deficiency Payment (LDP) programs. The MAL program provides loans to farmers when market prices are typically at harvest-time lows, allowing them to delay the sale of an eligible commodity until more favorable market conditions emerge. The MAL program also provides price support to borrowers when market prices drop below levels specified in statute. The statutory MAL rate for upland cotton is the average of the marketing year average price for the preceding two years, limited to a range of $45 and $52/cwt. The statutory MAL rate for ELS cotton is $95/cwt. The LDP program provides payments in lieu of executing a MAL loan to farmers who are eligible to receive MAL price support. MAL and LDP support for cotton is in addition to ARC and PLC (or STAX) support.

MALs and LDPs are available for upland cotton as well as other commodities. However, ELS cotton is eligible only for MALs. Loans for upland cotton may be repaid at the lesser of the loan rate plus interest or the adjusted world price for cotton. The U.S. Department of Agriculture (USDA) determines adjusted world prices. Upland cotton loans may also receive credits for storage costs incurred.

Support for Cotton Users

The 2018 farm bill authorizes three programs that make payments to cotton users. The Economic Adjustment Assistance for Textile Mills (EAATM) program makes monthly payments to domestic cotton mills, as authorized by the 2018 farm bill in Section 1203(b). The payment rate is $0.03 per pound of cotton used, including U.S.-grown and foreign-grown cotton. Payments must be used for capital investments that contribute to domestic manufacturing of upland cotton.

Section 1204 of the 2018 farm bill reauthorizes the ELS Cotton Competitiveness Payment program, which makes payments to mills that use ELS cotton and to exporters of ELS cotton. Payments are triggered when the adjusted world price for ELS cotton is less than the domestic price for four consecutive weeks and the lowest priced comparable foreign-grown cotton is less than 113% of the MAL rate for ELS cotton of $107.35/cwt. The payment rate is the difference between the domestic and adjusted world prices.

Section 12602 of the 2018 farm bill reauthorizes the Pima Agriculture Cotton Trust Fund, which provides payments to certain domestic manufacturers that use ELS cotton and to associations that promote the use of ELS cotton. Trust fund payments are intended to compensate domestic ELS cotton manufacturers from economic injuries caused by differences in the tariff rates applied to imports of cotton fabrics and the tariff rates applied to imports of certain apparel articles made from cotton fabrics.

Appropriations and Outlays

The PLC, ARC, MAL, LDP, EAATM, and ELS Cotton Competitiveness Payment programs receive mandatory authorizations in the farm bill of "such sums as necessary" and are funded through the Commodity Credit Corporation (CCC). The Pima Agriculture Cotton Trust Fund receives annual transfers from the CCC of $16 million.

Program outlays vary from year to year based on program enrollments and market conditions. From FY2015 to FY2019, nominal outlays for cotton producer support averaged $292 million per year for the MAL and LDP programs, and cotton was not eligible for ARC or PLC payments. Beginning in FY2020, ARC and PLC payments were available for cotton in addition to MAL and LDP support. For FY2020-FY2021, nominal outlays for cotton support from these four programs averaged $1.271 billion per year. Outlays for cotton user support tend to be less variable than outlays for producer support. Between FY2015 and FY2021, nominal outlays for cotton user support have ranged from $53 million to $68 million.

Changes to Cotton Producer Support in the 2014 and 2018 Farm Bills

Prior to 2014, upland cotton producers were eligible for commodity support from Title I commodity programs, including the MAL and LDP programs. The 2014 farm bill retained the MAL and LDP programs, repealed the other programs, and created ARC and PLC. The 2014 farm bill also created STAX coverage for cotton producers. When Congress created ARC and PLC, it excluded upland cotton as an eligible commodity for ARC and PLC in response to a World Trade Organization (WTO) dispute settlement case with Brazil. Upland cotton producers were able to receive ARC and PLC payments if they planted other eligible crops. Cotton producers received more than $1 billion in ARC and PLC payments for eligible crops for the 2014-2016 crop years. Upland cotton producers also received $484 million in transition assistance payments for the 2014 and 2015 crop years.

The Bipartisan Budget Act of 2018 (P.L. 115-123) authorized ARC and PLC support for seed cotton. The 2018 farm bill continued ARC and PLC support for seed cotton, MAL and LDP support for upland and ELS cotton, and repealed the upland cotton transition assistance payments.

Non-Farm Bill Support for Cotton

The Secretary of Agriculture has taken measures, outside of the farm bill programs, to support upland and ELS cotton producers. In 2018, the Secretary of Agriculture used CCC authorities to provide payments to upland and ELS cotton producers for the 2016 crop year under the Cotton Ginning Cost Share program. The Congressional Budget Office estimated that program outlays would be approximately $227 million.

In 2018 and 2019, the Secretary of Agriculture used CCC authorities to provide payments through the Market Facilitation Program (MFP) to offset damages to producers from certain retaliatory tariffs. The 2018 program provided nearly $8.2 billion in payments for nonspecialty crops, including $484 million for upland and ELS cotton production. The 2019 program provided more than $13.5 billion in payments for nonspecialty crops. USDA has not released data on the total payments made to cotton producers in 2019.

Since 2020, USDA has created additional farm support programs using funds appropriated by Congress and the CCC to respond to the Coronavirus Disease 2019 (COVID-19) pandemic. These programs provided additional commodity support to cotton producers and to domestic users of cotton. As of June 2022, USDA had made payments of approximately $810 million and nearly $4 million to upland and ELS cotton producers, respectively. As of August 2022, USDA had announced funding of $80 million for domestic users of cotton and $50 million for domestic users of cotton and/or wool.

Trade actions may have also provided indirect support to U.S. cotton producers. In January 2021, the Trump Administration imposed sanctions prohibiting imports containing cotton grown in the Xinjiang Uyghur Autonomous Region of China. The Uyghur Forced Labor Prevention Act (P.L. 117-78) prohibiting imports of goods manufactured using forced labor—including goods containing cotton—went into effect on June 21, 2022. These prohibitions may increase global demand for cotton grown outside of China, including U.S.-grown cotton.

Issues for Congress

U.S. cotton exports have increased by 130% since 2000. Declining domestic use of cotton—driven by competition from foreign textile manufacturers and domestic use of other fibers—contributed to the increase in exports. Changes to U.S. trade policy that increase demand for U.S cotton exports may also lead to higher domestic cotton prices, potentially reducing future ARC and PLC payments relative to current USDA baseline projections.

The 2018 farm bill restored commodity support for cotton that had been eliminated in the 2014 farm bill. Some economists have argued that this decision exposed farm bill programs to the risk of future challenges under WTO rules for domestic support programs, although to date no WTO challenges have been lodged. Cotton producers argued that additional support was needed due to high production costs and price declines after 2011. Since 2018, ad hoc assistance programs have provided additional support to cotton producers—at times exceeding the support provided by farm bill programs. Starting in 2021, U.S. cotton prices increased above their 10 year averages. In 2021, national average cotton returns per planted acre—net of production costs and before government payments—were the highest since the start of recordkeeping in 1997. In a future farm bill, Congress may consider the appropriate level of support for cotton producers and whether the mechanisms for support are consistent with U.S. commitments to the WTO.

For additional background, see the following CRS reports:

- CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*
- CRS Report R45143, *Seed Cotton as a Farm Program Crop: In Brief*
- CRS Report R43494, *Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79)*
- CRS Report R44606, *The Commodity Credit Corporation (CCC)*

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