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Ethanol's Effect on the U.S. Cotton Industry

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A rapidly expanding ethanol industry is significantly impacting agricultural markets in the United States. While the most direct effects of this biofuel boom are being seen in corn and soybean markets, the objective of this study is to estimate the effects on the U.S. cotton industry. Using a partial equilibrium econometric model of the world fiber market developed at Texas Tech University and projections of grain and oilseed markets by the Food and Agricultural Policy Research Institute, estimates are made of how the ethanol boom is changing: 1) cotton prices, 2) U.S. cotton production acreage, and 3) U.S. cotton net farm income. The results show that increasing returns from competing crops will impact net returns from cotton production. While current U.S. farm policy moderates the effects of rising prices for cotton lint, returns from the seed portion of cotton production increase significantly. These findings highlight the contribution that cottonseed makes to the overall profitability of U.S. cotton production.

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