U.S. Farm and Cotton Policy in the Post-MFA World

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The End of the Multifiber Arrangement: Impact on Developed and Developing Countries
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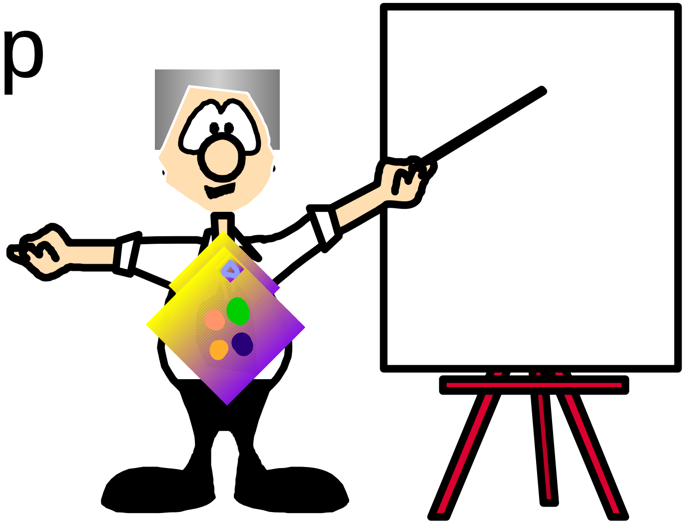
Presentation Outline

- How Did We Get Here?
- What Is/Has Been Our Policy?
- What Are Our Policy Tools?
- Trends in Commodity Payments
- Analysis of Individual Crop Support
- Conclusions



How Did We Get Here?

Impact on Rural Communities

Commodity Programs

MFA

Policy Goals

WTO

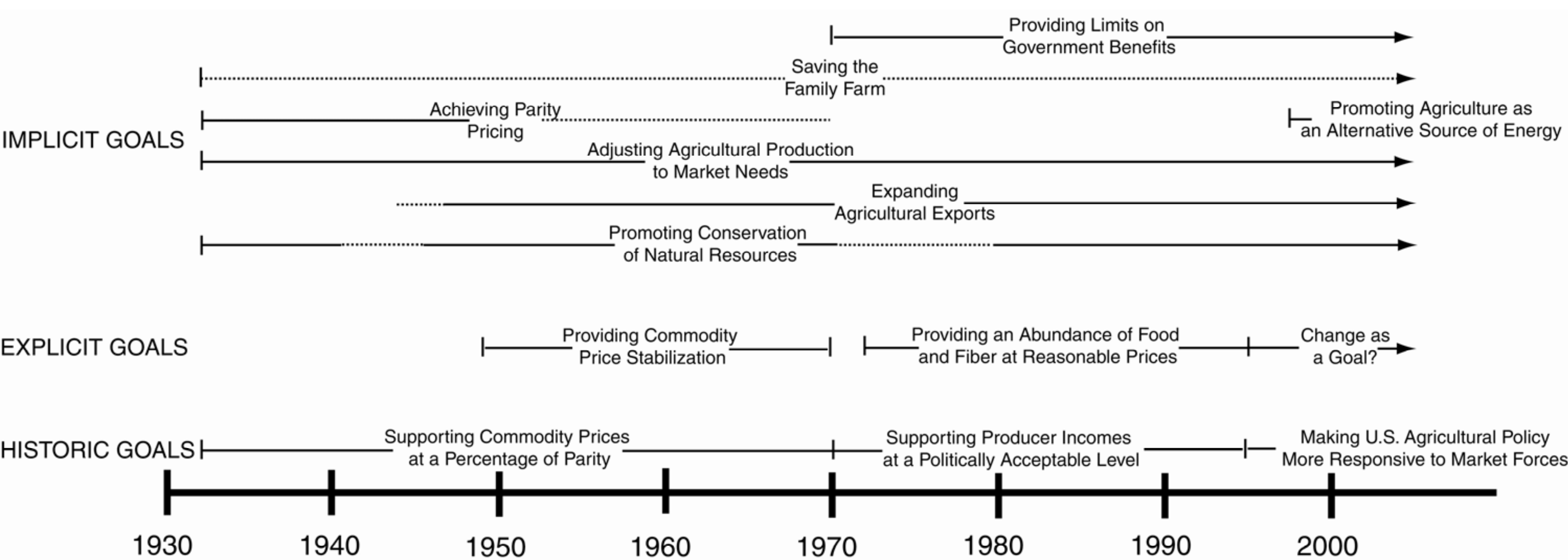
Politics

Agronomics

Loss of Domestic Mills

What Is/Has Been Our Policy?

Figure 1. Agricultural policy goals: 1933 - present



Sources: Flinchbaugh and Knutson (2004); The National Agricultural Law Center (2007).

Source: Doering and Outlaw, Choices 2006-4

What Are Our Policy Tools?

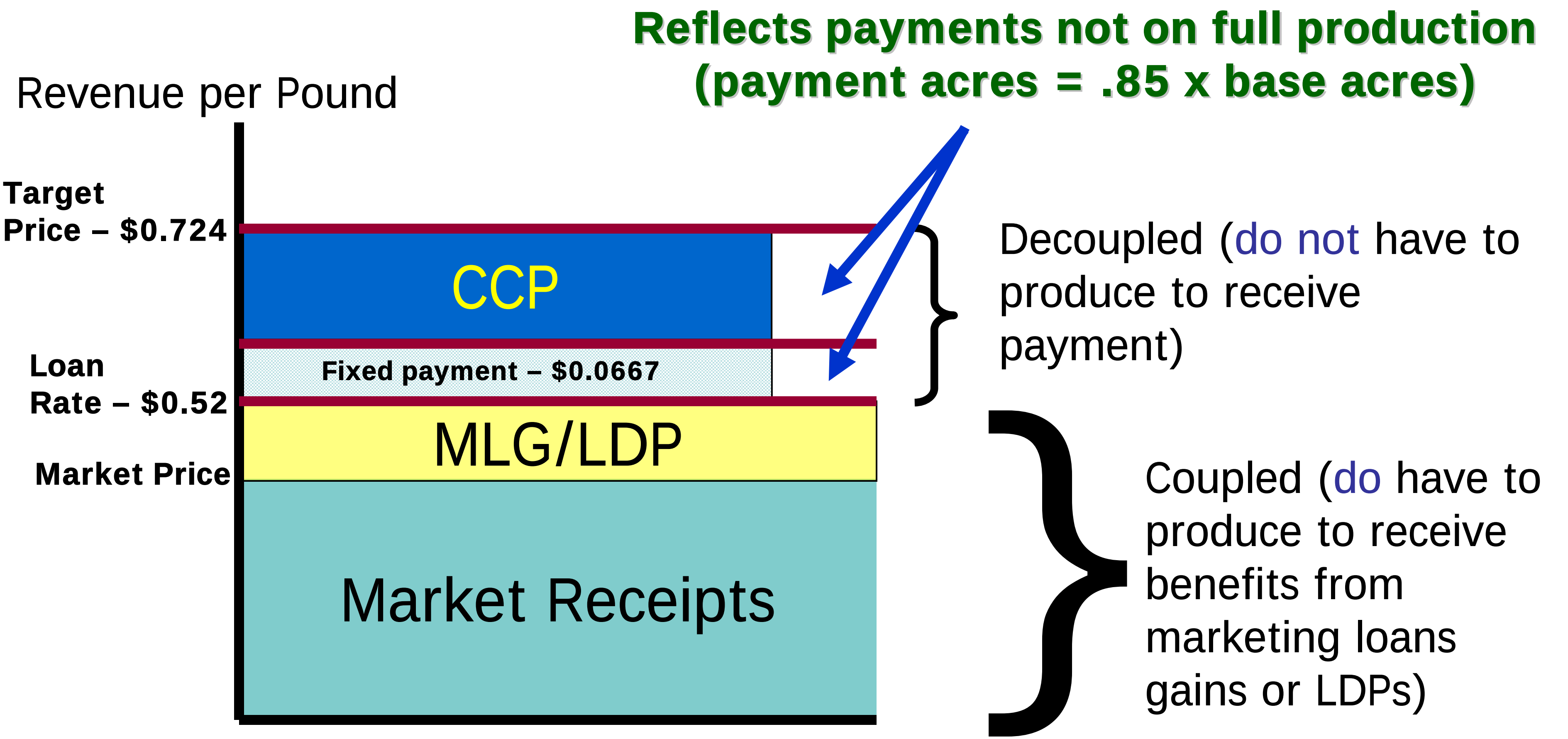
- Prior to 1996
  - Target Prices and Deficiency Payments
  - Set-asides/ARPs
  - Marketing Loan Initiated in 1990
- 1996
  - Freedom to Farm
  - Marketing Loans and PFC payments
- 2002
  - Marketing Loans and Direct payments
  - Target Prices and CCP payments

Very Regulated

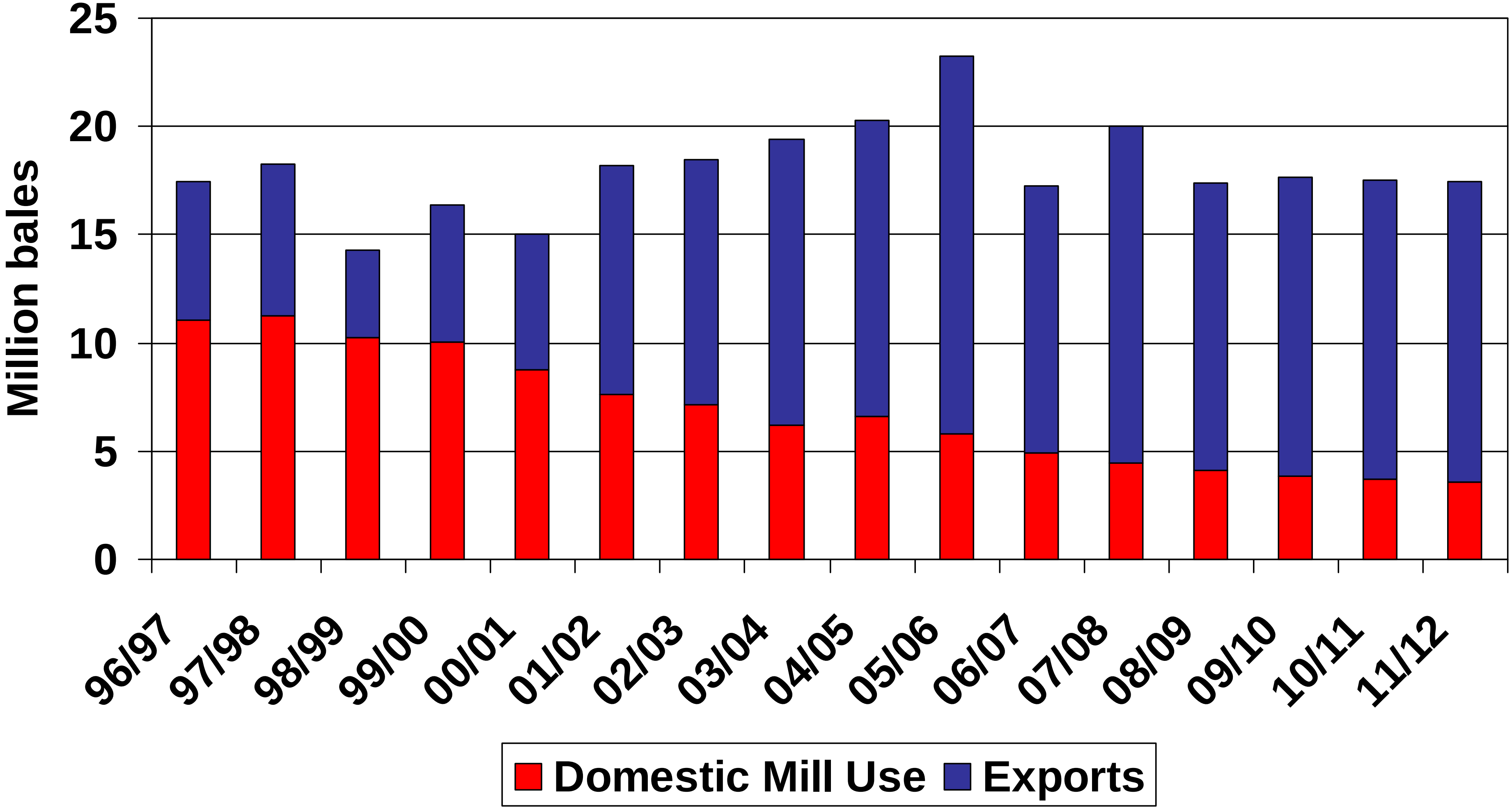
Move to less involvement

Move back to slightly More involvement

Representation of 2002 Commodity Cotton Programs

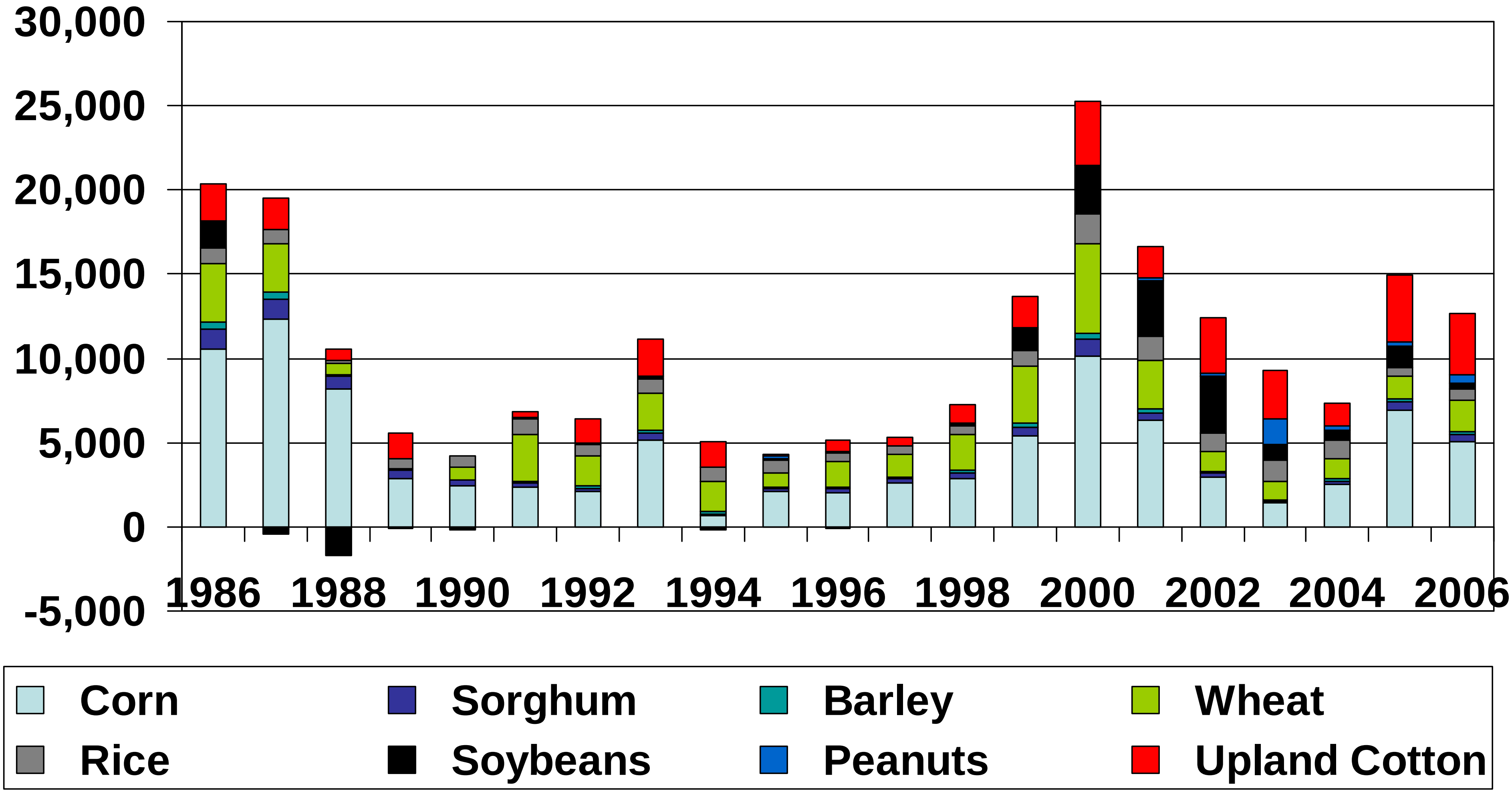


Historical Domestic Mill Use and Exports with Projections

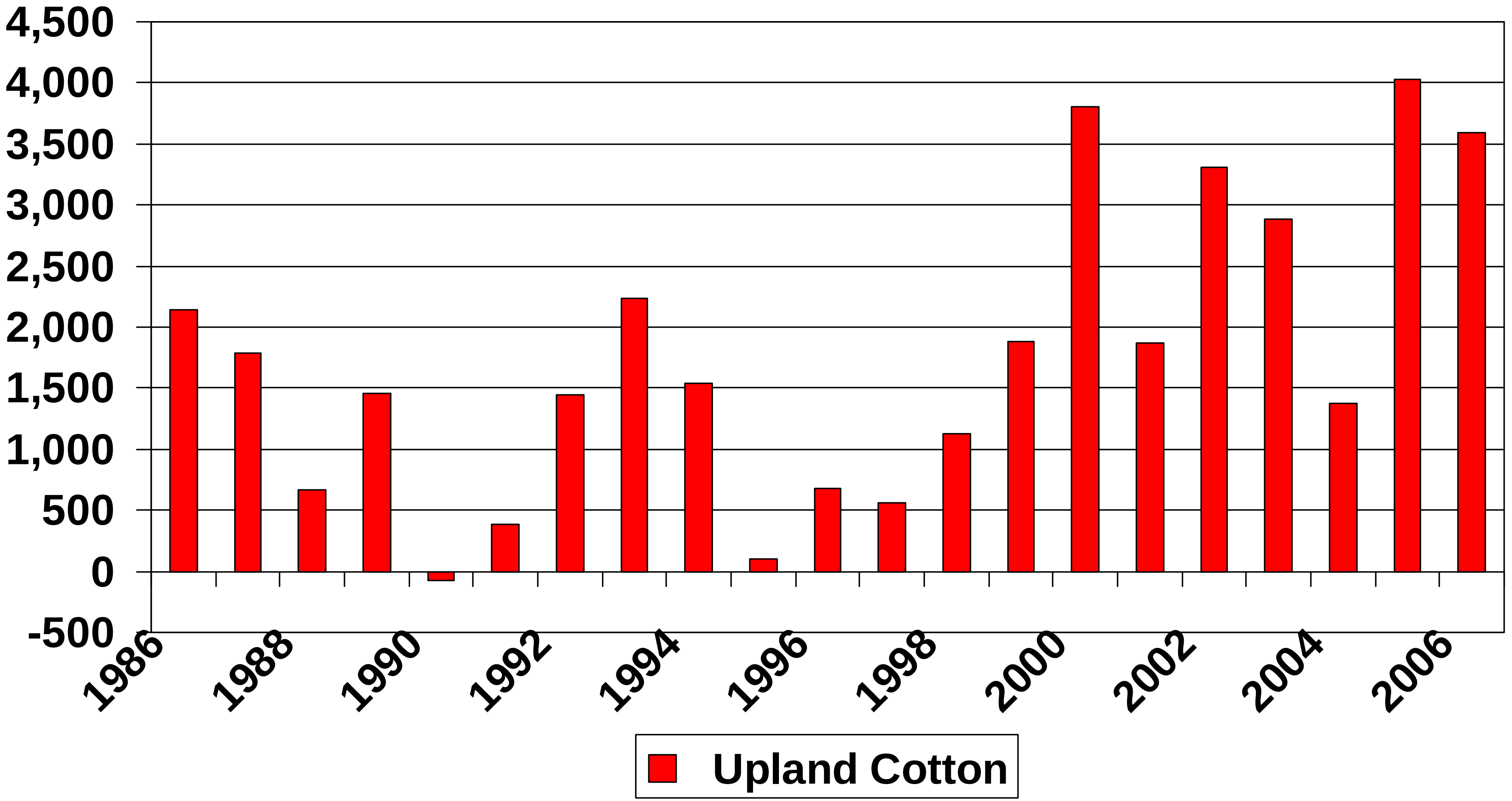


Source: FAPRI November 2007 Baseline

Net Government Outlays

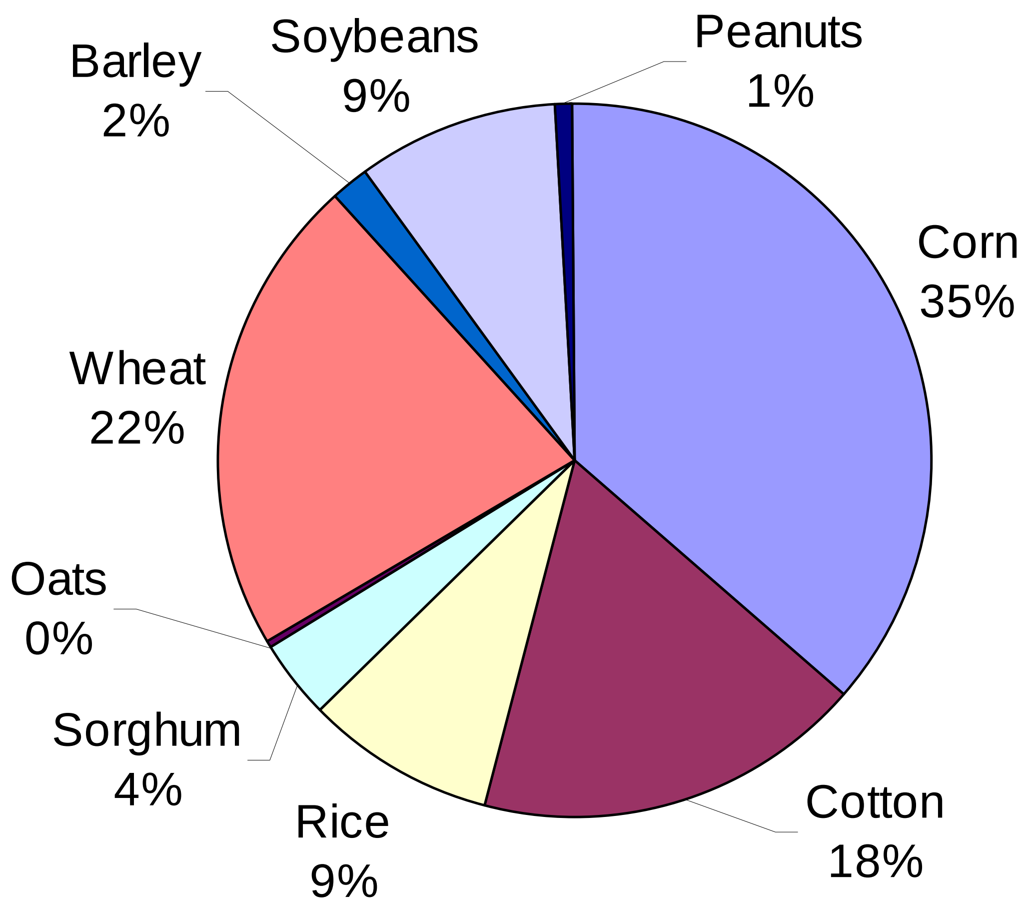


Net Government Outlays



Breakdown of Payments - Equitability

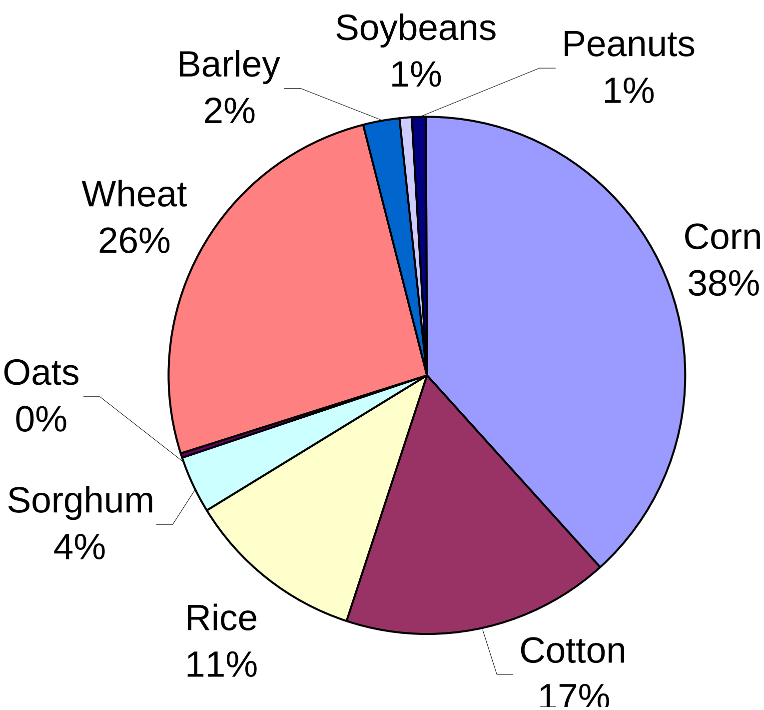
1990 to 2002 Average Support By Crop



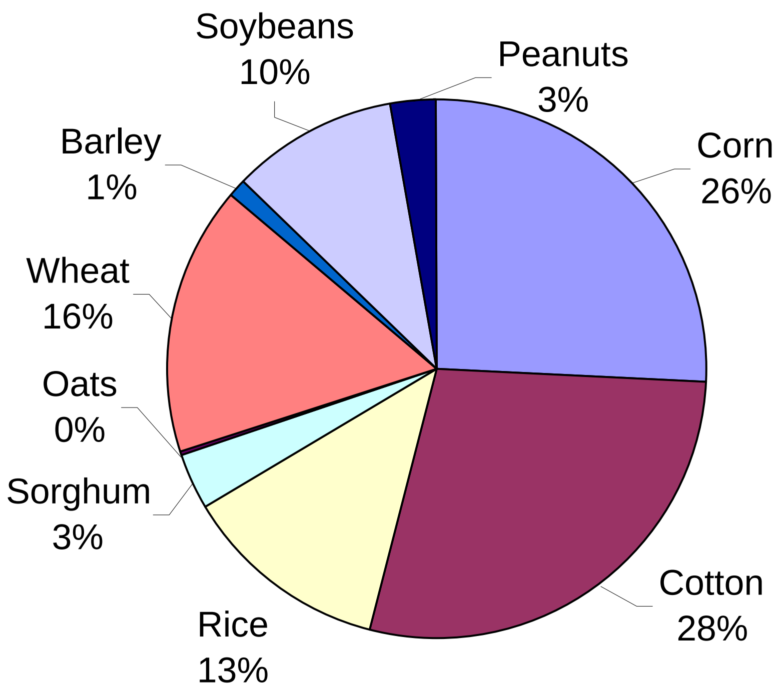
Source: Higgins, 2004

Breakdown of Payments - Equitability

1990 to 1996 Average Support By Crop



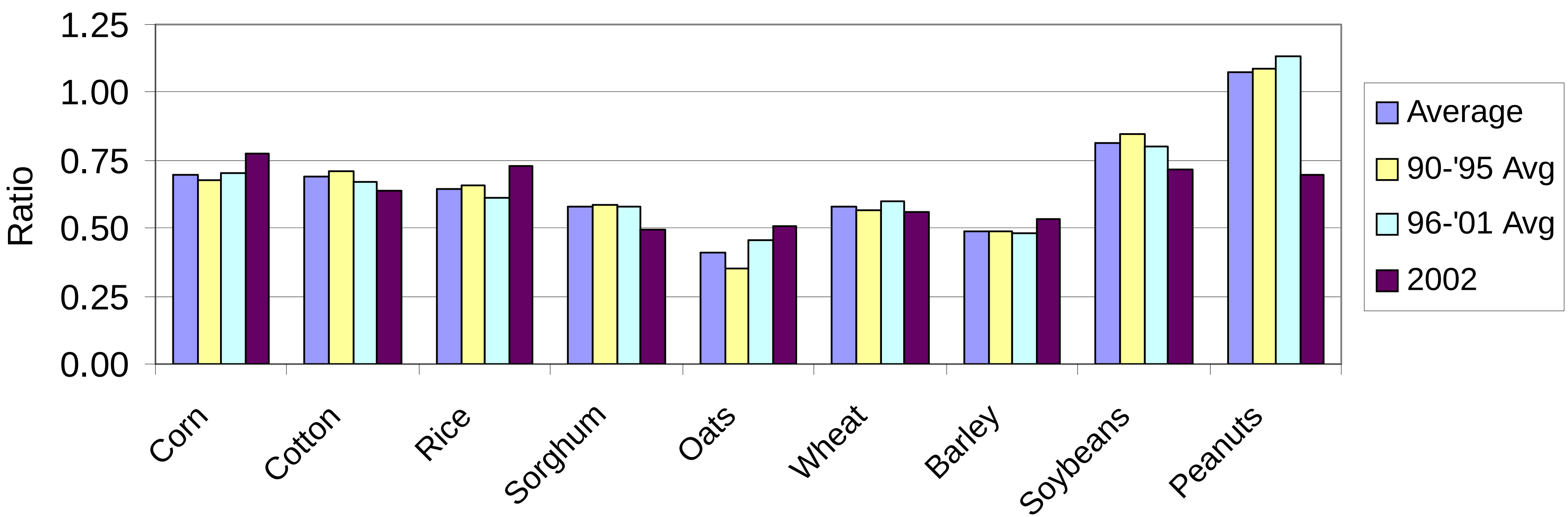
2002 Support By Crop



Source: Higgins, 2004

Loan Rates Relative to Total Economic Costs Per Unit

Doesn't consider set-asides and / or payments on Base vs Production



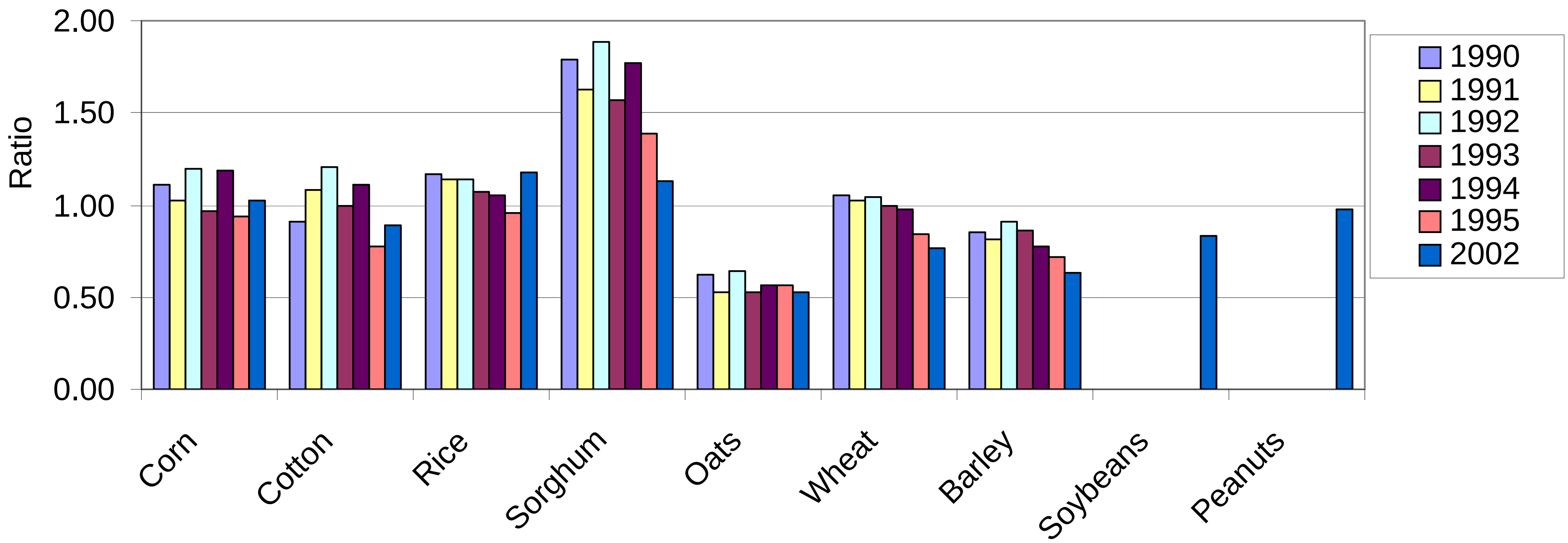
*Annual Loan Rate per unit divided by Total Economic Costs per unit. Economic costs per unit calculated by taking Total Economic Costs per planted acre divided by yield in units per acre.

**Note: Loan Rate obtained from FAPRI. Total Economic Costs obtained from Economic Research Service, USDA. Actual Yield obtained from National Agricultural Statistics Service, USDA.

Source: Higgins, 2004

Target Price Relative to Total Economic Costs Per Unit

Doesn't consider set-asides and/or payments on Base vs Production



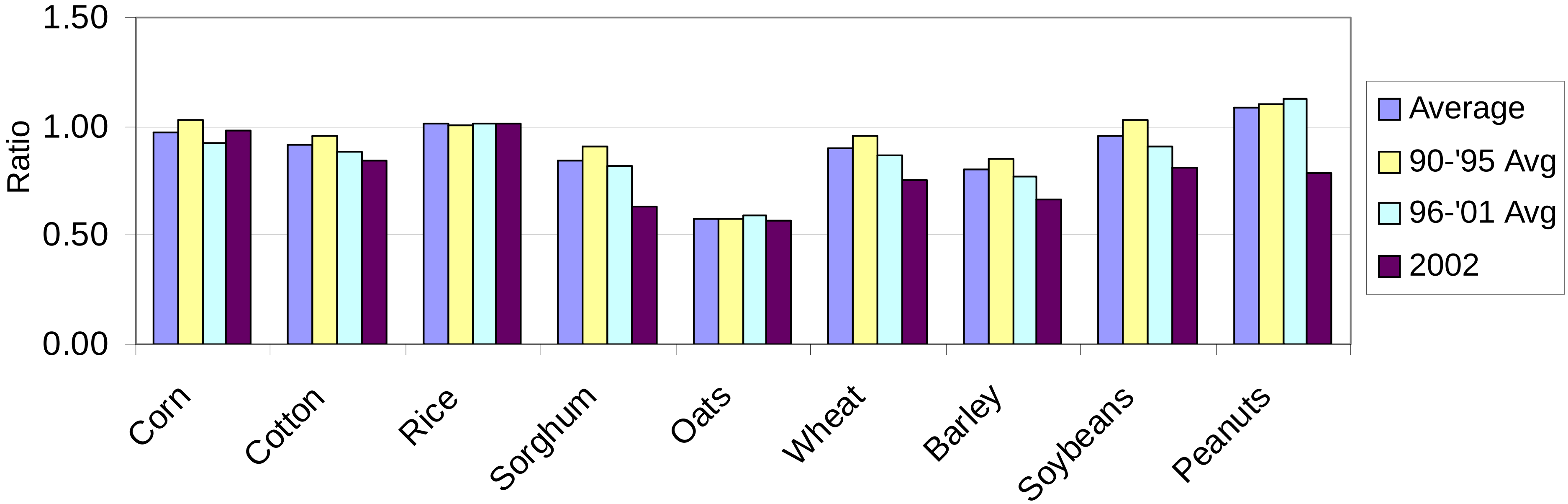
*Annual Target Price per unit divided by Total Economic Costs per unit. Economic costs per unit calculated by taking Total Economic Costs per planted acre divided by yield in units per acre.

**Source: Target Price obtained from FAPRI. Total Economic Costs obtained from Economic Research Service, USDA. Actual Yield obtained from National Agricultural Statistics Service, USDA.

Source: Higgins, 2004

Effective Benefits from Govt Programs Relative to Total Economic Costs Per Unit

Considers set-asides and / or payments on Base vs Production



*Effective Benefits divided by Effective Costs. Effective benefits include direct payments, market price or loan rate, payment fractions, and for 2002, countercyclical payments. Effective costs include variable costs, fixed costs, and ARP costs.

**Note: Actual Yield and price obtained from NASS, USDA. Farm bill payment provisions obtained from Farm Service Agency, USDA.

Source: Higgins, 2004

Summary

- U.S. commodity policy has evolved over the past 70+ years
- Programs used to implement policy have been adjusted as the economic/political/social conditions have changed
- Cotton has not been treated “too differently” from other commodities
- MFA contributing factor to WTO “problems”
  - Along with ....

Conclusions

- Clearly, we are where we are based on a number of independent decisions
- Our policy has been relatively stable
  - Programs have accomplished exactly what was desired
- Why the Problem?
  - Taken as a whole “ball of yarn” it doesn’t make everyone happy
- What does this mean about future policies?
  - Can’t do the policy without considering just the impact on farmers