Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

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Budgetary Proposed Changes in Farm Program Spending

Over the past week or more since news first surfaced, I (and I'm sure many of us) have tried to find more specific and better information regarding President Bush's proposed budget and the proposed cuts in farm program spending. It has been a frustrating task. I'll admit I haven't turned over every rock in my search, but needless to say information and specifics are somewhat limited at this point in time.

In terms of the budget, there is a percentage (5%) or dollar amount ($5.87 billion over 10 years) that is targeted. It is desired that spending on farm programs be reduced by this amount. The details of how this will be accomplished are yet to be determined. Regardless of what is in the President's proposal, it will be debated and perhaps modified and then must be passed by Congress. The Farm Service Agency must then institute whatever changes are agreed to.

So, we have a long way to go which presents opportunity for input and analysis. Also, in the case of cotton, there is the backdrop of the ongoing WTO dispute and appeal. The most immediate concern, I believe, is the future of the Step 2 program which provides a "subsidy" to exporters and improves the competitiveness of US cotton prices overseas. The debate on the President's proposal and how the target can be achieved can certainly not be divorced from this discussion as well.

If the objective were simply to cut farm payment spending, this could perhaps be accomplished (and from an administrative and management standpoint be the most efficient) by across the board lowering the payment acres from the current 85% of base or by reducing payment yields by a certain percentage. But what seems to be on the table in some form or fashion and what seems to be getting the most attention has to do with "spending limits"—somehow putting a cap on the amount of payments a single farm operation could receive.

I have never been able to rationalize why larger farms should have their payments capped while smaller farms do not. As long as payments are related to actual production or production history (base), would not all farms receive payments at the same proportion?

Regardless of how the targeted cuts are to be achieved, the Administration (more specifically the OMB) must first have a projection of the direction of crop prices over the budget period (as this would impact the dollars to be spent for LDP's and DCP payments). So, I'll assume that exercise was performed which means some crops and regions may be impacted more than others… and the economic and political ramifications of that are real hot button issues.

An analysis of the impacts of proposed changes are beyond the scope of this newsletter. But it might be helpful to at least consider cost of production data. The table below is developed from USDA's latest cost of production estimates for cotton by region (USDA uses slightly different geographical regions but they closely approximate the traditional 4 cotton-producing regions).

Estimated Average 2002 and 2003 Cost Of Production For Cotton, US and By Region

	U.S.	Southeast	Mid-South	Southwest	West
Average Yield [1]	703	645	876	471	1197
Variable Cost Per Acre [2]	$268	$304	$320	$184	$417
Total Cost Per Acre [3]	$435	$463	$488	$352	$606
Variable Cost Per Lb	$0.381	$0.471	$0.365	$0.391	$0.348
Total Cost Per Lb	$0.619	$0.718	$0.557	$0.747	$0.506

1/ USDA reports yield per planted acre. Yield shown is yield per harvested acre assuming 90% of planted acres harvested in the entire U.S., 98% in the Southeast, 95% in the Mid-South and West, and 85% in Southwest.
2/ Includes hired labor. Ginning cost adjusted for value of cottonseed. Excludes land rent.
3/ Includes operator labor, machinery and equipment, taxes and insurance, and general overhead. Excludes land.

What is clear from the table is that during these 2 years, cotton producers on average did not cover total cost of production without assistance in the form of LDP's or Market Loan Gains. Also, note that these costs exclude land rent. Drought and poor yields in 2002 pushed the Southeast average yield down and cost of production per lb of lint up. The LDP/MLG provision provides and important safety net in times of low prices. It also allows prices to move low to export-driven levels (as in 2001, 2002, and 2004) if needed while still providing income protection for the producer. What is also clear (remember these are averages) is that some producers likely could not cover total cost over the 2 years even with LDP's particularly if you consider that land rent is not included.

The following table shows the ***potential payments on cotton acres only***. First, assuming no payments on other bases, this shows the total LDP + DP + CCP payments on cotton acres. As I understand the budget proposal, payments (now including LDP's would be limited to 85% of historical production and limited to $250,000 vs $360,000 now using the 3-entity and spouse rules. ***These calculations assume a 700 lb actual and payment yield and planted acres equal to base acres.***

		Cotton Acres						
Price	**Payments**	**300**	**500**	**700**	**900**	**1100**	**1300**	**1500**
35.0	44.40	79254	132090	184926	237762	290598	343434	396270
40.0	39.40	70329	117215	164101	210987	257873	304759	351645
45.0	34.40	61404	102340	143276	184212	225148	266084	307020
50.0	29.40	52479	87465	122451	157437	192423	227409	262395
55.0	21.40	38199	63665	89131	114597	140063	165529	190995
60.0	12.40	22134	36890	51646	66402	81158	95914	110670
65.0	7.40	13209	22015	30821	39627	48433	57239	66045
70.0	6.67	11906	19843	27781	35718	43655	51592	59530

Let's assume that *cotton payments only* would comprise two-thirds of potential total payments or $167,500 of the proposed $250,000 limit (other payments might be peanuts, corn, wheat, soybeans). At current market prices of 40 to 50 cents, cotton payments would total about 35 cents per lb on 85% of historical production. The $250,000 cap would be reached at approximately 800 acres of cotton. Farms with larger acreage would have reduced payments under the proposed plan.

Finally, DP and CCP are relied on heavily to make land rent payments. If the proposed changes reduce DCP payments, the impact can be softened by reduced rent. But supply/demand forces, competition for land, and landowner-tenant negotiations will determine this outcome.

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