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Testimony of Ronnie Lee

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before the

Subcommittee on General Farm Commodities and Risk Management

Committee on Agriculture

U.S. House of Representatives

Washington, DC

April 4, 2017

Introduction

Chairman Crawford, Ranking Member Nolan, and Members of the Subcommittee, thank you for the opportunity to provide this testimony regarding the current farm bill and the policy needs of the U.S. cotton industry in the next farm bill.

My name is Ronnie Lee, and along with my three sons, we raise cotton, corn, peanuts, small grains, hay, pecans, and cattle in southwest Georgia. We also own and operate McCleskey Cotton Company, a ginning and warehousing operation, along with part ownership in a cottonseed crushing and marketing company.

I serve as chairman of the National Cotton Council (NCC). NCC is the central organization of the United States cotton industry. Its members include producers, ginners, merchants, cooperatives, warehouses, textile manufacturers and cottonseed processors and merchandisers. Farms and businesses directly involved in the production, distribution, and processing of cotton employ more than 125,000 workers and produce direct business revenue of more than $21 billion. Annual cotton production is valued at more than $5.5 billion at the farm gate. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 280,000 workers with economic activity of almost $100 billion.

In addition to cotton fiber, cottonseed products are used for livestock feed, and cottonseed oil is used as an ingredient in food products as well as being a premium cooking oil.

Current Industry Conditions

As you know, the current economic situation for much of production agriculture is bleak, including for U.S. cotton farmers. The passage of the 2014 Farm Bill coincided with significant changes in the global cotton market. Shortly after the bill was approved, cotton prices began a significant decline, the result of a build-up of global cotton stocks, especially in China, decreased demand, and reduced exports. This led, in 2015, to the lowest U.S. cotton acreage in over 30 years. While cotton prices and acreage have increased from the lows experienced in 2015, producers are still struggling with prices at levels not adequate to cover all production costs. According to USDA data in 2016, 19 percent of cotton farms are considered either highly or extremely highly leveraged.

To understand the challenges facing cotton farmers, it is important to review the dynamics at work in global cotton demand. USDA estimates world mill use at 112 million bales for the current 2016 marketing year. However, even with very modest growth, world cotton demand remains almost 12 million bales below the peak demand observed in 2006. Slumping demand is largely the result of the tremendous increase in polyester use. During the past decade when cotton mill use fell by 12 million bales, polyester's production capacity, primarily located in China, increased by 145 million bales. Excess production capacity, in many cases fueled by government support, is contributing to polyester prices in Asian markets of approximately 50 cents per pound. While consumers continue to express their preference for cotton products, the tremendous increase in low-priced polyester production has created extraordinary hurdles for increasing cotton demand.

I highlight these issues because of the critical influence of international markets and manmade fiber on the financial conditions of U.S. cotton farmers. Approximately 75% of U.S. raw cotton production is exported, with another 15-20% exported as cotton yarn, fabric of another textile product. Policies that directly affect international production, consumption and trade have a direct bearing on U.S. market prices.

For 2017, USDA is estimating 12.2 million acres planted to cotton, a 21% increase from 2016. This increase reflects several factors, including the availability of seeds with new herbicide tolerant traits, increased water supplies in some regions, and declines in the expected returns of competing crops.

Cotton Policy and the Farm Bill

While cotton acres across the U.S. are expected to recover, the lack of eligibility for the same price and revenue policies as other crops remains a major concern. As you know, these Title I commodity policies in the farm bill are designed to help producers withstand prolonged periods of price declines and depressed market conditions. While the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) policies have generally performed well for producers like myself of other crops, I remain vulnerable to further instability in cotton markets.

Under the current farm bill, cotton producers can purchase the Stacked Income Protection Plan (STAX) crop insurance policy. In addition, the marketing loan program was modified so that the loan rate can adjust lower based on average market prices of the prior two years. Cotton is the only program crop that does not have any long-term price or revenue protection policy in the 2014 Farm Bill.

Cotton policy in the 2014 Farm Bill was enacted largely in response to a World Trade Organization (WTO) trade challenge brought by Brazil against certain components of U.S. farm policy and select cotton-specific policies. In an effort to avoid further political controversy and trade retaliation, Congress provided STAX as the core safety net for cotton. Unfortunately, STAX has proved inadequate for U.S. cotton growers.

For more than a year now, NCC has been working with Congress and the previous Administration to try to get cottonseed designated as a covered commodity and eligible for the ARC/PLC programs in the 2014 Farm Bill. Cottonseed remains an important co-product of cotton production, along with the cotton fiber. Support can be provided for cottonseed without running afoul of the agreement with Brazil that settled the WTO case and without violating U.S. commitments under the WTO. We strongly believe we need a cottonseed policy in place to help provide support to our producers as a bridge until the new farm bill is enacted, hopefully before the expiration of the current bill in 2018.

While we will continue our short-term efforts related to cottonseed, NCC is also beginning internal discussions on the policy objectives for cotton in the next farm bill. We know that a meaningful safety net for cotton must be included in Title I of the farm bill. Better protection in times of depressed markets can take on several forms, and our industry will continue to pursue the best avenue to provide growers adequate protection that is consistent with both our international obligations and the needs of our industry.

Farm Bill Budget Resources

In order for Congress to be able to address the current shortcomings in U.S. cotton policy and to shore up other areas of need in farm policy, we strongly oppose any attempts to reduce the budget for the next farm bill. Further, we urge the Committee to seek any opportunities to increase the Federal investment in farm policies that ensures the U.S. consumer continues to have the safest, most affordable and secure supply of food and fiber in the world. In the January 2017 Congressional Budget Office baseline projection, the cost of the current farm bill is expected to be more than $100 billion less than estimated when the bill was enacted in 2014. Given this dramatic decline in farm bill spending, coupled with the significant downturn in farm income and generally weak commodity prices, a greater investment in these critical policies for all of rural America should be in order.

Last month, NCC joined 16 other organizations on a letter to the House and Senate Budget and Appropriations Committees stressing the critical need for the Agriculture Committees to have additional budget resources in order to craft a new farm bill. The additional resources are

needed to help address the significant holes in the safety net for cotton and other commodities, while maintaining other programs designed to respond to the significant downturn in commodity prices and farm revenue.

Marketing Loan Program

In addition, our industry relies heavily on a properly functioning marketing loan program that helps ensure orderly marketing and flow of cotton to the market. Maintaining the marketing loan policy, with some minor adjustments, is also a priority.

Crop Insurance

A strong crop insurance program is also critical since in agriculture, one thing is for certain, crop losses will occur in some part of the U.S. each year. Annual losses incurred by farmers clearly demonstrate the need for crop insurance protection and the public-private partnership of program delivery. Farmers, their lenders, input suppliers and other stakeholders agree that crop insurance protection should remain a viable, affordable tool for managing risk.

In 2016, 96% of cotton acres were covered by either multi-peril "buy-up" insurance or catastrophic coverage. 88% of these acres were covered by multi-peril insurance. The STAX policy was purchased on over 2.5 million acres covering 26% of total insured acres. Participation in STAX has not been as extensive as initially projected, largely because of extremely low prices, which render the revenue assurance of STAX less beneficial relative to the costs of production.

For this reason, it is imperative that cotton producers have access to the same complement of risk management policies and tools as other producers, including commodity policies in Title I, along with crop insurance.

Federal crop insurance provides an effective risk management tool to farmers and ranchers of all sizes when they are facing losses beyond their control, reduces taxpayer risk exposure, makes hedging possible to help mitigate market volatility, and provides lenders with greater certainty that loans made to producers will be repaid. The public-private partnership of program delivery works very well, allowing for timely and outstanding service to producers when they need it the most and providing much-needed jobs across rural America.

While the overall crop insurance program is working well and should be defended, there are a few areas that can be improved. NCC is currently working with the Risk Management Agency (RMA) to improve quality loss provisions that have proved inadequate for many producers in the Southeast region who suffered through extensive rains during the 2015 and 2016 harvest seasons. RMA has been a good partner in identifying and pursuing improvements to this feature of the crop insurance product. We remain hopeful that an improved quality loss provision will be available for cotton crop insurance policies for the 2018 crop. Particularly important in the Southwest region is the ability to insure Enterprise Units by practice, which is permitted in the 2014 Farm Bill. In our view, RMA has not implemented this provision in the

manner intended by Congress and should be reconsidered by USDA, and if necessary further clarified in the next farm bill.

Payment Limits and Program Eligibility

Our industry is opposed to any further tightening of payment limits and eligibility requirements, as we believe these policies are already too burdensome and restrictive in light of the size and scale of production agriculture necessary to be competitive and viable in today's global market. In addition, we believe the current definition of 'family member' that is used for actively engaged provisions the farm bill should be broadened to ensure extended family members are not forced out of the family farm simply because they do not fit within the current, unnecessarily restrictive definition for 'family member'. We hope to work with the committee to address this problematic provision in the next farm bill.

Extra Long Staple Cotton Policies

There are important policy considerations for Extra Long Staple (ELS) or Pima cotton as well. The industry is evaluating the potential for an increase in the loan rate for the ELS loan program in order to better reflect the relative market value of Pima cotton. Since this is a non-recourse loan without marketing loan provisions, there should be little, if any, additional government cost or exposure. Also, the ELS Cotton Competitiveness Program is not currently functioning as intended given the recent shift in the countries that are major producers, importers and exporters of ELS cotton. For the intended objectives of this program to be met, USDA needs to take steps to update the key price data being used. If USDA continues to resist this administrative adjustment, then we will seek to make the modifications in the next farm bill.

Conservation Policies

Conservation programs continue to be extremely popular across the Cotton Belt. Specifically, the Environmental Quality Incentives Program and the Conservation Stewardship Program are both heavily accessed. I commend the Committee for streamlining conservation programs in the 2014 Farm Bill. This will make them easier for the Natural Resources Conservation Service (NRCS) to administer, but more importantly easier for producers like myself to utilize. These programs have become integral parts of many producer's operations and achieve the goal of improving and protecting the environment while also improving our farming operations.

One area that can be improved is exempting NRCS from requiring producers participating in USDA cost share programs to obtain and keep up to date a System for Award Management (SAM) number and a Duns and Bradstreet (D-U-N-S) number. The SAM number in particular is burdensome because of the yearly renewal requirement. The D-U-N-S number can also be complicated if the number is arbitrarily changed without the producer's knowledge. Many producers, including some in my area, have had payments extensively delayed after they had completed the project because of this paperwork requirement. In addition, many producers may not realize that while obtaining these numbers is a burdensome, timely process, they can

obtain these numbers for free, yet inadvertently agree to pay companies who contact them directly hundreds of dollars to obtain the numbers. The SAM system and D-U-N-S requirement were never intended for conservation contracts, and it is our hope that this oversight can be corrected in the next farm bill.

Textiles and Economic Adjustment Assistance Program

After a decade of experiencing a precipitous decline in the amount of cotton used by U.S. textile mills, U.S. mill consumption has stabilized since 2008 due to ongoing assistance provided in the farm bill.

The recent years of stability and expected future growth can be attributed to the continued benefits of the Economic Adjustment Assistance Program (EAAP), first authorized in the 2008 Farm Bill. Recipients must agree to invest the proceeds in equipment and manufacturing plants, including construction of new facilities as well as modernization and expansion of existing facilities. EAAP funds have allowed investments in new equipment and new technology, thus allowing companies to reduce costs, increase efficiency and become more competitive. By allowing U.S. textile mills to make the new investments necessary to remain competitive, the program supports a manufacturing base that supports jobs in the United States.

Trade Promotion Programs

Given the tremendous reliance by our industry on exports of raw cotton fiber and yarn, it is essential that the U.S. agriculture industry have a strong, well-funded public-private partnership to help leverage private resources to expand export markets and grow demand for U.S. agriculture products. A central part of this effort is USDA's Market Access Program (MAP) and Foreign Market Development (FMD) program. Even though the U.S. continues to be heavily outspent by other major agricultural producing and exporting countries, MAP and FMD investments have been flat for more than a decade. MAP and FMD have resulted in a $2.1 billion increase per year in cash farm income since 2002. Agricultural exports in 2014 accounted for $340 billion in economic output and supported 1.1 million jobs. For this reason, we believe it is justified for the new farm bill to invest additional funds in these programs.

The value of U.S. cotton fiber exports exceeds $5 billion annually, along with an additional $3 billion in exports of value-added cotton textile products. Independent studies found that for each dollar spent by organizations like Cotton Council International that partner with USDA to expand and promote exports, there is a $35 return on investment. In direct monetary and in-kind investments, the U.S. cotton industry invests over $2 for every $1 of MAP funds utilized for export promotion activities. These programs work, and in response our industry stakeholders are investing in their businesses and creating jobs.

Federal Check-off Programs

The U.S. cotton industry, like many other commodities, has a national commodity research and promotion program (check-off program) to allow the industry's stakeholders to combine

resources for the benefit of the industry as a whole. The Cotton Research and Promotion Act of 1966 was the first legislation of its kind. It enabled upland cotton producers and importers of cotton textile products, after passing a referendum, to join together to begin addressing competing fibers and re-establishing markets for cotton. Today, every bale of cotton produced and the cotton content of imported cotton products is assessed and those dollars fund a very successful research and promotion program. A recent third-party economic assessment of this program indicated returns to producers and the government of over $7.00 for every one dollar contributed over the life of the program. The return on investment is even higher for importers. The Cotton Board's members are appointed by the Secretary of Agriculture to administer and oversee the operation of the program on behalf of all stakeholders. The program itself has significant built-in safeguards to protect this investment. In addition, the Department of Agriculture oversees almost every aspect of the program's operation. These are carefully managed, productive programs that generate positive return for U.S. cotton producers and importers of cotton products at no cost to taxpayers. These types of check-off programs should continue and should not be hamstrung by unnecessary legislative or regulatory provisions that do not contribute meaningfully to transparency but would weaken their effectiveness.

Conclusion

In closing, for the past three years, U.S. cotton producers have struggled with low cotton prices, high production costs and the resulting financial hardships. While current cotton futures market prices have increased from year-ago levels, many producers continue to face economic challenges. The projected increase in cotton acreage is largely the result of weaker prices of competing crops and improved expectations for water in some regions that were experiencing severe drought conditions. Therefore, it is imperative that the next farm bill bring cotton back into the Title I commodity policy so that cotton is able to access the same full complement of risk management tools as other crops.

NCC looks forward to working with the Committee and all commodity and farm organizations to develop and pass a new farm bill that effectively addresses the needs of all commodities and all producers in all regions of the country.

Thank you for this opportunity, and I would be pleased to respond to any questions.