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COMMODITY IN FOCUS: STRESS IN COTTON COUNTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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COMMODITY IN FOCUS: STRESS IN COTTON COUNTRY

WEDNESDAY, DECEMBER 9, 2015

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 1300 of the Longworth House Office Building, Hon. Eric A. "Rick" Crawford [Chairman of the Subcommittee] presiding.

Members present: Representatives Crawford, Lucas, Neugebauer, Austin Scott of Georgia, Allen, Abraham, Conaway (*ex officio*), Walz, Bustos, Graham, Ashford, David Scott of Georgia, Costa, Kirkpatrick, and Vela.

Staff present: Bart Fischer, Callie McAdams, Haley Graves, Matt Schertz, Mollie Wilken, Skylar Sowder, Anne Simmons, Matthew MacKenzie, Mike Stranz, Nicole Scott, and Carly Reedholm.

OPENING STATEMENT OF HON. ERIC A. "RICK" CRAWFORD, A REPRESENTATIVE IN CONGRESS FROM ARKANSAS

The CHAIRMAN. This hearing of the Subcommittee on General Farm Commodities and Risk Management, entitled, *Commodity in Focus: Stress in Cotton Country,* will come to order.

As most of you are aware, we have a very serious situation unfolding in the Cotton Belt right now. The purpose of this hearing is to hear from the folks who are directly affected on the frontlines.

I think it is important that we hear from the folks on this panel as they articulate how difficult the circumstances are right now and what may lie in store if mitigating action is not taken soon.

Whether you hail from cotton country or not, each Member of this Committee can relate to what is unfolding in the Cotton Belt by imagining the exact same conditions unfolding with respect to the major crop grown in your part of the country, the economic lifeblood of your communities.

In the not too distant past, we lost to China most of what was once the largest manufacturing sector in America, our textile industry. Now, I believe we are in grave danger of losing the vast majority of our production to China, India, and other countries that are employing anti-competitive trade practices that no American farmer can match.

Every farmer in America deals in varying degrees with high and rising foreign subsidies and tariffs. Every farmer in America is struggling with low prices and rising inputs. And, every farmer in

America has at one time or another been dealt a blow by Mother Nature. Some farmers, including many in the Cotton Belt, have suffered blow after blow for several years in a row now.

But what distinguishes the cotton farmer right now from his brethren who grow other staple crops is the fact that the cotton farmer is trying to weather all of these things at once, most in their severest form, and without the benefit of an effective farm safety net.

I greatly appreciate the efforts of cotton farmers to put together a policy for cotton lint that would end the WTO litigation instigated by Brazil. Unfortunately, the current cotton policy that was put in place last year was entirely predicated on a functioning world cotton market. But, a functioning world market is hardly what we have going on today.

I am going to allow our witnesses to describe more fully what China, India, and other countries are doing and how these actions are destroying the cotton market and harming U.S. cotton farmers.

Today, I implore the Secretary to use the authorities that we have given him in the farm bill to provide critical and urgent relief by designating cottonseed as an oilseed for purposes of Price Loss Coverage and Agricultural Risk Coverage.

While I do not believe that this action is a cure for all that ails, it is still meaningful help that is within the Secretary's power to provide.

I am very grateful to Secretary Vilsack for taking administrative actions in many instances in the past in order to head off a crisis in other parts of farm country. I believe that the Secretary cares about our nation's farmers and ranchers, and so I am very hopeful that he and his team will take action on this important matter.

I know that my friend, Mr. Walz, and Ranking Member Peterson, do not have a direct dog in this fight. After all, there is not a lot of cotton grown in Minnesota. But, I know Mr. Walz believes as I do that agriculture must hang together or we will certainly hang separately.

So, Mr. Walz, please accept my sincerest gratitude for your friendship and your help.

[The prepared statement of Mr. Crawford follows:]

PREPARED STATEMENT OF HON. ERIC A. "RICK" CRAWFORD, A REPRESENTATIVE IN CONGRESS FROM ARKANSAS

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So, Mr. Walz, please accept my sincerest gratitude for your friendship and your help.

I would now recognize my good friend, Mr. Walz, for his opening statement.

The CHAIRMAN. And I would now like to recognize my good friend from Minnesota, Mr. Walz, for his opening statement.

OPENING STATEMENT OF HON. TIMOTHY J. WALZ, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. WALZ. Well, thank you, Chairman Crawford. And I think it is obvious to all of you, you have no better friend and advocate than the Chairman on this issue, and he has been a champion of making sure we are educated, and this is another step of putting the experts in front of us.

I appreciate the hearing. It is another example that the Chairman of the full Committee, Mr. Conaway, is here, another example this is a bipartisan Committee that actually is interested in moving things forward, and that is the nature of how we get together here. The Chairman has mentioned it, not a lot of cotton in southern Minnesota, but as a kid who grew up chocking cockleburs in cornfields, there is probably not a lot of difference between chocking pigweed and cotton. We all have those common interests, and we have proven this, that it has become more and more difficult to hold together this coalition to get things done. The Chairman on this Committee did that in a—what I considered an assault towards one of the basic safety net features in crop insurance, and did a masterful job of making sure we keep that important program intact.

So again, I appreciate it. You being here is critically important because this is about education. This is the way that Congress is supposed to work. I look forward to hearing from you when these issues come up, whether it is cottonseed oil or those things, a lot of us, even Members of Congress, certainly producers up in my

neck of the woods might not understand what you are going through, but at one time or another, we will all go through it. And as these market fluctuations, these things that are happening, the practical things that we can do need to be implemented.

So thank you all for taking the time. I am really looking forward for your testimony, and please know it does make a big difference.

I yield back.

The CHAIRMAN. I thank the gentleman. The chair would request that other Members submit their opening statements for the record so the witnesses may begin their testimony, and to ensure that there is ample time for questions.

The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were present at the start of the hearing. After that, Members will be recognized in order of their arrival. I appreciate the Members' understanding.

Witnesses are reminded to limit their oral presentations to 5 minutes. All written statements will be included in the record.

I want to thank all of you for being here. I will introduce you individually here in just a minute, but just in reference to my comments about your 5 minute testimony, in the interest of our six panelists, look at the traffic light in front of you. When it is green, you are good to go. When it is yellow, put your foot on the gas. And when it is red, you are going to need to stop, because we want to make sure that we do get an opportunity to address each of you and give our Members ample opportunity. So be looking at the traffic light.

Again, I want to thank our witnesses at the table, Mr. Shane Stephens who is the Vice Chairman of the National Cotton Council of Greenwood, Mississippi; Mr. Nathan Reed who is the Arkansas State Chairman for American Cotton Producers, Marianna, Arkansas; Mr. Shawn Holladay, Producer Board Member, National Cotton Council, from Lubbock, Texas; Mr. Kendall Wannamaker, President, Southern Cotton Growers, from Saint Matthews, South Carolina; and as Mr. Costa hasn't made it in yet, I will introduce Mr. Cannon Michael, Producer Board Member, National Cotton Council, Los Banos, California; and Mr. Mike Wright, Executive Vice President, City Bank Texas, Lubbock, Texas.

And before I introduce the individual panelists, I would defer to the Chairman of the full Committee, if he has any statement he would like to make at this time.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. Well, I thank you, Chairman.

No statement, other than to welcome our witnesses, and particularly Shawn Holladay and his wife, Julie, from Lamesa, Texas, and who I ask to vote for me every 2 years. I have to be particularly nice to them.

I look forward to our witnesses' testimony, and I yield back.

The CHAIRMAN. Thank you, Mr. Chairman.

I would like to welcome our witnesses to the table. Mr. Shane Stephens, you are recognized for 5 minutes.

STATEMENT OF SHANE STEPHENS, VICE CHAIRMAN, NATIONAL COTTON COUNCIL, GREENWOOD, MS

Mr. STEPHENS. Thank you. I would like to thank Chairman Crawford, Ranking Member Walz, and the Members of the Subcommittee for the opportunity to present the views of the National Cotton Council regarding the current economic situation in the U.S. cotton industry.

Cotton is a cornerstone of the rural economy in the 17 cotton-producing states, stretching from Virginia to California. Unfortunately, the current economic situation is chipping away at that cornerstone, and threatening to cause long-term and potentially irreversible damage to the industry and the associated infrastructure.

Acreage is down in all regions, and total U.S. plantings are the lowest since 1983. Losses in cotton area translate into pressure on associated businesses, infrastructure, and rural economies. Research has affirmed the multiplier effects on rural economies when cotton acres decline.

A thriving cotton industry is critical to the success of many local economies. World cotton demand remains ten percent below the peak observed in 2006. Reduced consumption is largely the result of the tremendous increase in polyester use. Excess production capacity, in many cases fueled by foreign government support, is contributing to polyester prices below 50¢ per pound in key Asian markets.

The prospect of higher cotton prices is further challenged by world stocks-to-use ratio hovering at 100 percent. The increase in stocks was the direct result of policies in place in China from 2011 through 2013. During those years, China supported its cotton farmers by purchasing vast amounts of its production into government reserves at prices well above the world market. Realizing that continually building stocks was not a long-term solution, China instituted a target price program in 2014 at roughly $1.45 per pound.

Certainly, China is not the only country to support cotton production with government programs. Recent testimony presented by the National Cotton Council to the House Agriculture Committee provides a more exhaustive review of policies in place in other countries. According to a 2014 ICAC report, international cotton production is supported at a level almost four times the level provided U.S. cotton farmers. With the lowest U.S. acreage in more than 30 years, the smallest exports in 15 years, and cotton prices at their lowest level since the 2009 recession, economic pressure is mounting, with revenue down 34 percent from the average levels of 2010 through 2013.

Given the cumulative impacts of the past 2 years, producers are increasingly concerned about securing financing for the 2016 crop.

Commodity markets are cyclical and low prices are the cure for low prices. However, in the current cycle, the cure may not come in time to sustain many producers' businesses and local economies relying on cotton.

Futures markets suggest that a relatively flat price situation is likely at least through the 2017 crop, if not longer. To provide much-needed relief, the industry is asking USDA to designate cottonseed as an other oilseed for the purpose of the Price Loss Coverage and Agricultural Risk Coverage Programs.

The 2014 Farm Bill includes statutory authority for the USDA to designate other oilseeds for inclusion in farm bill programs. The infrastructure for the cotton industry will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of financial pressures such as currently exist.

In order to provide timely relief, the Secretary is requested to implement the program for the 2015 crop. Streamlined implementation can be achieved by offering the option to receive cottonseed PLC/ARC payments on generic base attributed to cottonseed, without penalizing producers who made other program planning decisions. For 2016 and beyond, the U.S. cotton industry will work with the Secretary to develop comprehensive provisions of the PLC/ARC Programs.

Numerous lending institutions have expressed their support for the proposal through letters to the Secretary. There is a similar letter being circulated among Members of the House, and we thank those of you who have signed, and encourage those who have not yet signed to please do so. The cotton industry generates annual economic activity in excess of $100 billion. Implementation of the cottonseed proposal will play a critical role in protecting that economic activity.

We understand the significant request represented by the proposal, but we believe the current economic condition requires immediate action. Support provided by cottonseed programs should be viewed in the same manner as other farm program spending, which is an investment in not only production agriculture, but the rural economy.

Thank you, and I would be happy to answer questions at the appropriate time.

[The prepared statement of Mr. Stephens follows:]

PREPARED STATEMENT OF SHANE STEPHENS, VICE CHAIRMAN, NATIONAL COTTON COUNCIL, GREENWOOD, MS

I would like to thank Chairman Crawford, Ranking Member Walz, and the Members of the Subcommittee for the opportunity to present the views of the National Cotton Council regarding the current economic situation in the U.S. cotton industry. My name is Shane Stephens, and I am the Vice President of Cotton Services and Warehousing for Staplcotn Cooperative in Greenwood, Mississippi. I currently serve as Vice Chairman of the National Cotton Council.

The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, merchants, cooperatives, warehousers, textile manufacturers and cottonseed processors and merchandisers. Cotton's scope and economic impact extend well beyond the approximately 19,000 farmers that plant between 8 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers annually cultivate more than 30 million acres of land. Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420,000 workers with economic activity well in excess of $100 billion.

Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from Virginia to California. Unfortunately, the current economic situation is chipping away at that cornerstone and threatening to cause long-term and potentially irreversible damage to the industry and the associated infrastructure. In response to weaker price conditions for cotton relative to competing crops, U.S. producers responded with plantings of just 8.5 million acres of cotton in 2015 (based on the November 2015 NASS estimates). Acreage is down in all regions, and the

U.S. total is the lowest since 1983, which was a year when acreage was sharply reduced by government programs that encouraged land idling.

Losses in cotton area translate into pressure on associated businesses, infrastructure and rural economies. For example, USDA reports that only 601 gins operated in 2014, down 33% over the past decade. Researchers at Louisiana State University [1] have affirmed the multiplier effects on rural economies when cotton acreage declines. A thriving cotton economy is critical to the success of many local economies.

As the 2015 harvest winds down, cotton futures prices trading in the low to mid 60¢ range are at the lowest levels since 2009. Concerns about world demand, burdensome global stocks, a stronger U.S. dollar and general price pressure in commodity markets are playing a factor in the current price environment. The effects of these factors are evident in the latest estimates of cotton production and use.

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 111.6 million bales for the current 2015 marketing year. The estimate represents an increase of approximately 1% from 2014 mill use, and mill use is expected to exceed world production for the first time in 6 years. However, even with very modest growth, world cotton demand remains almost 13 million bales below the peak demand observed in 2006. Slumping demand is largely the result of the tremendous increase in polyester use. During the 2006–2015 period when cotton mill use fell by 13 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 below 50¢ 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.

For cotton farmers, the prospect of higher cotton prices is further challenged by a world stocks-to-use ratio that exceeded 100% in the 2014 marketing year. Current stocks-to-use ratios stand in stark contrast to historical stocks that generally ranged between 50 and 60 percent of total use. The recent increase in stocks was the direct result of policies in place in China for the 2011 through 2013 crops. During those years, China supported its cotton farmers by purchasing vast amounts of its production into government reserves at prices well above the world market. With most domestic production locked in reserves, China imported annually between 14 and 24 million bales from the world market.

A number of significant outcomes resulted from China's policy of building reserves. First, purchasing the majority of the domestic crop at the support level essentially established a floor on internal cotton prices. By late 2011, China's cotton prices were well above international cotton prices and also well above polyester prices. China's mill use of cotton suffered as a result of uncompetitive prices. China's cotton area was generally stable between 12 and 14 million acres.

However, it became clear that continually building stocks was not a long-term solution. After 3 years of amassing more than 50 million bales of cotton in government reserves, China instituted a target price program for the 2014 crop at a level of roughly $1.45 per pound. The new target price program was applicable to the western province of Xinjiang, while the remaining cotton-producing provinces received a direct subsidy of $0.15 per pound. The target price program was continued for the 2015 crop, although the target price was reduced by 3.5% when measured in local currency. The announced target price equated to approximately $1.40 per pound based on exchange rates prevailing at planting time. In another change from the 2014 crop, no direct support was announced for the eastern provinces. As a result, cotton area in those provinces has sharply declined.

China is not the only country to support cotton production with government programs. Recent testimony [2] presented by the National Cotton Council to the House Agriculture Committee provides a more exhaustive review of policies in place in other countries. With 1 out of every 4 bales of the global cotton crop now produced in India, their government programs can have a significant impact on the world market. The Cotton Corporation of India, a government-run procurement and distribution company, is responsible for administering the price support program. The Minimum Support Price (MSP) is announced by the government each year. Between 2010 and 2015, the MSP for medium staple cotton increased by 52%, while the MSP for long staple cotton increased by 42%. The MSP is announced on the basis of seed cotton. Converting to a lint-equivalent basis requires an assumption about turn-out

[1] *http://ageconsearch.umn.edu/bitstream/46823/1/Fannin_Paxton_Valco_SAEA_2009_sub_ver.pdf.*

[2] *http://agriculture.house.gov/uploadedfiles/10.21.15_adams_testimony.pdf.*

rates when the cotton is ginned. Assuming gin turn-out rates between 35% and 40%, current minimum prices in India equate to between $0.70 and $0.80 per pound.

While U.S. cotton policy is a focal point in international circles, there are ample studies and reports that document the various forms of government support present in most cotton-producing countries. While U.S. support for cotton has been declining in recent years, government intervention in other countries has been increasing. With reduced support in the 2014 Farm Bill, U.S. cotton farmers are competing with cotton producers in other countries that are benefiting from higher support levels. Two recent reports illustrate the comparative support rates across selected cotton producing countries. In June 2015 testimony to the House Agriculture Committee, Dr. Darren Hudson with Texas Tech University noted that the marketing loan in the United States was below support prices in China, India, Pakistan, Brazil, and Uzbekistan.[3]

In a November 2014 report,[4] the International Cotton Advisory Committee (ICAC) reported that average direct assistance to cotton production across all countries was $0.26 per pound. For the United States, ICAC estimated the average support at $0.07 per pound. Direct assistance to U.S. cotton producers was well below levels provided in other countries. It should be noted that the ICAC study was based on the 2013 crop year, which was the final year before the significant changes implemented by the new farm legislation.

The studies underscore the challenging conditions facing U.S. producers with international cotton production supported at a level almost four times the level of support in the United States. Unfortunately, current proposals submitted within the World Trade Organization (WTO) would lead to a further imbalance in the situation. The U.S. cotton industry is steadfastly opposed to any proposals considered in the lead-up to or during the December WTO Ministerial that further commits the U.S. to additional changes in cotton policy. I encourage this Committee and our negotiators to hold firmly to the position that agricultural markets have changed since 2005, and that the U.S. cotton industry has evolved in ways that far exceed the demands of the Hong Kong Mandate. A cotton specific "solution" in the WTO negotiations is no longer necessary.

I bring these issues to the attention of the Subcommittee because of the critical influence of international markets in the financial conditions of U.S. cotton farmers. In recent years, approximately 75% of U.S. production enters export channels. Policies that directly affect international production, consumption and trade have a direct bearing on U.S. market prices. Currently, the strength of the U.S. dollar is a limiting factor in exports. China, already covered in some depth, remains the largest cotton importer although they are projected to significantly reduce imports given the current balance between supply and demand. Another obstacle impeding U.S. exports is an ongoing dumping investigation conducted by the Turkish Government.

In recent years, Turkey has been the second largest export customer for U.S. cotton. For the past year, Turkish authorities have been investigating U.S. cotton exporting companies to determine if U.S. cotton is being dumped into the Turkish market. An affirmative finding by Turkish officials would mean that an anti-dumping duty would be applied to U.S. cotton imports, while imports from other countries would remain duty free. A duty would undermine the competitiveness of U.S. cotton and directly impact prices received by U.S. cotton farmers. The uncertainty of the ongoing investigation is already dampening interest in U.S. cotton by Turkish mills, as current sales for this marketing year are just ⅓ of year-ago levels.

The Turkish Government self-initiated the investigation shortly after the U.S. announced anti-dumping/countervailing duty (AD/CVD) investigations of Turkish steel pipe. The Minister of Economy was quoted in Turkish press as saying Turkey would launch three investigations for every one the U.S. aimed at Turkish products. The document produced to support the initiation of the investigation is largely redacted, so the information upon which the allegation of dumping is based is not available for parties to rebut. Many observers believe that Turkey seeks to damage the U.S. cotton industry by using the AD investigation not to benefit their domestic industry but out of retribution for the U.S. steel cases. This is just as much in contravention of the WTO as using trade barriers out of protectionist intent.

It is against the backdrop of these challenges that 2015 U.S. exports projected at 10.2 million bales would be the lowest in 15 years. Of course, the demand base for U.S. cotton is much different than 15 years ago. When cotton exports last fell short of 10 million bales in 2000, the U.S. textile industry consumed almost 9 million bales. Unfortunately, that is no longer the case.

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[3] *http://agriculture.house.gov/uploadedfiles/hudson_testimony.pdf.*

[4] International Cotton Advisory Committee. *Production and Trade Policies Affecting the Cotton Industry.* November 2014. Washington, D.C.

Between 1997 and 2008, the amount of cotton used by U.S. textile mills experienced a precipitous decline, falling from 11.3 million bales down to 3.5 million bales. Since 2008, the U.S. textile industry has stabilized, and there has even been a modest increase in cotton consumption with mill use for the current marketing year expected to reach 3.7 million bales. In recent years, the U.S. industry has benefited from new investments, and textile companies are building new spinning operations in the United States.

One factor contributing to the renewed optimism in the U.S. industry is 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 against imported textile products. I would like to thank the Members of this Subcommittee for their work in the reauthorization of the program in the 2014 Farm Bill. The continuing support of the program allows U.S. textile mills to make the new investments necessary to remain competitive.

For the U.S. textile industry, the Export-Import (Ex-Im) Bank plays an important role in providing financing. Members of the Subcommittee are likely aware of the amount of U.S. cotton production that enters export channels, but it is also the case that the majority of yarn and fabric produced by our textile manufacturers is exported. The Ex-Im Bank plays a critical role in financing exports of textile products. We commend Congress for taking steps to reauthorize the Ex-Im Bank.

A final issue to bring to your attention, particularly as it relates to the U.S. textile industry, is the Trans-Pacific Partnership (TPP) agreement. Overall, the agreement provides for equity and reciprocity for many aspects of trade in cotton fiber between the United States and the other TPP countries. With respect to cotton fiber imports into the United States, the agreement provides for elimination of import duties within 10 years. The duties and quotas applicable to U.S. cotton fiber exports to TPP countries appear to be eliminated immediately.

The cotton industry cannot evaluate any free trade agreement without consideration of the provisions of the agreement that affect trade in cotton textiles. The U.S. cotton industry has long held the concern that a TPP agreement that includes Vietnam is not positive for the U.S. textile industry. Much of the concern stems from granting additional access to the U.S. textile market to a centrally-planned economy that has textile companies with a history of contract defaults. With those overarching concerns in mind, U.S. negotiators appear to have taken steps to mitigate the negative impacts. The agreement generally contains acceptable rules of origin for textiles and limited exceptions that allow for a well-balanced outcome for all parties as well as our partners in the Western Hemisphere. However, there are special provisions with Vietnam and Malaysia that can be detrimental to the U.S. cotton industry if not appropriately implemented. Strong customs enforcement is of critical importance to ensure that the provisions of the agreement are adhered to.

The 2014 Farm Bill included a number of significant changes, not only for cotton policy, but on a more general basis. The unified payment limit that now includes marketing loan gains has been extremely burdensome to implement and created additional uncertainty for cotton producers and merchandisers. It is our hope that a reauthorization of generic certificates will provide relief from this provision.

Another issue creating challenges in the marketing of cotton is the requirement for producers to file a CCC–941 Average Adjust Gross Income (AGI) Certification and Consent to Disclosure of Tax Information form on an annual basis. The requirement for each producer to file a CCC–941 every program year has caused a major interruption in the orderly flow of marketing cotton. The overwhelming majority of producer's average adjusted gross income is less than $900,000. An alternative would be to require that filing this form be done on a one-time basis and remain in effect for the life of the farm bill. Then require the IRS to annually audit and report to FSA if the producer's AGI exceeds $900,000. Since the determination of the average AGI is performed on the 3 years preceding the previous crop year, IRS should be able to report any changes in AGI status on producers prior to any payments for the crop year. As it works today, IRS reviews every producer every year. Why make the producer re-file the same form each year? This would be a more efficient use of all involved in the process. Any assistance you can bring to alleviate the huge burden this puts on all cooperatives and marketers handling this issue will be greatly appreciated.

Mr. Chairman, the National Cotton Council sincerely appreciates the opportunity to provide an update on the economic situation of the U.S. cotton industry. With the lowest U.S. acreage in more than 30 years, the smallest exports in 15 years,

and cotton prices at their lowest level since the 2009 recession, economic pressure is mounting with revenue down 34% from the average levels of 2010 to 2013. Lower revenues generated by an acre of cotton lint and cottonseed production come at a time when costs of production remain at elevated levels. The differential between costs and market revenue is the largest in the past 10 years. Given the cumulative impacts of 2014 and 2015, producers are increasingly concerned about securing production financing for the 2016 crop.

We understand that commodity markets are cyclical, and low prices are the cure for low prices. However, in the current cycle, the cure may not come in time to sustain many producers and businesses reliant on cotton. Futures markets suggest that a relatively flat price situation could prevail for 2016 and 2017. Cotton prices remain pressured by global stocks in excess of 100 million bales with more than 60 million bales held by China. In the face of increased government support in other countries, the U.S. industry is requesting USDA to designate cottonseed as an 'other oilseed' for the purpose of the Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs authorized in the 2014 Farm Bill.

The 2014 Farm Bill (and previous farm bills) includes statutory authority for USDA to designate 'other oilseeds' for purposes of farm bill programs. The infrastructure for the U.S. cotton industry (gins, warehouses, marketing co-ops and merchants, and cottonseed crushers and merchandizers) will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of low prices such as currently exists. This program will be important to ensure continued crop diversity in many parts of the Cotton Belt and the continued economic activity in rural areas.

Cotton is the only traditional 'program' crop that does not have any fixed price protection policy delivered by FSA in the 2014 Farm Bill. While this was the result of the WTO case brought by Brazil challenging U.S. cotton policies and the export credit guarantee programs from more than a decade ago, there still exists an ability and opportunity to provide support for a major co-product of cotton production—cottonseed. It is also important to remind the Subcommittee that more than 80% of retaliatory authority given to Brazil was due to export credit programs.

In order to provide timely relief from current financial pressures, the Secretary is requested to implement the program as early as the 2015 crop. For the 2015 crop, streamlined implementation can be achieved by offering a producer the option to receive cottonseed PLC/ARC payments on cottonseed acres attributed to generic base without penalizing producers who made other covered commodity program planting decisions. For the 2016 crop and beyond, the U.S. cotton industry will work with the Secretary to develop comprehensive provisions of the PLC/ARC programs.

Numerous lending institutions have expressed their support for the proposal through letters to the Secretary. We understand that a letter is being circulated among Members of the House, and we thank those of you who have signed the letter and encourage those who have not yet signed to please do so. The cotton industry understands the significant request represented by this proposal. Such a program does not come without an additional workload for USDA and the potential for additional spending. However, spending under a cottonseed program should be viewed in the same manner as other farm program spending, which is an investment in not only production agriculture but the rural economy. As previously noted in my testimony, the cotton industry generates annual economic activity in excess of $100 billion. Implementation of the cottonseed proposal will play a critical role in protecting that economic activity.

Thank you, and I will be happy to answer any questions at the appropriate time.

The CHAIRMAN. Thank you, Mr. Stephens.

I now want to recognize a constituent of mine who has made the trip up here, and also want to congratulate you and your family on your recent award for Arkansas Farm Family of the Year. Thank you for being here. I now recognize Mr. Nathan Reed, for 5 minutes.

STATEMENT OF NATHAN B. REED, J.D., ARKANSAS STATE CHAIRMAN, AMERICAN COTTON PRODUCERS, MARIANNA, AR

Mr. REED. Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for the opportunity to testify today. My name is Nathan Reed and I live and farm in Marianna, Arkansas.

Cotton acreage in the mid-South region of Arkansas, Louisiana, Mississippi, Missouri, and Tennessee is 980,000 acres, the lowest amount in several decades, and down from 4 million acres just 10 years ago. A decline of this magnitude is having severe consequences for the entire cotton industry. I fear our region is at a tipping point with regard to cotton acreage and the remaining infrastructure.

If some stabilizing policy is not implemented very soon, cotton acres are likely to continue their decline to the point that the remaining infrastructure cannot survive.

Production costs have continuously increased over the last decade. According to the University of Arkansas, average production costs for irrigated cotton have increased by $147 per acre since 2008, while current cotton prices are largely unchanged. With low cotton prices and tight margins, absent above-average yields, producers are facing negative cash flows.

The importance of cottonseed continues to grow; now representing 25 percent of the total value from an acre of cotton production. To address the current economic crisis, I join the other panelists, the National Cotton Council, and 125 mid-South ag lenders in supporting the use of administrative authority granted to USDA to designate cottonseed as an other oilseed for farm program participation.

Another significant concern is USDA's current rulemaking regarding the determination of whether an individual is actively engaged in a farming operation. I want to emphasize the very narrow scope of the farm bill provision that resulted in this rulemaking process. The farm bill clearly stipulates that no changes in the actively engaged provisions will apply to individuals or entities comprised solely of family members. Further, the bill only requires the Secretary to define the term *significant contribution of active personal management.* Beyond this, no other changes are required by statute. The Secretary has discretion if deemed appropriate to establish limits on the number of individuals that can qualify based on active personal management, but again, this is not required by law. We urge this Subcommittee to work closely with USDA to ensure any changes to actively engaged provisions adhere to the intent of the farm bill. I also want to urge that no other changes or modifications are made relative to program eligibility, including implementation of the spousal rule.

EPA's Spill Prevention, Control, and Countermeasures Rule is a prime example of an ongoing regulation that is unnecessarily burdening farmers and adding costs to address a problem that does not exist. Chairman Crawford, we are extremely appreciative of you leading the efforts to rein-in this regulation and ensure it is a more realistic and cost-effective rule.

One of the largest production costs across the Cotton Belt is managing herbicide-resistant weeds. Currently, there are two new cotton traits to help manage weed resistance that have been approved by the USDA, but are still awaiting label approval by the EPA. We strongly urge this Committee and others in Congress to engage with the EPA to hold them accountable for the actions that they are continuing to delay the availability of safe and effective crop protection products.

I appreciate the Members of this Subcommittee for holding this timely hearing to review the current conditions facing U.S. cotton. Feedback from across the industry underscores the critical importance of policy actions, such as the cottonseed proposal that can provide stability for our industry. The current situation in the cotton industry goes beyond the normal challenges, and is to the breaking point for many producers, and those in other industry segments.

Thank you for this opportunity, and I will be glad to respond to any questions at the appropriate time.

[The prepared statement of Mr. Reed follows:]

PREPARED STATEMENT OF NATHAN B. REED, J.D., ARKANSAS STATE CHAIRMAN, AMERICAN COTTON PRODUCERS, MARIANNA, AR

Introduction

Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for the opportunity to testify today regarding the current condition of the U.S. cotton industry, the significant challenges cotton producers face, and what policy changes are needed to address this worsening situation. My name is Nathan Reed and I farm in Marianna, Arkansas.

Farm and Background

I am the owner of Nathan B. Reed Farms and Eldon Reed Farms, Inc. which are row crop operations. I farm approximately 7,000 acres of rice, cotton, corn, soybeans, and cereal rye in the Delta region of southeast Arkansas.

Acreage and Infrastructure Impacts

The acreage planted to cotton in the mid-South region of Arkansas, Louisiana, Mississippi, Missouri, and Tennessee for 2015 is 980,000 acres, the lowest amount in several decades. A decline of this magnitude is having severe consequences for the entire cotton industry in the region, from producers, gins, warehouses, marketing cooperatives, merchants, and cottonseed processors and merchandisers. This region has the capability to produce some of the highest cotton yields across the Cotton Belt and has historically been a major area of cotton production. However, in recent years due to the influence of many factors, some driven by Federal policies, and some by economics, acreage has continued to decline. I fear our region is at a tipping point with regard to cotton acreage and the remaining infrastructure. If some stabilizing policy is not implemented very soon, cotton acres are likely to continue their decline to the point that what is left of our infrastructure cannot survive. As you know, once the infrastructure of gins, warehouses, and related businesses are gone, they are not likely to return, making it unlikely cotton production will return to our region.

Policy Needs

In an effort to address the current economic crisis in the cotton industry, the National Cotton Council and other cotton industry organizations have developed a proposal to help bring some stability to the industry. This proposal is based on the administrative authority that Congress has provided to USDA in the current and previous farm bills that allows the Secretary of Agriculture to designate other oilseeds as eligible for farm program participation. We believe that cottonseed, which is an important co-product of cotton production, should be designated as an oilseed and defined as a covered commodity under this farm bill, making cottonseed eligible for the PLC/ARC program. The importance of cottonseed continues to grow, as it now represents about 25% of the total revenue or value from an acre of cotton production.

It is important to note that the designation we are seeking would not require any legislative action by Congress and would not reopen the 2014 Farm Bill. The farm bill provides this authority to the Secretary of Agriculture and we strongly believe the current economic circumstances of the U.S. cotton industry warrant this action. Without some stabilizing policy put in place for the cotton industry, given the current and projected prices and costs of production, we can expect to see a continued decline in mid-South cotton acres and the associated infrastructure. As the acreage continues to shrink, our region is planting more corn and soybeans and this trend will continue. A more recent development has been the production of peanuts in this

region, and with our productive soils, irrigation capabilities, and the current farm bill policies, I expect to see further increases of peanut acreage in the mid-South absent some response to the current cotton economic situation.

As further evidence of the need for the cottonseed policy, at least 125 lenders across the mid-South region have written to Secretary Vilsack urging him to take action on the cottonseed proposal to help address the deteriorating situation. The national Farm Credit Council, representing all the local farm credit associations, sent a similar letter outlining the current need for USDA to use whatever authorities available to assist the industry. Additionally, state farm bureaus representing four of the five states in the mid-South region have also written to the Secretary urging him to move forward with the cottonseed policy.

Costs of Production

Production costs have continuously increased over the last decade. According to the University of Arkansas extension service, average production costs for irrigated cotton have increased by $147 per acre since 2008. With low cotton prices and tight margins, some producers will likely have negative cash flows in 2015 and 2016. For 2015, the University of Arkansas extension budgets show a loss of $33 per acre for center pivot irrigated GLB2 cotton and a loss of $95 per acre for non-irrigated GLT cotton.

The increase in production costs for the Delta region as reported by Mississippi State extension is even higher with an average increase of about $180 per acre since 2008 for the B2RF variety. Mississippi State published 12 cotton budgets for 2015 based on different varieties/practice/regions and all showed negative net returns above total costs for 2015, with an average loss of $67. The University of Tennessee extension budgets report an average loss of $166 for 2015. For 2016, the Mississippi State budgets are showing even greater losses for the Delta and non-Delta regions as compared to 2015. Production costs for irrigated B2RF cotton are projected to be $65 higher in 2016. Average losses across all varieties/practices/regions are $90 per acre.

Policy Costs

'Actively Engaged' Rulemaking

One significant policy concern regarding farm bill implementation is USDA's current rulemaking to modify the parameters used to determine whether an individual is 'actively engaged' in a farming operation and eligible to participate in farm programs. While we have concerns about the potential unintended consequences from this rulemaking, we want to emphasize the very narrow scope of the farm bill provision that resulted in the 'actively engaged' rulemaking. The farm bill clearly stipulates that no changes in the 'actively engaged' provisions will apply to individuals or entities comprised solely of family members. Further, the bill only requires the Secretary of Agriculture to define the term "significant contribution of active personal management." Beyond this, the only other possible change is, if the Secretary determines it is appropriate, to establish limits on the number of individuals by farm type that can qualify based on active personal management. However, this is not a change required by the statute. And even this provision cannot apply to or impact any individuals or entities made up solely of family members. We urge this Subcommittee to continue to work closely with USDA as this rulemaking proceeds to ensure any changes to 'actively engaged' provisions closely adhere to the narrowly crafted provision in the farm bill.

The NCC has always maintained that effective farm policy must maximize participation without regard to farm size or income. Artificially limiting benefits is a disincentive to economic efficiency and undermines the ability to compete with heavily subsidized foreign agricultural products. Artificially limited benefits are also incompatible with a market-oriented farm policy. Arbitrary restrictions on the contribution of management and labor are out of touch with today's agricultural operations and would only contribute to inefficiencies.

Earlier this year, USDA issued the proposed rule on 'actively engaged' and NCC along with numerous other commodity and farm organizations commented on the proposal. Of the approximately 90 comments received, 26 were from various groups, with 18 of those groups opposed to the changes and expressing concern about the potential impacts. We urge USDA to seriously consider the issues raised in these comments regarding the implications of the proposed rule. It is our understanding that the final rule is at the Office of Management and Budget for review, and we strongly ask that the final rule not apply for the 2016 crop year, given that the 2016 crop year has already started for fall-planted crops. The final rule should not go into effect until 2017 at the earliest to allow producers and their families an opportunity to make the necessary transitions to comply with any new requirements.

In addition to the 'actively engaged' rulemaking, we also want to ensure that no other changes or modifications are made relative to program eligibility, including the spousal rule and how USDA implements this provision.

Regulatory Costs

Spill Prevention, Control, and Countermeasures Rule

The EPA's Spill Prevention, Control, and Countermeasures (SPCC) rule is a prime example of an ongoing regulation that is unnecessarily burdening farmers and adding compliance costs to address a problem that does not exist or a concern that is not realistic. The SPCC rule places specific requirements on above-ground oil and fuel storage tanks located on farms. The rule was initially promulgated by the Environmental Protection Agency (EPA) under the jurisdiction of the Clean Water Act (CWA) as an attempt to protect navigable waters. However, the rule lacks a common-sense approach to how best to ensure natural resources on agricultural land are protected from possible fuel spills.

Chairman Crawford, we are extremely appreciative of your leading the efforts to rein in this regulation and ensure it is a more meaningful, realistic, and cost-effective rule. We are pleased that the U.S. House has passed both standalone legislation and as part of broader legislation to address this costly regulation, but we are still awaiting action in the Senate to finally see enactment of legislation to make the needed changes to the SPCC rule.

Approval of Herbicide Tolerant Trait and Labels

One of the largest production costs on U.S. cotton farms across the Cotton Belt today is managing herbicide-resistant weeds and the activities involved in doing so. The 'management' of weeds includes field preparation activities, cover crops, purchasing seed with herbicide-tolerant traits, and the use of herbicides. The tools that farmers have available to them in their toolbox for managing herbicide-resistant weeds are becoming fewer and fewer, greatly increasing the need for approval of new herbicide traits and the necessary herbicide label approvals. With regard to weed control, it is particularly important that farmers have options and the ability to use multiple modes of action.

Currently, there are two new cotton traits to help manage weed resistance that have been approved by USDA's Animal and Plant Health Inspection Service (APHIS), but are still awaiting label approval by the EPA. It is taking an inordinate amount of time to have new technologies approved by EPA. For example, one important technology that would allow farmers to use dicamba over the top of cotton and soybeans has been pending for over 5 years at EPA. In addition, EPA just revoked the label for a formulation of 2-4-D that was used on limited soybean acreage this year and was scheduled for traited cotton varieties in the 2016 crop.

Neither of these new tools were made available in time for the 2015 planting season, although the reasons for the delay were weak at best. Yet today, we are less than 3 months away from the earliest cotton planting in parts of the Cotton Belt, and still neither of the two products have approved labels by EPA. At this rate, EPA is very likely to cause cotton producers to begin yet another production season handicapped in their efforts to control herbicide-resistant weeds, and the reasons for the seemingly unending delay are questionable at best. The approval process at EPA is being hijacked by a broken and unworkable Endangered Species Act, which one of my fellow panelists addresses in more detail in his testimony. In addition, EPA, and the Executive Branch, are allowing those groups opposed to any advances in modern agriculture to use the court system to slow, and in many cases halt, the approval process. A recent example is the decision by EPA to withdraw the registration for the use of a new herbicide label on a new trait due to ongoing court action.

We strongly urge this Committee and others in Congress to engage with EPA to hold them accountable for the actions that are continuing to delay the availability of safe and effective crop protection products. Without the availability of new tools to control weeds and other pests, the production costs for cotton will continue to increase, leading to a further decline in cotton acreage as producers shift to other crops with lower costs of production, partly due to the availability of newer, more effective weed control products.

Waters of the U.S. Rule

The final rule provides none of the clarity and certainty EPA claims. Instead, it creates confusion and risk by providing EPA and Corps of Engineers (the Agencies) with almost unlimited authority to regulate, at their discretion, any low spot where rainwater collects, including common farm ditches, ephemeral drainages, agricultural ponds, and isolated wetlands found in and near farms and ranches across the nation. The proposed rule defines terms like "tributary" and "adjacent" in ways that

make it impossible for a typical farmer or rancher to know whether the specific ditches or low areas at their farm will be deemed "waters of the U.S." These definitions are certainly broad enough, however, to give regulators (and citizen plaintiffs) plenty of room to assert that such areas are subject to CWA jurisdiction. Moreover, no crisis exists. The Agencies do not argue that they need to regulate farming and ranching to protect navigable waters. Yet, the regulation gives them sweeping authority to do so, which they may exercise at will, or in response to a citizen plaintiff. Farming is a water-dependent enterprise, especially in the part of the country where I farm. The majority of my acreage is irrigated, which is common for most row crop farms in the Mississippi Delta region. Irrigation ditches carry flowing water to fields throughout the growing season as farmers open and close irrigation gates to allow the water to reach particular fields. These irrigation ditches are typically close to larger sources of water, irrigation canals, or actual navigable waters that are the source of irrigation water, and these ditches channel return flows back to those source waters.

Except for very narrow exemptions, regulating drains, ditches, ponds, and other low spots within farm fields as "navigable waters" would mean that *any* discharge of a pollutant (*e.g.,* soil, dust, pesticides, fertilizers and "biological material") into those ditches, drains, ponds, *etc.,* will be unlawful without a CWA permit.

This jurisdictional expansion will be disastrous. Farmers need to apply weed, insect, and disease control products to protect their crops. On much of our most productive farmlands (areas with plenty of rain), it would be extremely difficult to avoid entirely the small wetlands, ephemeral drainages, and ditches in and around farm fields when applying such products. If low spots in farm fields are defined as jurisdictional waters, a Federal permit will be required for farmers to protect crops. Absent a permit, even accidental deposition of pesticides into these "jurisdictional" features (even at times when the features are completely dry) would be unlawful discharges.

The same goes for the application of fertilizer, another necessary aspect of farms. It is simply not feasible for farmers to avoid adding fertilizer to low spots within farm fields that may become jurisdictional. As a result, the rule imposes on farmers the burden of obtaining a section 402 National Pollutant Discharge Elimination System permit to fertilize their fields and put EPA into the business of regulating whether, when, and how a farmer's crops may be fertilized.

Conclusion

I appreciate the Members of this Subcommittee for holding this timely hearing to review the current state of the U.S. cotton industry and hear some suggestions from across the Cotton Belt of policy actions that can bring some level of stability back to our industry. We know that agriculture and farming always has its share of ups and downs—that is to be expected—but the current situation in the cotton industry goes beyond these expected challenges and is to the breaking point for many producers and those in other industry segments. Thank you for this opportunity and I will be glad to respond to any questions at the appropriate time.

The CHAIRMAN. Thank you, Mr. Reed.

I now recognize Mr. Shawn Holladay from National Cotton Council, Lubbock, Texas.

STATEMENT OF SHAWN L. HOLLADAY, PRODUCER BOARD MEMBER, NATIONAL COTTON COUNCIL, LUBBOCK, TX

Mr. HOLLADAY. Good morning, Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee. My name is Shawn Holladay. My wife, Julie, daughter, Katy, and I grow cotton in Lamesa, Texas, in Dawson and Martin Counties. I currently serve as the President of Plains Cotton Growers, as well as the Chairman of the Farm Policy Task Force of the American Cotton Producers.

Our area of Texas, which is proudly represented on the Agriculture Committee by both the Chairman and the Vice Chairman, is the largest contiguous cotton-producing region in the country. Texas is also the largest cotton-producing state in the nation, claiming 55 percent of total acreage. I cite these statistics to underscore the economic toll on Texas when the cotton industry is in the

tank. The financial situation has deteriorated, with crop prices falling sharply and input costs rising. For Texas, the current marketing conditions compound an already difficult situation brought about by a series of natural disasters.

As this Committee has thoroughly reviewed in previous hearings, we are getting hammered in the global market by huge foreign subsidies, tariffs, and non-tariff trade barriers that have always been high, but are rising to record levels. Mr. Chairman, this does not take into account EPA regulations, tax uncertainty, and other Federal policies that add significantly to our cost of production.

It is fair to say that all of us in farm country could use a period of extraordinary yields, plus a strong and sustained rebound in prices. The cotton situation is unique among commodities because we have been hit with significant changes in both market prices and the farm program safety net. Cotton producers are by and large operating under a safety net that was never designed to address these dire circumstances.

Successive droughts in Texas, while devastating, are only part of the story. Even beyond the severest drought years, yields have continued to be extremely low. Cotton prices remain depressed, and some producers are suffering a decline in value due to weather-related quality losses. Resistant weed pressure is a relatively new challenge that is adding significant costs to our operations. As a result, farmers in our part of the country were totally bled out of liquidity by the end of 2014. Many struggled to get approved for financing this year. Some were forced to sell off land. Still others were forced to quit farming.

Mr. Chairman, I know that a lot of this simply is the price you pay if you want to farm. Trust me, what Mother Nature can throw at a guy is clear to a family that has farmed mostly dryland cotton in west Texas for four generations. We understand the volatile effects of extreme weather conditions. Good years can be followed by a complete loss. Thanks to the occasional good years and crop insurance, we have been able to get through tough times. However, crop insurance was never designed to deal with anti-competitive trading practices by countries like China and India, yet that is almost exclusively what a cotton farmer must rely on today. As many of you know, China supported world prices by accumulating stocks that today amount to about 4 years of U.S. production. China then switched gears to heavily subsidize their own production, sending world prices into a total tailspin. Now, India is an even greater concern because it is an exporting country with increasing domestic support in production. Put simply, cotton farmers in the United States cannot survive long on 60¢ cotton, as other countries subsidize cotton production at a level that is four times higher than the United States.

This scenario simply does not pencil out. As we have seen before, once cotton production goes away in an area, the infrastructure dies with it and whole communities suffer.

As farmers begin to look at financing the 2016 crop, it is absolutely essential that the Secretary use the authority Congress granted under the farm bill to take decisive action to designate cottonseed as an other oilseed. I know that many times when there has been a crisis in countryside and action was gummed up in

Washington, the Secretary has stepped in and broken the logjam. That is what we are hoping and praying for here.

I am indebted to you, Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, who have urged Secretary Vilsack to take action on cottonseed.

Thank you for the opportunity to testify at this hearing, and I look forward to answering your questions.

[The prepared statement of Mr. Holladay follows:]

PREPARED STATEMENT OF SHAWN L. HOLLADAY, PRODUCER BOARD MEMBER, NATIONAL COTTON COUNCIL, LUBBOCK, TX

Introduction

Good morning, Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee. My name is Shawn Holladay. My wife Julie, daughter Katy, and I live in Lubbock, Texas and we grow cotton in Dawson and Martin Counties. I currently serve as the President of the Plains Cotton Growers, as well as Chairman of the Farm Policy Task Force of the American Cotton Producers.

Texas Cotton Situation

Our area of Texas, which is proudly represented on the Agriculture Committee by both the Chairman and the Vice Chairman, is the largest contiguous cotton producing region in the country. The State of Texas is also the largest cotton producing state in the nation, claiming 55 percent of total U.S. acreage. I would add that cotton is also Texas' highest valued cash commodity.

I cite these statistics not only because I am very proud of them, but also to underscore the economic toll on Texas when the cotton industry is in the tank. I know that farmers are struggling all across the country right now, with net farm income down 55% over the past 2 years from $123.3B in 2013 to a forecast of $55.9B in 2015. Crop prices are down sharply and input costs are rising. While a good many farmers have enjoyed some very strong yields in recent years, many others are recovering from strings of natural disasters. Still others are very much in the grips of drought, flooding, or both.

As this Committee has so thoroughly laid out in previous hearings, we are getting hammered in the global market by huge foreign subsidies, tariffs, and non-tariff trade barriers that have always been high but are rising to record heights. Mr. Chairman, this does not take into account EPA regulations, tax uncertainty, and other Federal policies that add significantly to our costs of production. I have gone into more detail on these challenges in my written statement.

It is fair to say that what all of us in farm country could really use is a period of some extraordinary yields plus a very strong and sustained rebound in prices. What distinguishes the situation for cotton farmers from that of others is the severity with which cotton has been hit; that cotton farmers have been hit by all of these culprits nearly all at once; and that cotton producers are by and large operating under a safety net that was never designed to meet this kind of crisis.

I will defer to my colleagues at this table to speak about the unique situation for cotton in their own region of the country. I will speak only of our situation at home. Compounding already high input costs has been the introduction of resistant weed pressure in Texas that is adding significant costs to our operations.

Successive droughts in Texas, while well documented is only part of the story. Even beyond the severest drought years, yields have continued to be extremely low while at a time the floor has fallen on cotton prices.

The result is, farmers in our part of the country were totally bled out of liquidity by the end of last year. A great many struggled to get approved for financing for this year, with many forced to sell off land, and still others forced to quit. [Crop year] 2015 got off to a promising start with, finally, some really good rains. But that rain ultimately became excessive. A lot of our crops were washed out. This meant not only the additional cost of having to replant but also having to put down the even greater weed pressure that all of the rain brought with it. At the end of the day, when excessive moisture turned into 3 months of little or no rain, the root systems in our crops proved too weak to produce anything close to the promising yields we had been praying for.

I know that a lot of this is simply the price you pay if you want to farm.

Trust me, what Mother Nature can throw at a guy is clear to a family that has farmed mostly dryland cotton in west Texas for four generations. Thanks to the good Lord smiling on us every now and again and crop insurance, we have been

able to get through tough times. However, crop insurance was never designed to deal with anti-competitive trading practices by countries like China and India. Yet, that is almost exclusively what a cotton farmer must rely on today.

As many of you know, China drove up world prices, and our costs, by accumulating stocks that today amount to about 4 years' of U.S. production. China then switched gears to instead heavily subsidize their own production, sending world cotton prices into a total tailspin. Now, India is following suit in pursuing its own set of harmful policies.

Put simply, cotton farmers in the United States cannot survive long on 60¢ cotton as China and other countries subsidize and glut the world market by guaranteeing their farmers $1.40 a pound. This scenario simply does not pencil out and as we have seen before, once cotton production goes away in an area, the infrastructure dies with it, never to return, and whole communities suffer.

While many of my fellow producers had a difficult time understanding the circumstances facing our industry concerning cotton farm program options for the 2014 Farm Bill, as a leader, I know the hard choices that had to be made by our leadership and this Committee. We appreciate the inclusion of the STAX cotton crop insurance and other crop insurance enhancements including the APH adjustment. However, we believe there are still program options possible for cotton producers that do not require re-opening the 2014 Farm Bill.

As this Subcommittee is aware, our industry is asking Secretary Vilsack to designate cottonseed as an "other oilseed" and make it eligible for PLC and ARC programs. We appreciate Chairman Conaway and Ranking Member Peterson authoring a Congressional letter to the Secretary urging him to take such action. We are encouraging all Cotton Belt Members to join this letter. We are also initiating a similar effort in the Senate as well as a major push from agricultural lenders. A letter signed by 197 lenders in Texas and over 400 letters across the Cotton Belt were recently sent to Secretary Vilsack in strong support of USDA designating cottonseed as an "other oilseed" for ARC/PLC purposes. Implementation of this program is not a "silver bullet" that will restore profitability, but it will be a tremendous help in allowing our industry to survive these difficult economic times.

Federal Crop Insurance

Earlier, I referenced our dependence on a sound Federal Crop Insurance Program as a critical risk management tool. However, it is important to understand that crop insurance benefits are not profit. Multi-peril and area-wide policy coverage does not fully indemnify producers for weather-related risks. Most producers in my state and across the Cotton Belt have 25–40% threshold exposures before coverage kicks in. This is one of the reasons why our industry supported shallow-loss coverage provisions such as STAX and SCO.

Our industry appreciates this Committee's stance on challenging the proposed $3 billion reduction in crop insurance expenditures. Given the cotton industry's major dependence on Federal crop insurance, it is critical to avoid any budget reductions.

In this, the initial year of STAX being offered to producers, approximately 12,000 policies were purchased, covering about 30% of the insured acreage. While this adoption rate is less than hoped for, there were several factors that contributed to this level. Many producers were challenged to understand the complexities of the 2014 Farm Bill options at the same time as having to evaluate the new menu of crop insurance provisions. We believe with more education for producers and more training for agents, the STAX adoption rate will improve.

Specifically, we are encouraged that the Risk Management Agency has announced positive changes in the STAX program for the 2016 crop that will improve the product. Producers will now have the option of purchasing individual STAX coverage by practice and will now be able to add the cottonseed endorsement to their STAX coverage.

Producers appreciate the farm bill's APH Yield Adjustment provision which allows the exclusion of extremely low yields in the APH calculation. An additional change that is still needed would be to allow producers the option of individual enterprise unit pricing by practice. While enterprise unit pricing is now rated by practice, a producer is still required to have all production in a county covered. This additional flexibility would allow producers to enhance the individualized crop insurance coverage options.

Boll Weevil and Pink Bollworm Eradication

Two of the major initiatives by our industry and USDA that have been a positive for cotton production are the success of the boll weevil and pink bollworm eradication programs. The Boll Weevil Eradication program is in its final stages with the only active zone being the Lower Rio Grande area of southern Texas bordering Mex-

ico. However, this area is proving to be one of the most difficult to eradicate. While significant progress has been made, we still face an influx of boll weevils from northern Mexico. Our industry, in conjunction with USDA APHIS, is exploring every possible option to conquer this challenge. Likewise, the Pink Boll worm Eradication program is nearing completion, and a transition plan [is] now in effect that will hopefully allow the U.S. Cotton Belt to be designated pink bollworm-free. Therefore, it is vital that Congress maintain funding for both of these programs as we transition to eradication. Any reduction or a discontinuance of appropriated funds could reverse the eradication efforts that the successful producer/Federal Government partnership has achieved to date.

Crop Protection Products

Another significant concern of our industry is serious challenges to the availability of crop protection products and biotech traits that are critical inputs for cotton and all major commodity producers. Specifically, the approval of cotton biotech trait chemistries to combat resistant weeds are being delayed by EPA. Resistant weeds are quickly becoming a major problem in west Texas given the return of periodic moisture. Cotton varieties with biotech traits are available to cotton producers but without the approval of the associated chemistries they cannot provide an effective tool to fight [resistant] weeds. It is vitally important that EPA expedite the approval process for these products.

The Endangered Species Consultation process required under the Endangered Species Act between EPA and Fish and Wildlife Services is broken and continues to delay the approval process while the two Agencies seek a solution. The broken consultation process continues to provide legal challenges against EPA by anti-pesticide groups. And the fear of legal action increases the delay of critically needed production products.

Additionally, an entire class of agriculture chemistry, known as the organophosphates, is under regulatory review by EPA. This review includes several critical cotton pesticides, with Malathion being one. Our concern is the prospect of adding unwarranted safety criteria based on unsound risk principles that could result in a severe limitation or cancellation of use. The industry is concerned that EPA's adoption of this new risk factor in the registration review of multiple organophosphates sets a new precedent that could jeopardize the boll weevil eradication program. Scientists who have advised the cotton industry and APHIS on boll weevil eradication operations indicate that there is no Malathion substitute product to functionally conduct a boll weevil eradication program. The Organophosphate review process threatens several critical products used in cotton production. For example, Bidrin is critical for control of certain stinkbug populations. It is not used across the whole Cotton Belt as EPA assumes in their risk process, but it is critical at random locations based on the occurrence of the pest. Tribufos, a critical harvest aid product that aids in defoliating cotton, is critical especially under certain environmental conditions.

The industry is very concerned that EPA is adopting risk assessment procedures that lean more toward the European model of precaution rather than sound science-based risk assessment balanced with a sound science-based benefits assessment. We applaud efforts made by USDA's Office of Pest Management Policy to advocate for agriculture and provide consultation to EPA, but we feel EPA gives little consideration to the consultation. Our industry hopes EPA returns to reliance on sound scientific data and risk-benefits analysis directed under FIFRA.

Conclusion

Mr. Chairman, I wish I could come to this hearing with more positive news about the state of the U.S. cotton industry, especially in my home State of Texas. But, the reality is that cotton producers, cotton infrastructure and the rural communities that depend upon a viable cotton industry are in peril. All of these challenges I have outlined combine to create the worst cash flow situation for cotton growers in years, and without some relief, many producers will be out of business because they will not be able to obtain financing. Our industry has faced difficult economic circumstances before and if these challenges I have outlined can be somewhat mitigated, we have a good chance to become profitable again in the future.

Again, I commend this Subcommittee for holding this hearing and allowing the cotton industry to share its concerns. I will be happy to respond to questions at the proper time.

The CHAIRMAN. Thank you, Mr. Holladay.

Mr. Wannamaker, you are recognized for 5 minutes.

STATEMENT OF KENDALL "KENT" W. WANNAMAKER, PRESIDENT, SOUTHERN COTTON GROWERS, SAINT MATTHEWS, SC

Mr. WANNAMAKER. Good morning. I am Kent Wannamaker, a sixth-generation producer from Saint Matthews, South Carolina, and I farm cotton, peanuts, and corn. I currently serve as President of the Southern Cotton Growers, an organization that represents thousands of cotton farmers from six southeastern states.

I first would like to thank Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee for the opportunity to testify.

My state and farm recently endured the wrath of Mother Nature in the form of historic rains and floods. My area received around 11″ of rain, while some areas of the state received more than 25″. The rain and floods occurred in October at the beginning of harvest, when all inputs have been put into the crop. Unfortunately, persistent rains have not allowed field work to resume in many areas. The result has been not only yield losses, but also quality losses.

At a recent meeting with RMA, an issue was raised regarding the timing of indemnity payments. Current procedures require a producer who is accepting an appraisal to destroy the crop prior to receiving the indemnity. Unfortunately, many producers will not be able to destroy their crop for many weeks to come. The request to RMA is to allow a producer the opportunity to pledge to destroy the crop at the earliest date possible, or provide documentation that the crop was destroyed, but allow indemnity payments to be made prior to destruction. Getting the indemnity payments to these producers in the timeliest manner is extremely important. Ongoing delays are compounding the challenges for servicing debt for this year's crop, and securing financing for next year's crop.

Another issue that has intensified over the last several years is the challenge to control damaging pests with minimum impact on managed honeybee colonies. The cotton industry is troubled by the recent decision of the Ninth Circuit Court that vacated the registration of crop protection product because the court did not believe EPA had sufficiently shown no harm to bees. The industry further notes the court did not consider the benefits of the chemistry, as EPA is mandated to do. The court's decision will alter the registration and registration review process of EPA, creating additional costs, and delaying timely review of necessary crop protection tools.

One of the most challenging issues from the 2014 law is the imposition of the unified payment limit on the marketing loan program. With 2014 ARC and PLC payments having been paid, many producers have found themselves with either no limit left for the payment, or only eligible to receive a portion of the payments due to them. In the worst case, the producer received payments in excess of the limit and will be required to repay a portion to USDA.

The Fiscal Year 2016 House agriculture appropriations bill includes language that directs USDA, beginning with the 2015 crop, to operate the marketing loan program as they did prior to the 2008 Farm Bill. This provision allows USDA to issue marketing certificates, thus permitting the program to function as intended.

If this provision is not included, it is likely that some cotton will be placed in the marketing loan for the full 9 month term, and then be forfeited to USDA rather than being actively marketed during the year. This practice will lead to cotton being locked in the loan program, disrupting cotton flow to the market, and leading to potentially greater government costs.

Other panelists have mentioned the request that the Secretary designate cottonseed as an other oilseed to be eligible for the ARC and PLC programs, and I want to echo my strong support. In addition to numerous calls for action from the cotton industry, 50 agricultural lenders from the Southeast have contacted the Secretary requesting you take action. In my state, we have seen a production decline of over 40 percent in just 1 year, making it much harder for gins and warehouses to cash flow with the type of reduction in volume. Crop insurance has been there to help us when we needed it. The Agriculture Committee and others have worked to strengthen and enhance the role of crop insurance to respond to weather-related disasters since Congressional approval of *ad hoc* disaster assistance has become much more difficult in recent years. Yet crop insurance alone is not equipped to address long-term price declines as currently being experienced in the cotton industry. Therefore, the cottonseed program is needed to help provide income support for cotton producers.

Mr. Chairman, I appreciate the opportunity to testify before this Subcommittee, and I am happy to answer questions at the appropriate time.

[The prepared statement of Mr. Wannamaker follows:]

PREPARED STATEMENT OF KENDALL "KENT" W. WANNAMAKER, PRESIDENT, SOUTHERN COTTON GROWERS, SAINT MATTHEWS, SC

Introduction

I am Kent Wannamaker a sixth generation producer from Saint Matthews, South Carolina. My farming operation consists of 2,500 acres of cotton, peanuts and corn. I have ownership interests in a cotton gin, a peanut buying point and a cottonseed rail handling facility. Currently, I serve as President of Southern Cotton Growers. Southern Cotton Growers, Inc. represent thousands of cotton producers throughout Alabama, Georgia, South Carolina, North Carolina, Florida, and Virginia. Southern is the largest pure cotton producer's organization in the United States in terms of states represented.

I first would like to thank Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee for the opportunity to present these views regarding the state of the U.S. cotton industry.

My state and farm recently endured the wrath of Mother Nature in the form of historic rains and floods. My area received around 11″ of rain while some areas of the state received 25″. Our crop literally started out with a drought and ended with a flood. To compound matters, the rains and floods occurred in October at the beginning of harvest when all the inputs have been put into the crop. The situation in my area is truly dire. We have been working with the insurance companies and the Risk Management Agency (RMA) to make sure appraisals are correct, consistent and handled by knowledgeable appraisers. I recently attended a meeting in South Carolina with RMA Associate Administrator Tim Gannon and appreciate him taking time to come to our state. One of the requests made at the meeting and echoed in a letter to the RMA Administrator from the National Cotton Council has to do with the timing of indemnity payments. Current indemnity procedures require a producer who is accepting an appraisal to destroy the crop prior to receiving their indemnity. I understand the basis for this procedure is to ensure compliance with crop insurance procedures that minimize moral hazard within the program. However, in this special circumstance, many producers will not be able to destroy the crop for many weeks, thus not receiving their indemnity until a much later date. This issue is compounded with the end of the year approaching and many farm and machinery notes

coming due. The request to RMA is to allow a producer facing these circumstances the opportunity to pledge to destroy the crop at the earliest date possible or provide documentation at a later date that the crop was destroyed but allow for indemnity payments to be made prior to crop destruction. Getting the indemnity payments due these producers in the timeliest manner is extremely important.

Implications of Unified Payment Limitation

One of the most challenging issues from the 2014 law has been the imposition of the unified payment limit on the marketing loan program. Unlike previous farm bills, this is the first time a single, unified limit has applied to multiple programs—marketing loan program, Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC). This fact, coupled with the direct attribution provisions that were first instituted with the 2008 Farm Bill, has resulted in an extremely complex and challenging task for USDA's Farm Service Agency (FSA) to be able to accurately and timely track the accrual of marketing loan benefits to an individual producer. Since producers can and do market their cotton (and other crops) using multiple marketing channels—marketing cooperatives, private merchants, direct marketing—the complexity of tracking marketing loan benefits through these multiple transactions in a timely manner has proven to be beyond the capability of FSA's current systems.

For producers of multiple crops, the implications of the unified payment limit will be particularly harmful as a portion or all of a producers' payment limit could be used for marketing loan benefits as the crop is marketed throughout the year. In many cases the exact time of loan redemption is out of the producers' control if the commodity is marketed through a cooperative or a private merchant that has the option to redeem the loan commodity at any time. Now that ARC and PLC payments for the 2014 crop have been paid, many producers have found themselves with either no limit left for the payments or only eligible to receive a portion of the payments they are eligible for. In the worst case, a producer receives payments in excess of the limit and is required to repay a portion of the payment to USDA.

NCC has worked closely with FSA over the past year to help facilitate information sharing between FSA and industry marketers in an attempt to develop more accurate and timely tracking of loan benefits. In addition, we continue to be concerned about the long-term impact on marketing decisions as producers see the impact of this unified payment limit. The Fiscal Year 2016 House agriculture appropriations bill includes language that directs USDA to operate the marketing loan program as they did prior to the 2008 Farm Bill beginning with the 2015 crop. This provision allows USDA to issue marketing certificates and will allow the program to function as [intended] since its implementation nearly 30 years ago. Unfortunately if this provision is not included, it is likely that some cotton will be placed in the marketing loan for the full 9 month term and then be forfeited to USDA, rather than being forward contracted or actively marketed during the year. This practice will lead to cotton being locked in the loan program, disrupting cotton flow to the market and to end-users, and leading to potentially greater government costs.

Resistant Weeds

Production costs are always a concern for cotton producers, especially during times when cotton prices are low. Producers struggle to minimize crop inputs but are often forced to allocate additional funds in response to pest pressure from plant diseases, insects and weeds. The cotton industry recognizes the importance of preserving crop protection materials that function differently from each other in the way they control pests. For example, producer's reliance on glyphosate alone created tremendous selection pressure on weeds to single out the few plants, particularly a few palmer amaranth, that contained genetic abilities to survive the glyphosate applications. This example is not the first time some weeds were selected out of a weed population demonstrating survival of the fittest. Scientists explain that the diversity of the genetics in weed populations is so great that there are likely weeds resistant to herbicides that have not been discovered. The importance of this is to understand that production practices must use multiple herbicide modes of action, which means additional herbicide products rather than just one product. Scientists tell us that this approach will minimize the isolation of resistant plants that then produce offspring of weeds resistant to the single mode of action.

Producers have changed weed control practices in order to combat resistant weeds, but that has dramatically increased the cost of production. Scientists warn that there are few chemistries currently available for weed control and no expectation of new products on the market for many years. Producers recognize we must preserve the materials available, but we must have flexibility to accommodate individual farm needs that differ in geographic location and environmental influence. Regulatory mandates that attempt to identify management practices for all farms

will not work—it is not a case of one size fits all. Weed management and resistance management should be emphasized and promoted through educational efforts. Federal agencies should recognize the need for multiple crop protection practices and chemistries in order to achieve a diverse, sustainable production system. Novel, genetic approaches that expand the use of current products which have been safely used for many years should be encouraged. The Environmental Protection Agency (EPA) should be encouraged to understand that low usage of a product should not be interpreted as a lack of need, but that it may fit particular important needs. Additionally, EPA should be encouraged to understand each product removed from use increases reliance on fewer remaining products and decreases resistance management options. EPA should be encouraged to refrain from mandating resistance management practices that reduce producer flexibility and do not consider the needs of different geographic systems. USDA should be encouraged to streamline the regulatory process for transgenic plants in order to expand the opportunities for additional pest control practices. Extension service experts should be encouraged to provide the scientific educational material related to resistance management that addresses the needs of their respective state. Producers must have educational assistance to determine scientific practices that accomplish the needs of their farm and flexibility in those practices in order to identify cost effective, sustainable production practices.

Pollinators

An additional development that has intensified over the last several years is the challenge to control damaging insect pests with minimum impact on another insect—managed honey bee colonies. The cotton industry recognizes the harsh challenges the beekeeper industry is facing, but is concerned that some groups are misrepresenting the science of multiple factors contributing to honey bee decline in order to focus attention solely on crop protection products. The cotton industry compliments USDA and EPA for their multiple efforts to discuss the research demonstrating multiple factors and urges the agencies to continue their focus on the broad issues rather than isolating the focus on crop protection practices alone. The cotton industry additionally encourages the development of a scientifically reliable measure of the status of managed honey bee colonies. The cotton industry compliments EPA on their recognition that most of the issues of concern at the farm level can be avoided just by having a more clear communication process between crop producers and beekeepers. The cotton industry has urged it's producers to become engaged in these communications and to work with a broad group of stakeholders including extension service, state departments of agriculture, other crop producers, beekeepers, and others involved in the use of crop protection materials to develop local practices and communications plans that work for the needs of the area. Such plans, sometimes identified as state pollinator protection plans, bring together local parties in order to collaboratively identify local needs and local solutions that provide coexistence of all.

The cotton industry is troubled by the recent decision of the Ninth Circuit Court that vacated the registration of a crop protection product because the court did not believe EPA had sufficiently shown no harm to bees, and further notes the court did not consider the benefits of the chemistry as EPA is mandated to do under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) risk-benefit analysis. The cotton industry in concerned the court's decision will alter the registration and registration review process of EPA creating additional costs and delaying timely review of necessary crop protection tools. The cotton industry understands that honey bees are managed property and are often congregated in close proximity to managed crops. This practice is not new, and both industries have coexisted for many years. However, the removal of crop protection products will not allow a continuation of crop production and scientists have stated the removal of pesticides alone will not solve the decline in honey bee health.

The cotton industry is appreciative of the National Strategy that has identified multiple partnerships to address multiple factors causing honey bee decline. The cotton industry is encouraged that the plan seeks to expand beekeepers access to public lands and parks, and seeks to improve public-private partnerships to enhance pollinator habitat. The cotton industry compliments USDA Natural Resources Conservation Service (NRCS) programs to encourage the expansion of pollinator habitats on farms, but urges NRCS to expand the plant selection beyond native plants. Honey bees are not native to the U.S., but were brought here because of the ability to house the bees in boxes that could be managed for pollinating some crops. Therefore, improving honey bee habitat should not be limited to native plants that have limited supply and are costly, but should be broadened to include clovers and other, lower cost plants known to be favored by honey bees. Although it is estimated that

one out of every three bites of food involve pollinators, we must remember we cannot sacrifice the other two bites. The cotton industry believes local communication and cooperation between crop producers and beekeepers, along with expanded affordable habitat will provide continued coexistence of the two industries. Additionally, USDA should be encouraged to increase research focus on the control of the multiple pests of honey bees and their hives as well as technology improvements that would provide beekeepers better ability to monitor hive health.

Cottonseed

Others have mentioned the proposal by the National Cotton Council and other cotton organizations that requests that the Secretary designate cottonseed as an 'other oilseed' and be eligible for the ARC and PLC programs, and I want to echo my strong support. As you are aware this proposal would not require any legislative changes nor would it reopen the farm bill. It is a request that the Secretary use the authority given to him in the farm bill to designate 'other oilseeds'. This action is desperately needed to provide stability in the cotton industry and in addition from calls for action within the cotton industry 50 agriculture lenders from the Southeast have contacted the Secretary requesting he take action. In my state we have seen acreage decrease by over 15% in just 1 year. This is causing a strain on the cotton infrastructure as it is much harder to make a gin or a warehouse cash flow with that type of single year reduction in volume. Cotton farmers have experienced a significant decline in the market since passage of the 2014 Farm Bill and I believe the economic situation facing the industry warrants the Secretary's approval of this request. As I mentioned earlier, in my state and on my farm, we have experienced a devastating flood this year. Crop insurance was there to help us when we needed it but unfortunately does not mitigate the multi-year price decline. As we all recognize, the Committee and others have worked to strengthen and enhance the role of crop insurance to respond to weather-related disasters since [Congressional] approval of *ad hoc* disaster assistance is no longer seen [as] politically viable. Yet, crop insurance alone is not equipped to address long-term price declines as [is] currently being experienced in the cotton industry. Therefore, the cottonseed policy is needed to help provide price support for cottonseed. I thank all the Members of this Subcommittee who have signed Chairman Conaway and Ranking Member Peterson's letter to the Secretary in support of this program and I encourage you to contact the Secretary directly as the situation in cotton country is dire.

Conclusion

As you have heard from my testimony and that of others, the U.S. cotton industry is at a critical junction and any assistance from Congress and the Administration is needed to help us weather this economic and regulatory storm. I appreciate the opportunity to testify before this Subcommittee and commend the Chairman and Ranking Member for holding this important hearing to better understand the many issues facing the cotton industry. Thank you for the consideration of my views and [I] am happy to answer questions at the appropriate time.

The CHAIRMAN. Thank you, Mr. Wannamaker.

I am pleased to recognize the gentleman from California, Mr. Costa, to introduce our next witness.

Mr. COSTA. Thank you very much, Mr. Chairman, and Members of the Subcommittee, for holding this hearing. It is important; as we talk about not only America's cotton industry, but as a part of the larger context of commodities that we produce throughout the country. And our next witness, Cannon Michael, is a friend of mine. He and his family have farmed in the San Joaquin Valley now for six generations. It is a family-owned farm, the Bowles Farming Company. Part of California's great agricultural history is part of Cannon Michael's history. They are a diversified operation, farming cotton, wheat, fresh market and processing tomatoes, fresh market onions, and cantaloupes, and last night Cannon told me they are going to start growing carrots. But they have been devastated, as all farmers in California have, by the drought, both Mother Nature and the lack of our ability to fix a water system that is long overdue, that has compiled to make it very difficult, and they have had to fallow acres.

Nonetheless, he has been innovative. As he has worked up, they have included various innovative irrigation technologies, and they have focused on production methods that included planning of transgenic varieties, and employing organic methods as well.

So we are very proud of not only Cannon Michael and his family, but all of the agricultural organizations that are reflected here today, and that he is a member of. Among his leadership positions, he serves on the Board of Directors of the National Cotton Council, the Cotton Council International, and he is past Chairman of the California Cotton Growers Association, and Cotton Foundation.

Let me just close, because he has his 5 minutes, but it is with a thought, 15 years ago, California had 1½ million acres of cotton production. Fifteen years ago. Today, we have less than 200,000 acres that has been planted, and is primarily pima cotton. The argument by some who don't understand agriculture is that we shouldn't be planting cotton because it uses too much water. Of course, the argument today is we shouldn't be planting almonds because they use too much water. I guess if we didn't plant anything we wouldn't use any water, but nonetheless, that obviously doesn't take into account the importance of California agriculture as a part of American agriculture.

I present to you my friend, Cannon Michael.

The CHAIRMAN. Mr. Michael, you are recognized for 5 minutes.

STATEMENT OF CANNON MICHAEL, PRODUCER BOARD MEMBER, NATIONAL COTTON COUNCIL, LOS BANOS, CA

Mr. MICHAEL. And, Congressman Costa, I appreciate the very kind introduction, as well as the long-term friendship that we have had. Thank you, Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee.

Congressman Costa covered a lot of my background, so I will just start with, when I returned to my family's farm in 1998, there were almost 2 million acres of cotton being grown in the West region, and the West region includes Arizona, California, and New Mexico, and it was truly a vibrant industry that we were a part of. You fast forward to 2015 and the acreage planted to cotton in the West region is just slightly over 300,000 acres. This includes 167,000 acres of upland cotton and 151,000 acres of ELS, or extra-long staple or ELS cotton.

The West has the highest per acre yields of any area of the Cotton Belt, and it produces some of the highest quality cotton due to our unique climate. Yet we also have the highest production costs in the Cotton Belt, largely due to the heavy regulatory burden that is placed on agriculture in California. Given the economic situation facing the cotton industry, some action must be taken to stabilize the acreage declines and infrastructure loss in our region.

As you know, the farm bill gives the Secretary of Agriculture the authority to designate additional oilseed crops without reopening the farm bill. We are now seeking this designation for all cottonseed, whether produced from upland or ELS cotton, since there is no distinction in the seed produced from both types.

The 2014 Farm Bill continued the ELS cotton loan program, as well as competitiveness provisions to ensure ELS cotton remains competitive in international markets. The industry is currently

working with the USDA to ensure that the most accurate market quotes are used to administer the program.

With China's increased government support boosting their ELS production significantly, its market prices must be considered in implementing the U.S. competitiveness provision.

Satellite imagery indicates that this past year 1 million acres of productive California farmland sat idle due to lack of water. This year on my farm alone, we fallowed about ⅓ of the farm. Every acre of farm that is fallowed has a ripple effect throughout the economy. Less production means fewer workers have jobs, local businesses suffer, with reduced sales of fuel, tires, fertilizers, seed, and other inputs, and transportation companies must scale back operations due to reduced volumes. Impacts that I am describing go well beyond just the sectors I mentioned, as I have not even touched on equipment sales, lending institutions, and eventually the consumers themselves.

The current water situation in California is a result of both the prolonged drought, as well as misguided and inflexible regulatory constraints. Five years ago, reservoirs in California were brim full of water. Since then, much of our precious water supply, which had previously gone to Central Valley farms and communities, has been mandated to flow out the Golden Gate by Federal and state fish agencies with no apparent benefit for the fish species that they are trying to protect.

We must manage water to meet all needs, but in a manner that shares the pain and does not create winners and losers. We have lost sight of the goals and purposes that the Federal water projects were originally built to serve.

In many parts of the West, litigation stemming from citizen suit provisions of environmental laws, including the Endangered Species Act or ESA, is producing Federal court decisions or court-approved settlements that direct Federal agency management of state water resources. As a prime example here in California, Federal management of the water in the Bay Delta, driven in part by third party citizen law suits via the ESA, has redirected millions of acre feet of water away from human uses towards the perceived needs of the environment, with no documented benefit to the fish intended for protection.

And I have just a couple of quick slides to go through. The largest reservoir in the State of California is Lake Shasta. As you can see, the red line is the operations in 1977 when they used the reservoir for what it was for, which was to give water to communities, farms, wildlife refuges. They took that reservoir down to 650,000 acre feet in storage. This past year, held captive was over 1.2 million acre feet in this fourth year of drought, held away from family farms, from communities in the Central Valley. So you can see here water supply is being held hostage. Also this shows how much water has flowed into the Bay Delta and how much water is let out to the ocean, again, with the ESA being the main driver.

We do need more surface storage as well as groundwater storage, and we need to continue to push back on these inflexible regulations.

I thank the Subcommittee and the Members here today for the opportunity to discuss some of these challenges, and appreciate the time.

[The prepared statement of Mr. Michael follows:]

PREPARED STATEMENT OF CANNON MICHAEL, PRODUCER BOARD MEMBER, NATIONAL COTTON COUNCIL, LOS BANOS, CA

Introduction

Thank you, Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee for the opportunity to testify today regarding the current condition of the U.S. cotton industry, the significant challenges cotton producers face, and what policy changes are needed to address this worsening situation. My name is Cannon Michael and I farm in Los Banos, California.

Farm and Background

I manage the Bowles family farming operation. I am the 6th generation of my family to be involved with California agriculture. My great-great-great grandfather came over from Germany as a young man and was able to start a cattle business on some of the same land that we now farm today. Starting at age 13, I began to work on the farm during the summer months. I learned about efficient irrigation practices, operation of farm equipment and gained experience with many aspects of managing an integrated farming operation in California's San Joaquin Valley. I met my wife in Los Banos in 1999 and we now have three sons. I live on the farm with my family and cannot imagine a better environment to raise my children. We farm in an area that has a very historic water right, but that has not spared us from the impacts of the ongoing drought.

I'm a farmer and I'm here to talk about what I know best: farming, and farmers and ranchers in California and elsewhere in the West have been hit hard by the drought.

Acreage and Infrastructure Impacts

The acreage planted to cotton in the West region, which includes Arizona, California, and New Mexico, for 2015 is 318,000 acres. This includes 167,000 acres of upland cotton and 151,000 acres of Extra Long Staple (ELS) cotton in the three-state region. A decline of this magnitude is having severe consequences for the entire cotton industry in the region, from producers, gins, warehouses, marketing cooperatives, merchants, and cottonseed processors and merchandisers. The West region has the highest per acre yields of any area of the Cotton Belt and produces some of the highest quality cotton due to our unique climate. Yet, we also have the highest production costs of anywhere in the Cotton Belt, largely due to the heavy regulatory burden placed on agriculture in California, particularly.

Policy Needs

Given the current economic situation facing the U.S. cotton industry, it is imperative that some action be taken to help stabilize the escalation of acreage declines and infrastructure loss in our region. While there are other cropping options in many parts of the Cotton Belt, there is significant importance and value in maintaining crop diversity that includes cotton. The increased production of perennial tree crops in our area has picked up some of the acres previously devoted to cotton. However, each year, we are seeing more and more acres that are fallowed as a result of the worsening water crisis in California. I will address this issue in more detail later in the testimony.

To address the current crisis, the National Cotton Council and all of the U.S. cotton industry is seeking the designation of cottonseed as an 'other oilseed' for purposes of the ARC/PLC programs in the 2014 Farm Bill. As you know, the farm bill gives the Secretary of Agriculture the authority to designate oilseed crops for such purposes, and this can be accomplished without reopening the farm bill. We are seeking this designation for all cottonseed, whether produced from upland or Extra Long Staple (ELS) cotton, since there is no distinction in the seed produced from both types.

Extra Long Staple Cotton Policy

The 2014 Farm Bill continued the Extra Long Staple (ELS), or "Pima" cotton loan program as well as a competitiveness provision to ensure U.S. Pima cotton remains competitive in international markets. The balance between the upland and Pima

programs is important to ensure that acreage is planted in response to market signals and not program benefits.

According to the farm bill, the ELS Competitiveness Payment Program (CPP) is intended to:

- Maintain and expand the domestic use of ELS cotton produced in the U.S.;
- Increase exports of ELS cotton produced in the U.S.; and
- Ensure that ELS cotton produced in the U.S. remains competitive in world markets.

While this program has proven to be an effective and efficient tool to address global competitiveness issues for ELS cotton since its implementation in 1999, there is a relatively recent development that is hampering the proper operation of the program. In December 2014, USDA FSA announced, without any notice to the industry, that it would be withdrawing one of the foreign growths of cotton used in the program—Egyptian Giza 86 price quote. FSA indicated this action was taken due to a decrease in the quality characteristics for the 2014 crop of Giza 86 compared to previous crop years. The removal of this key quote significantly impacts the operation and effectiveness of the program as the other foreign price quotes currently used in the program have relatively small amounts of production. The U.S. industry is concerned that the current foreign price quotes being utilized do not adequately allow for the appropriate determination of potential CPP payments. We strongly urge that USDA reinstate the use of the Giza 86 quote for use in the program this marketing year.

In addition, there is a separate issue with regard to ELS cotton production in China. China has been the largest market for U.S. ELS cotton for a number of years, yet in 2014, China introduced a domestic subsidy for Chinese ELS cotton. This has led to a significant increase in ELS cotton acreage in China. For this reason, we believe USDA should also add the Chinese ELS 137 cotton price quote as one of the competitive growths for the CPP. This price quote is currently available and should be added to the CPP to ensure the program serves the intended function of helping to ensure a competitive market for U.S. ELS cotton production. We ask this Subcommittee to please engage USDA to help ensure these necessary changes are made and are effective for the current marketing year.

Policy Costs

Western Water Policy and Drought

Water connects us all—farms, cities and the environment—and while drought presents unique problems for each sector, our solutions should be interconnected and mutually beneficial—not divisive. That requires a willingness of all parties, including Federal agencies, to be creative and flexible. That is happening in some places. In other places, it's not. The most helpful thing that Congress can do for drought-stricken states is to encourage, demand and mandate, where necessary, creativity and flexibility on the part of Federal water management and regulatory agencies.

In 2014 our family fallowed more than 15% of our farm. This year, we have ¼ of the farm abandoned or fallowed. When one hears that land is "fallowed" it might only seem that the impact is to the farmer, but that is definitely not the case. Every acre of farmed land generates jobs, economic activity and products. That is why the drought is so devastating to the rural agricultural communities of the Central Valley.

If I leave an acre fallow, my workers have less work and I use my tractors less. If I use my tractor less, I buy less fuel, lubricants and parts and tires, which means the local businesses that supply these things sell less and their companies suffer. When I don't purchase inputs for the land (fertilizer, seeds, amendments, *etc.*), the local companies that sell these items suffer reduced sales and the truck drivers who deliver these items have less work. With fewer trucks running fewer routes, fuel and parts purchases are reduced.

This is a very scary time for me and my family, since substantial investments are being made, primarily with the intent of converting more of our operation to drip irrigation, which we hope will stretch limited water supplies. Those investments will be for naught if the current drought/regulatory paradigm persists into the future and there is no water to conserve.

Five years ago, reservoirs in California were brim full of water. Since then, much of that stored water—which had previously supplied Central Valley farms for decades—has been allowed to flow out the Golden Gate by Federal fisheries agencies, with no apparent benefit for the fish species it is intended to protect.

The key challenges western irrigators face in times of drought include competition for scarce water supplies, insufficient water infrastructure, growing populations, en-

dangered species, increasing weather variability/climate change, and energy development.

Water Infrastructure Improvements

Also, new tools to assist in financing major improvements to aging water infrastructure will be needed in the coming years to ensure that farmers and ranchers charged for these upgrades can afford repayment. Water infrastructure is a long-term investment, as are farms and ranches, and long repayment and low interest terms will be crucial in reinvesting in aging facilities to meet the challenges of tomorrow. Such improvements could include investments in everything from new water storage reservoirs (both on- and off-stream), regulating reservoirs, canal lining, computerized water management and delivery systems, real-time monitoring of ecosystem functions and river flows for both fish and people, and watershed-based integrated regional water management. With the advent of the Water Infrastructure Finance and Innovation Act (WIFIA) in the WRRDA 2014, the Alliance believes a similar affordable loan program could be instituted at Reclamation to assist in providing capital for such investments. Also, more flexibility may be needed to allow for private investments at Reclamation facilities in order to attract additional capital to meet future water supply needs.

Western irrigators need flexible, streamlined policies and new affordable financing tools that provide balance and certainty to support collaborative efforts and manage future water infrastructure challenges. Solutions in all of these areas will be crucial to future enhanced agricultural production, conservation and community outcomes in the West.

Growing concerns about the delays and costs associated with the proposed Sites off-stream reservoir project in the Sacramento Valley of California, as well as the need for a local voice, led to the formation, in August of 2010, of the Sites Project Joint Powers Authority (Sites JPA). The Sites JPA, which includes Sacramento Valley counties and water districts, was formed with the stated purpose of establishing a public entity to design, acquire, manage and operate Sites Reservoir and related facilities to improve the operation of the state's water system.

The project would also provide improvements in ecosystem and water quality conditions in the Sacramento River system and in the Bay-Delta, as well as provide flood control and other benefits to a large area of the State of California. The formation of local JPA's was included as a key provision in the 2009 California Water Package Water Bond legislation for the purposes of pursuing storage projects that could be eligible for up to 50% of project funding for public benefits.

As the Sites JPA began working with the Bureau of Reclamation and California Department of Water Resources, the JPA took a common-sense approach. The JPA worked with Reclamation and DWR to put together *Foundational Formulation Principles.* In other words, first identifying the needs of the water operations system and then designing the project that would meet those needs. Local project proponents envisioned a project that would be integrated with the system they already had, and one that would also operate effectively regardless of future operational changes to the larger system, such as construction of new conveyance to export water [to] users located south of the Delta. The JPA wanted to maximize the benefits associated with existing infrastructure and provide as much benefit as possible to both the existing state and Federal water projects at the lowest feasible cost.

The JPA approached the Sites project with the goal of making the best possible use of limited resources, and in the end, local irrigators believe they have identified a project that is both affordable and will provide significant benefits. The proposed project maximizes ecosystem benefits consistent with the state water bond, which states that at least 50% of the public benefit objectives must be ecosystem improvements. Other benefits include water supply reliability, water quality improvements, flexible hydropower generation, more recreation benefits and increased flood damage reduction. In short, the JPA approached the Sites project with the goal of generating water for the environment while improving statewide water reliability and regional sustainability in northern California. They believe they have achieved that goal.

Environmental Regulatory Costs

Endangered Species Act

We need a new way of looking at how we manage our limited water resources, one that includes a broader view of how water is used, along with consideration of population growth, food production and habitat needs. The goal should be to integrate food production and conservation practices into water management decision making and water use priorities, creating a more holistic view of water management for multiple uses. We must begin to plan now in order to hold intact current options.

Planning must allow for flexibility and consider all needs, not just focus on meeting future needs from population growth.

In many parts of the West, litigation stemming from citizen suit provisions of environmental laws including the Endangered Species Act (ESA) and Clean Water Act (CWA) is producing Federal court decisions (or court approved "settlements") that direct Federal agency "management" of state water resources.

Congress should recognize that this type of litigation and resulting settlements can actually harm the overall health and resilience of landscapes and watersheds by focusing on single species management under the Federal Endangered Species Act (ESA). We should seek solutions that reflect a philosophy that the best decisions on water issues take place at the state and local level. Finding ways to incentivize landowners to make the ESA work is far more preferable than what we have been seeing in recent years, where the ESA has been used by special interest environmental groups and Federal agencies in court as a means of "protecting" only a single species (such as the Sacramento-San Joaquin River Delta smelt in California) without regard for other impacts, including those on other non-listed species.

Litigation and the manner in which certain Federal agencies administer the ESA are very much driving water management decisions these days, at least in the West. And adversarial, single-purpose approach is not helping the agencies recover very many species. Recent research into litigation associated with Federal environmental laws is beginning to uncover some unsettling facts: the Federal Government appears to be spending about as much money funding plaintiffs' environmental lawyers as it does to directly protect endangered species. Certain tax exempt, nonprofit organizations have been consistently awarded attorney fees from the Federal Government, for suing the Federal Government. These same environmental groups are receiving millions of tax dollars in attorney fees for settling or "winning" cases against the Federal Government.

We must manage water to meet all needs but in a manner that "shares the pain," not creates winners and losers, especially when the losers are the very beneficiaries the Federal water projects were originally built to serve. The past Federal management of water in California's Bay-Delta, which has redirected under the ESA millions of acre feet of water away from human uses and towards the perceived needs of the environment, with no documented benefit to the ESA listed fish intended for protection, is a prime example. Meanwhile, California water and power customers have suffered enormous, unmitigated losses due to this "management by perception" approach.

To Central Valley Project agricultural water contractors, the loss of 123,000 acre feet of Trinity River water that could have been diverted to the CVP for drought relief in today's water market equates to nearly a $250,000,000 replacement value. And this calculation doesn't account for the other known socioeconomic impacts resulting from fallowed acreage, lost production, lost sales, lost employment, and increased need for social services throughout the San Joaquin Valley's communities, many of which are considered disadvantaged under Federal and state laws.

Good water management requires flexibility, as well as adaptive management. More regulation usually reduces this flexibility. Federal agencies managing the competing demands for water in the West have in some cases failed in creating opportunities for more flexible water management during times of drought.

The original intent of the ESA—stated in the Act itself—was to encourage "the states and other interested parties, through Federal financial assistance and a system of incentives, to develop and maintain conservation programs which meet national and international standards." Of special importance to the Family Farm Alliance is that the ESA explicitly declared that it was the policy of Congress that "Federal agencies shall cooperate with state and local agencies to resolve water resource issues in concert with conservation of endangered species."

The authors of the ESA clearly believed in applying the ESA in a way that would foster collaboration and efficiency of program delivery, in an incentive-driven manner. Unfortunately, implementation of the ESA has "progressed" in recent years toward an approach that is now driven by litigation and sometimes the inappropriate, inconsistent and incorrect interpretation of the law by Federal agencies. As far as the Act itself is concerned, little to no progress has occurred to keep this 40 year old law in step with the modem era. The ESA has not been substantially updated since 1988.

The ESA is an outdated law that is clearly not working as it was originally intended. It needs to be more about incentives and collaboration and less about litigation and regulation. Fewer than 2% of the species ever listed under the Act have been recovered and removed from the list, and the failures under the law far outstrip the successes. Meanwhile, the economic and sociologic impacts of the ESA have been dramatic. From the Alliance's standpoint, the law has really only inflicted

harm and generated litigation that uses the Act as a weapon against our members' ability to use our natural resources for farming and ranching, while doing little to help the environment or the very species it was designed to protect.

More surface and groundwater storage is still a critical piece of the solution to water shortfalls. Congress should streamline regulatory hurdles to assist in developing new environmentally sensitive water storage projects and other necessary water infrastructure improvements. Congress should work to facilitate the construction of new surface storage facilities, providing a more effective process to move water storage projects forward.

New Federal Ozone Air Quality Standards

The EPA has recently adopted yet another, more restrictive, and unrealistic, ozone standard for California. The new standard is 70 parts per billion (ppb) which will be extremely overwhelming for California agriculture. Specifically, the San Joaquin Valley has not yet been able to meet the previous three ozone standards by EPA. In fact, the plans to meet these earlier standards haven't even been written, yet EPA is moving forward with a new, stricter standard.

As you know, California already has some of the strongest air regulations in the country, and much of the world. These standards are resulting in severe economic consequences for agriculture in the state due to requirements such as:

- Mandatory replacement of all trucks used in agriculture.
- Mandatory replacement of all irrigation pump engines.
- Mandatory replacement of all tractors and harvesters.
- Rule for the control of on-farm dust.
- Reduction of pesticide VOCs.

This is all being done in an area that already has background levels of ozone at 60 ppb. Yet, EPA has stated "For California's nonattainment areas to meet the updated ozone standards, the state and EPA have recognized that transformational change is likely needed, such as transition to largely zero or near-zero emission vehicle technologies, and a significant turnover of the legacy fleet of vehicles, among other changes."

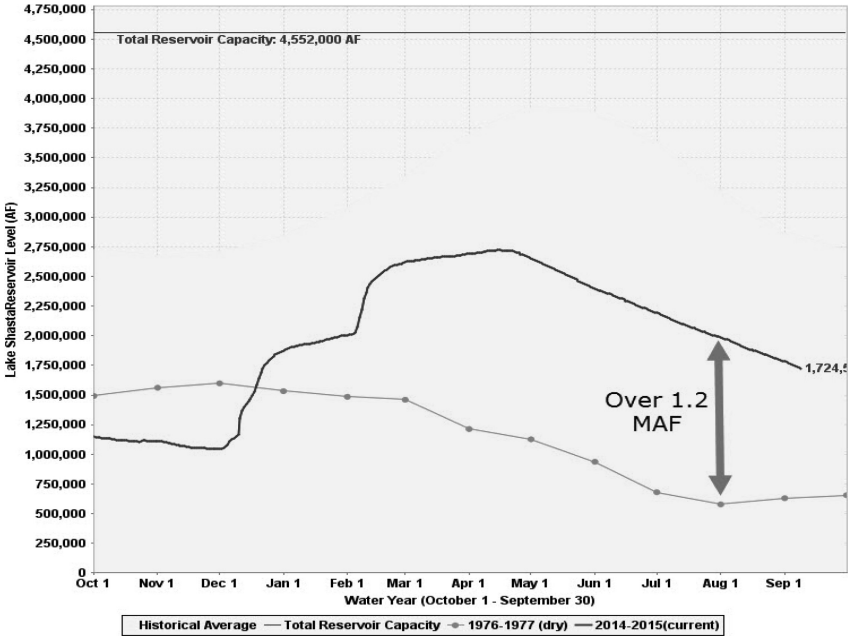
To be able to even come close to meeting the new EPA standards for ozone, it would require converting all equipment to electric, yet the technology to do so does not exist today. As a result, failure to meet the new standards will lead to penalties that all businesses, including agriculture, must pay. These are costs and penalties that are unnecessary and lead to an uncompetitive business environment, yet California already has the cleanest, lowest emission equipment in the world, and the toughest regulations to go along with it.

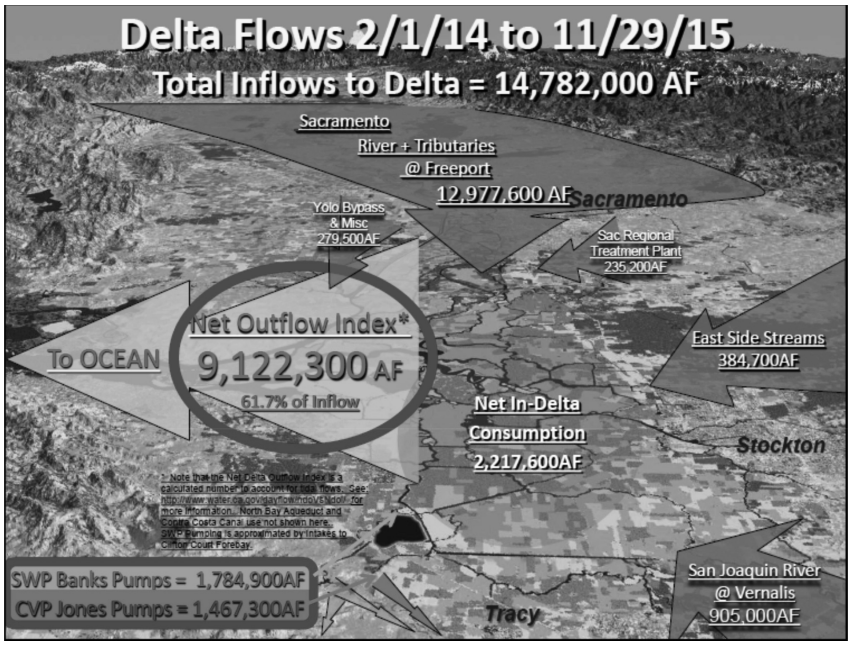
Conclusion

I would like to thank the Members of this Subcommittee for the opportunity to discuss some of the extreme challenges facing the U.S. cotton industry, and particularly the excessive regulatory burdens on California producers. With today's market prices, the added costs of regulatory compliance and added production costs are making a bad situation much worse. There must be some relief provided, both to provide some economic stability and to relieve some of the stifling regulatory regime. Thank you again for this opportunity and I will be glad to respond to any questions at the appropriate time.

ATTACHMENTS

Lake Shasta Storage Levels





The CHAIRMAN. Thank you, Mr. Michael.
Mr. Wright, you are recognized for 5 minutes.

STATEMENT OF MIKE WRIGHT, EXECUTIVE VICE PRESIDENT, CITY BANK TEXAS, LUBBOCK, TX

Mr. WRIGHT. Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for taking time to host this important hearing on the general state of the U.S. cotton industry. My name is Mike Wright. I am the Executive Vice President for the agricultural lending division of City Bank in Lubbock, Texas.

City Bank is a locally owned bank with assets in excess of $2 billion, with an agricultural loan portfolio of about $200 million. I was born and raised on a Lubbock County cotton farm. I farmed for 8 years, and I have been involved with ag lending since March of 1982. Agriculture is my background and it is my livelihood.

In Lubbock and the surrounding 67 county area, cotton is the main economic industry, with 20 to 25 percent of the U.S. cotton produced in this region. Cotton production is extremely important for the survival of many rural economies across Texas. Declines in cotton acres are a tremendous concern for agricultural lenders as this translates into pressure on associated businesses, infrastructure, and rural economies, which are also our customers. Prolonged production declines of this scale will result in severe strain on the entire cotton infrastructure, which continues to be the backbone of many small, rural communities across Texas. A thriving cotton industry is critical to the success of many local economies.

According to the Federal Reserve Bank, demand for operating loans has increased in the third quarter of 2015, and loan repayment rates have slowed. The margins in farming have been getting tighter every year due to higher production costs and lower commodity prices. As cotton prices have been suppressed, in part due to policies and other cotton-producing countries, U.S. producers are struggling to service their debt and make a profit. Producers need above-average yields just to break even.

In this economic environment, access to credit remains one of the most important resources for agriculture producers. In 2016, we are anticipating cash flow problems from some of our very good customers with a long history with our bank. The importance of FSA guaranteed loans cannot be understated in the current economic environment. City Bank is an FSA preferred lender in the Guaranteed Loan Program. Over the years, the Guaranteed Loan Program has been a tremendous benefit to the producers as well as to lenders. In some cases, a producer has a terrible year and his loan may still be a good loan, but weak in one or more areas of our analysis. The Guaranteed Loan Program allows our bank to continue working with the producer, but a portion of the loan is guaranteed and the producer has some time to work out the situation.

The elimination of direct and countercyclical payments significantly increased the risk endured by producers and lenders. Now, crop insurance provides the main safety net and is vital to our customers. We greatly appreciate the continued support for the crop insurance program, and the successful efforts of the Members of

this Subcommittee to eliminate the proposed cuts to crop insurance. If insurance premiums increase so that producers are not able to afford insurance, we will not be able to provide financing.

As you have heard from others, the addition of a cottonseed support policy will be important to ensure continued economic activity in rural areas. A cottonseed support policy will help alleviate the increasing financial stress within the cotton industry, and allow for continued credit availability.

As I close, let me express my sincere appreciation to the Subcommittee for allowing me to testify today. As you move forward, I pray that you can show other Members of Congress that agriculture is the backbone of this great nation. My family is dependent on it, as well as yours. As you leave today, I would hope that you would take the following quote and have it somewhere you will see every day, and remember the words of William Jennings Bryan: "Burn down your cities and leave our farms, and your cities will spring up again as if by magic, but destroy our farms and the grass will grow in the streets of every city in the country."

The American farmer is one of the most efficient producers of the world. If they can continue to provide food and fiber at a price that allows the American people to spend the largest part of their incomes on homes, vehicles, televisions, and phones, the American farmer will continue to do just that. But if there is no incentive or profit in their actions, then the grass will begin to grow.

[The prepared statement of Mr. Wright follows:]

PREPARED STATEMENT OF MIKE WRIGHT, EXECUTIVE VICE PRESIDENT, CITY BANK TEXAS, LUBBOCK, TX

Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for taking time to host this important hearing on the general state of the U.S. cotton industry. My name is Mike Wright, Executive Vice President of the agricultural lending division of City Bank in Lubbock, Texas.

Background

City Bank is a locally owned bank with assets in excess of $2 Billion with an agricultural loan portfolio of about $200 Million, which is of just over 11% of the total borrowing. I was born and raised on a Lubbock County cotton farm, farmed for 8 years and have been involved with ag lending since March of 1982. Agriculture is my background and my lifeblood.

Current Market Situation

Texas is the largest cotton producing state, with about 54% of the total U.S. cotton acreage. In Lubbock and the surrounding 67 county area, cotton is the main economic industry with about 20–25% of U.S. cotton produced in this region. Cotton production is extremely important for the survival of many rural economies across Texas. Only 4.8 million acres of cotton were planted in 2015, down 30% from 2014 and 24% less than the recent 5 year average. The 2015 cotton acreage is the lowest amount in Texas since 1989. Excessive rains plagued much of the state during planting time and according to the Farm Service Agency, Texas had almost 400,000 prevented planted cotton [acres] this year.

Losses in cotton area are a tremendous concern for agricultural lenders as this translates into pressure on associated businesses, infrastructure and rural economies who are also our customers. Prolonged production declines of this scale will result in severe strain on the entire cotton infrastructure, which continues to be the backbone of many small, rural communities across Texas. A thriving cotton economy is critical to the success of many local economies.

Low prices and high production costs have created tremendous financial pressure on the agricultural industry. As the 2015 harvest nears completion, producers across Texas are facing incredibly difficult economic conditions. According to a survey by

the Federal Reserve Bank of Dallas,[1] many Texas cotton growers may actually fare better in earlier drought years than in 2015. Production costs have been even higher this year as increased rainfall led to additional weed problems. In some areas, excess moisture has negatively impacted yields. In 2011 and 2012, crop insurance guarantees were higher due to much higher prices. This year, crop insurance guarantees are lower and many producers have average yields that will not trigger a crop insurance indemnity. In addition, some producers are dealing with quality issues that will likely result in further discounts to the price they receive for cotton. The projection of continued declines in market revenue coupled with elevated production costs cause serious concerns among the lending community.

Current Lending Situation

In this economic environment, access to credit remains one of the most important resources for agricultural producers. However, with increasing debt and tighter margins, agricultural lenders are facing a tough situation. According to the Federal Reserve Bank of Dallas,[2] demand for agricultural operating loans has increased in the third quarter of 2015 and loan repayment rates have slowed. After 2 years of declining farm income and few expectations for higher commodity prices in the near future, one of our most significant problems at City Bank is getting a producer's loan to show a positive cash flow. The margins in agricultural production have been getting tighter every year due to higher production costs and lower commodity prices. Producers need above average yields just to break even. There is no doubt that some cotton farmers will not qualify for financing next year. We are concerned about our ability to continue to meet the lending needs of America's cotton farmers in years to come. Going into the next crop year, the ability to obtain financing will become increasingly more difficult as crop prices remain low.

Production costs have continuously increased over the last decade. According to Texas A&M extension, production costs have increased by about $72 per acre for non-irrigated cotton and $169 per acre for irrigated cotton since 2008. The increase in seed costs is particularly concerning now that producers are experiencing more problems with chemical resistant weeds. Harvest expenses have increased as well due to a large increase in equipment costs. Cotton is a highly capital intensive crop requiring a much higher investment in equipment as compared to other row crops. A new cotton harvester costs $650,000. Term debt service on these types of inputs is extremely high. With low cotton prices, the cash flows have become much tighter and the margins are even lower. For 2015, the Texas A&M extension budgets show a loss of $18 per acre on dryland cotton and $85 per acre on irrigated cotton.

Looking ahead to 2016, were are anticipating potential cash flow problems from some of our very good customers with a long history with our bank, including producers who are not highly leveraged. The increased short-term debt burden coupled with 2 years of declining farm income is particularly concerning. Although some producers will still have some equity position going into 2016, lower grades of cotton and lower prices may lead to a carryover of debt for 2015. With low price expectations for 2016 and carryover debt, these producers may not be able to show a positive cash flow in 2016.

To further intensify the situation, lenders are currently facing even tighter underwriting standards. New banking regulations require a more stringent stress-testing approach and the ability to show a positive cash flow. As noted by an extension economist at Texas A&M, as implementation of additional reform measures continues, credit standards will be higher and the requirements for risk-based capital liquidity will increase.[3] As lenders face stricter standards for loan underwriting, credit analysis, and loan risk rating from bank examiners, the ability to extend riskier loans will be less likely.

Importance of Government Programs

The importance of FSA guaranteed loans cannot be understated in the current economic and lending environment. City Bank is an FSA Preferred Lender in the Guaranteed Loan Program. FSA guaranteed loans provide lenders with a guarantee of up to 95 percent of the loss of principal and interest on a loan. Farmers and

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[1] Federal Reserve Bank of Dallas. "Special Report: Commodities and Drought." Agricultural Survey. Third Quarter 2015. Available at: *https://www.dallasfed.org/assets/documents/research/agsurvey/2011/ag1103b.pdf*.

[2] Federal Reserve Bank of Dallas. "Agricultural Survey: Survey Highlights." Third Quarter 2015. Available at: *https://www.dallasfed.org/assets/documents/research/agsurvey/2015/ag1503.pdf*.

[3] Klinefelter, D. "Back-to-Back Low Returns Bound to Raise Flags with Farm Lenders." *AgFax.* May 14, 2015. Available at: *http://agfax.com/2015/05/14/back-to-back-low-return-years-bound-to-raise-flags-with-farm-lenders-dtn/*.

ranchers apply to an agricultural lender, which then arranges for the guarantee. The FSA guarantee permits lenders to make agricultural credit available to farmers who do not meet the lender's normal underwriting criteria. Over the years, the Guaranteed Loan program has been a tremendous benefit to the producers as well as to lenders. There have been times when a producer has had a terrible year and maybe his loan is still a good loan but weak in one or more areas of our analysis. The Guaranteed Loan Program allows City Bank to continue working with the producer but a portion of the loan is guaranteed and the producer has some time to work out the situation. Over the years, we have had many producers on guaranteed loans who have been able to work their way back to a direct City Bank loan following a good crop year. As it stands today, City Bank will be utilizing the program even more for 2016. Continued funding for the Guaranteed Loan Program with no additional cuts is a high priority for the agricultural industry.

The elimination of direct payments and countercyclical payments significantly increased the risk endured by agricultural producers and lenders. Direct payments provided a reliable source of income for loan repayment. In most cases, direct and countercyclical payments would be included as profit in the farming operation and would allow a farm to cash flow and continue farming. As cotton prices have been suppressed in part due to agricultural policies in other major cotton producing countries, U.S. cotton producers are struggling to service their debt and make a profit. While other commodities have a substitute program in the 2014 Farm Bill, cotton is no longer a covered commodity under Title I programs, so the safety net is entirely comprised of the marketing loan and crop insurance programs. The marketing loan program provides important collateral for lending and is a vital component of the cotton safety net. The proposed addition of marketing loan certificates would help alleviate some of the financial pressures faced by our growers.

We greatly appreciate the continued support for the crop insurance program and the efforts to eliminate the proposed cuts to crop insurance. Crop insurance is a vital component of the safety net for cotton producers and any additional cuts would be detrimental to the cotton industry. Crop insurance provides assurance to lenders that farmers can repay their operating loans. We appreciate the addition of the STAX program to provide additional risk management for cotton producers. However, due to the uncertainty in area-wide payments as well of the timing of payments, it is difficult to factor a STAX indemnity into loan repayment.

In Texas, 97% of cotton acreage is covered by an individual insurance policy. This area is extremely vulnerable to weather related problems and large temperature variations and weather extremes are very common, even within a 24 hour period. While agriculture has always been a risky business, the risks for cotton producers have been exacerbated in the past few years due to low prices, farm policies of other major cotton producing countries, 2014 Farm Bill changes to the cotton safety net, and now chemical resistant weeds. The increased risks for producers directly affects the ability to qualify for financing. If a producer has a good financial equity position, can obtain affordable crop insurance and receives government program payments that can be used for loan repayment, banks can use those tools for loan collateralization. Any increase in crop insurance premiums for the producer could greatly affect the affordability of insurance and the ability to secure financing as most lenders will require crop insurance.

Policy Needs

Producers across the Cotton Belt are struggling with the effects of low prices, weak demand, and growing competition from heavily-subsidized foreign producers. The infrastructure for the U.S. cotton industry (gins, warehouses, marketing co-ops and merchants, and cottonseed crushers and merchandizers) will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of low prices such as currently exists today.

As you have heard from others, the National Cotton Council and other cotton industry organizations have developed a proposal to help bring some stability to the industry. This proposal is based on the administrative authority that Congress has provided to USDA in the current and previous farm bills that allows the Secretary of Agriculture to designate other oilseeds as eligible for farm program participation. We believe that cottonseed, which is an important co-product of cotton production, should be designated as an oilseed and defined as a covered commodity under this farm bill, making cottonseed eligible for the PLC/ARC program. The importance of cottonseed continues to grow, as it now represents about 25% of the total revenue or value from an acre of cotton production.

The addition of a cottonseed support policy will be important to ensure continued economic activity in rural areas that is based on cotton production and the associated activities to process, store, transport, and market cotton and cotton products.

A cottonseed support policy could help alleviate the increasing financial stress of the cotton industry and allow for continued credit availability.

Without some stabilizing policy put in place for the cotton industry, given the current and projected prices and costs of production, we can expect to see a continued decline in Texas cotton acres and the associated infrastructure. As further evidence of the need for the cottonseed policy, at least 197 lenders across Texas have written to Secretary Vilsack urging him to take action on the cottonseed proposal to help address the deteriorating situation. The national Farm Credit Council, representing all the local farm credit associations, sent a similar letter outlining the current need for USDA to use whatever authorities available to assist the industry.

From a lenders point of view, it is imperative that actions be taken that can have a stabilizing effect on the U.S. cotton industry. We strongly recommend you use all authorities at your discretion to assist in this situation and specifically that you designate cottonseed as an 'other oilseed' for purposes of the Agriculture Risk Coverage and Price Loss Coverage programs. This designation would help bring much needed stability and support to producers, and in these times of low prices, allow them to have the balance sheets necessary to procure production financing.

As I close, let me express my sincere appreciation to the Committee for allowing me to testify today. As you move forward I pray that you can show others of our legislature that agriculture is the backbone of this great nation. My family is dependent on it as well as yours. As you leave today, I would hope that you will take the following quote and have it somewhere you will see every day and remember the words: In 1896 William Jennings Bryan said it best, "*Burn down your cities and leave our farms, and your cities will spring up again as if by magic, but destroy our farms and the grass will grow in the streets of every city in the country.*" The American farmer is one of the most efficient producers in the world today. If they can continue to provide food and fiber at a price that allows the American people to spend the largest part of their income on homes, vehicles, televisions and phones, the American farmer will continue to do just that. But if there is no incentive or profit in their actions, then the grass will begin to grow.

The CHAIRMAN. Thank you, Mr. Wright.

The gentleman from Texas, Mr. Vela, is not a Member of the Subcommittee but has joined us today. Pursuant to Committee rule XI(e), I have consulted with the Ranking Member, and we are pleased to welcome him to join in the questioning of witnesses.

With that, I will recognize myself for 5 minutes.

I am going to direct this to Mr. Reed initially, and then some of the other producers might want to weigh in on this. Some of your testimony mentioned the request that the Secretary of Agriculture designate cottonseed as an other oilseed for ARC and PLC programs. Talk more about why you as a farmer, as well as upstream and downstream businesses in the broader rural economy, need that sort of action. How would it help you as a producer as well as the stakeholders in your community, and how that proposal would impact other commodities and cotton farmers, or farmers in the other regions?

Mr. REED. Thank you. The cotton industry now is in dire straits. We have shown that. The problem in our area is we have irrigation, we have fairly consistent yields, but with the price that we are receiving, it just does not work. And pretty much every university budget in the Delta shows that. For us to continue to produce cotton at these price levels is just unsustainable. Also, when you lose your cotton farmers, you lose your cotton industries.

I was looking this morning at auction papers, and generally, most of the farm auctions that are coming up have a cotton picker in them. So it is mostly cotton farmers. And with the removal of cotton from the farm program in this last farm bill, the problem with crop insurance is there is not a price policy there whenever the price is at its lowest levels, even with the STAX and the buy-up that we buy. So it is extremely important if cottonseed can be

designated as an other oilseed, without opening the farm bill, we can receive some support there and maybe stop the bleeding in the cotton industry.

The CHAIRMAN. Thank you.

Mr. Holladay, would you like to weigh in on that?

Mr. HOLLADAY. Yes. If you look at where cotton is today and look where we are headed over the next few years, you cannot see an up-tick in cotton prices, basically due to the policies of these other countries. Being a part of the commodity title, again in respect to some sort of support on what we grow, would be a very important thing in being able to cash flow our operations. Having the ability to have cottonseed as an other oilseed would do that. It is not going to be a silver bullet, and it is not going to be enough of a cash exchange to where you are moving acres from one place to the other, but it will sustain cotton operations and it would be sound policy.

The CHAIRMAN. Thank you.

Mr. Wright, you mentioned that some of your long-time customers having negative cash flow issues, have a history of being good customers, productive farmers, would this cottonseed proposal enhance their ability to cash flow in your perspective as a lender?

Mr. WRIGHT. Yes, sir, it would. Sorry. Yes, sir, it would.

We are looking for anything that we can use to cash flow these producers. As I have stated, as well as the other panel members, when we lost our direct payments and our countercyclical payments, a lot of times for our producers, that was their profit.

When you work their loan and you have finally got it all done, when you look at the bottom line and if they show a net profit in their operation, you could go back and generally it was the direct payment or in the countercyclicals. So when that went away, then we lost that option and the cotton prices went down. So this is another tool that lenders will be able to use and it will help us greatly.

The CHAIRMAN. Thank you.

Let me ask you, Mr. Stephens, changing the subject a little bit. We are looking at the next few years with huge world cotton stocks overhanging the market. We know that has been a problem. China and India are probably the culprits in that scenario. In spite of market signals, we see cotton production ramped up in those countries. Based on that, what is your expectation for the future of cotton prices and returns for U.S. cotton farmers throughout the life of this farm bill?

Mr. STEPHENS. Yes, sir. Well, of course, USDA is projecting flat prices through the farm bill, the prices are not deemed by most experts to have a whole lot of upside. And you already mentioned China with 60 million bales that is government-controlled, that is if it is available to the market, or is it not available to the market. Well, that is a decision the Chinese Government makes, not the free market. And so that is overhanging the potential rise in prices.

And then you mentioned India also, with 1 in 4 bales produced in India now, and with a minimum support price in India, and other subsidies that those producers receive, and the government controlling the internal and external availability of Indian cotton. Then it puts the U.S. producer in an untenable and really a posi-

tion where they can't predict what these foreign governments are going to do and how they are going to affect their prices.

The CHAIRMAN. Thank you, sir.

I appreciate the responses. I now recognize Mr. Walz, for 5 minutes.

Mr. WALZ. Thank you, Chairman. And thank you all for your testimony. It is really helpful.

I was mentioning to the Chairman, listening to Mr. Wannamaker and Mr. Michael, you are sixth generation producers. That is longer than Minnesota has been a state, so that ought to stand for something. And the knowledge that you bring means something, and so I like it.

This is kind of a primer for me. I want you to help me with this. Last fall, my producers' biggest decision was ARC or PLC, basically, on how they were going to go. That is not the case for you. It was base acreage reallocation. And one of the things that this Committee has stood strong on is this crop insurance issue, and I know your producers are covered by that. What I am trying to understand is only 30 percent of cotton acres are covered by STAX, and I am trying to understand why that is the case, what we could do, why it either works or doesn't work. But as your decisions with the new farm bill were put into place, for the growers, how did you decide those base acre reallocations, and how do you decide whether to get into STAX or not?

Mr. WANNAMAKER. Most of the STAX decisions were probably influenced most by the crop insurance salesman. In my particular instance, my crop insurance salesman showed me a 10 year scenario of how many years I would be paid, according to what the premium was, and he convinced me that it was a good risk to take. Most crop insurance salesmen did not push the STAX program, in my area anyway, and so a lot of people did not take it. If they had it to do over again, they would. But I am surely glad I did but, like I say, everybody needed to hear that scenario he painted for us. STAX is not true crop insurance, it is an investment that over the long haul will pay, but it is not true crop insurance on my farm. I actually took 75 percent coverage and then took a buy-out with STAX above that because I felt like if I didn't have full coverage on my farm with 75 percent, that I might have a loss and my neighbors might not. So, in other words, my reason might not happen, but it might, so I wanted to have true crop insurance for myself. STAX is a good tool, it is just that it wasn't sold by the people selling crop insurance very well.

Mr. WALZ. Mr. Michael, I am going to turn to you. Well, I appreciate that, and we have to see it. That is an interesting take for us to try and understand.

This is the thing that gets so frustrating up here, the either-or choices that get made, and you mentioned in California is a unique situation in certain ways because of the regulation. It is very helpful on the water situation, but I would like you to explain in real terms, because unfortunately, we get painted into a picture on this. If you bring up a concern about a regulation then you are painted as if you don't care about that, which, of course, you do. You care about clean water, you care about endangered species. My question to you is, if you could help me understand this. On the issue of

background ozone levels, in real practical terms for you to meet what is being proposed, what would that look like, what would that piece of equipment look like? How would you go about your operation if you were just going to make a good faith effort and do everything you could to meet that requirement, because it is the right thing do to if you think that, but what does it mean in practical terms?

Mr. MICHAEL. Well, I would love to have you guys come out and see some of the tractors and the contraptions that we now have on our equipment out in California. Not only does it make it a lot more expensive and a lot more maintenance, but it makes that piece of equipment really not saleable out of the State of California in the future. So not only do you have to pay more for the equipment, it has less value, going forward.

But, these future requirements that are being proposed now are going to really make it even more difficult on top of the layers of regulation that we already have. I don't know what we are going to end up with. I think we need to go back to a mule and a plough, but we are trying to be as efficient and productive as we absolutely can. And, again——

Mr. WALZ. Would it be farfetched to—are you looking at electric tractors?

Mr. MICHAEL. There is everything being proposed right now. At some point that may even be on the table. But, we are trying diesel and clean-burning diesel, which we have an ultra-low sulfur formulation that is only for California that we have to use. So, we are already doing every step that we can. So in——

Mr. WALZ. What is——

Mr. MICHAEL.—this——

Mr. WALZ. What is the price on a boutique fuel like that?

Mr. MICHAEL. Our average is $1 more than the rest of the nation. We can't import from other states because of the special formulation, so we kind of exist in our own island out there.

Mr. WALZ. Well, I do think it is important because all too often those of us who are concerned about this, and I know many in this room, we want to have sustainability, we want clean air, clean water, but there is a practical nature that has to be applied too. And it gets very frustrating for you, saying we are doing everything possible to reach that, but here is what it means. I think sometimes if we can articulate this is what it looks like in the real world, not just theoretically, I think that is really important. So thank you for your testimony.

I yield back.

The CHAIRMAN. I recognize the Chairman of the full Committee, Mr. Conaway, for 5 minutes.

Mr. CONAWAY. Well, thank you, Chairman. I appreciate our witnesses being here.

Could one of you give us a quick scenario? We get this comment from time to time from folks who don't understand a lot about agriculture, and that is, "Why don't you just plant something else?" If you can't make a profit from growing cotton, why don't you plant something else? Shawn, would you like to take a shot at that?

Mr. HOLLADAY. Yes, thank you, Mr. Chairman. In our area of Texas, and a large portion of Texas is historically cotton-specific

country. As you well know, the land has always been cotton land from the very beginning when it was tilled out of prairie. Cotton is the most profitable plant from a water usage standpoint out there, there is a vast majority, especially on the southern high plains of dryland operations, and the water input is high efficiency, low volume water that is putting on there, drip irrigation, LEPA system irrigation, and such as that. And cotton has a whole lot more yield potential when it comes to breaking even on a crop.

Mr. CONAWAY. All right. There are so many bits and pieces to it, but can you flesh out the impact that a permanent loss of cotton production would have on your area? In terms of the both the upstream and downstream industries, from inputs and suppliers to gins, compresses, and merchants, those kind of things?

Walk us through that a little bit.

Mr. HOLLADAY. As you know, the pipeline of cotton is not the only thing affected in the cotton country. Especially mom-and-pop organizations within these rural communities are highly stressed right now in the cotton country. Your infrastructure itself, which, if you lose, is not something that you can afford millions and millions of dollars to——

Mr. CONAWAY. Describe that——

Mr. HOLLADAY.—put that in place.

Mr. CONAWAY.—infrastructure.

Mr. HOLLADAY. Yes.

Mr. CONAWAY. You are talking about mom-and-pop shops, you have mechanics and other suppliers.

Mr. HOLLADAY. Yes.

Mr. CONAWAY. Walk us through some of the faces——

Mr. HOLLADAY. Well, you have——

Mr. CONAWAY.—that we would lose.

Mr. HOLLADAY. Yes, sir. Your tractor dealerships would consolidate, they would use less mechanics, there would be one to every four or five communities. That is being looked at. The gins would consolidate to one or two per county. You would lose jobs in every instance that you look at something like that. You have tire dealerships, hardware stores. I mean if you are looking at—on the high plains of Texas, you are looking at between one to four and one to five jobs are related to agriculture, and cotton is the primary crop grown in that area. And if you switch to a different crop and go to something that is unsuited for our soils, you are going to take the amount of farmers down a significant number, and the amount of support down, everything comes down, and that affects the rural communities.

Mr. CONAWAY. Mr. Wright, we had the Farm Credit Administration in here last week. We asked them about availability of credit for the 2016 crop year and beyond. I am worried that some of the mechanical underwriting rules being placed on banks will prevent lenders like you from being able to use your own judgment for risks, and this automatically prevents you from financing next year's crop. Can you walk us through that? Is that a legitimate risk, or am I overplaying that?

Mr. WRIGHT. Yes, sir, it is a very legitimate risk. As I have told people before, agriculture is a different animal, and when you look at it from a banking standpoint, you have to understand ag. I have

been part of an organization before where they changed upper management and they hired guys that didn't understand agriculture, and it became a reg, and that is when I went to City Bank and found some people that understood. But the regulators are coming in now, and our cash flows, years and years ago—and you may remember this—you had what was asset-based lenders, and as long as you had plenty of collateral and as long as you could secure it, then you could pretty well go and make the loan. That all changed, and we got back into the cash flow position that we are in now. So you can have all the collateral you want to, but if you can't cash flow this, then they hold our feet to the fire. And so we have to be accountable to the regulators and to the banking industry, and this it makes it tough.

Mr. CONAWAY. Is there a way to have a non-credit-supported production agriculture system? Could we do away with banks altogether, and make that work?

Mr. WRIGHT. Well, just give me a few more years and then it will be time for me to retire, and then we might want to do that. We at City Bank are pretty fortunate because of our total loan portfolio, ag is about 11 percent of that, which sounds pretty small. We topped out at about $216 million this year, which is pretty big, one of the bigger lenders. And what is going to hurt is when you talk about these other industries, the smaller banks and the smaller towns, those loan deposit ratios are in 80 percent, 90 percent, and those are in ag loans. That is what they loan to. That is all they have to loan to. And so it will cripple them.

Mr. CONAWAY. All right. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank you, Mr. Chairman.

I now recognize the gentleman from California, Mr. Costa, for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman.

I want to go back to our witness from the San Joaquin Valley. Mr. Michael, you talked about, because of the result of a lot of changes, many factors above and beyond your control, you have had to become innovative in your efforts to try to maintain your efforts in the cotton industry. You described the extra long staple cotton competitiveness payment program, and the possible changes you would like to see as it relates to the pima cotton that you grow and the blends. It is the added value that you get for growing that pima cotton that allows you to still stay in that business. Could you be more explicit in terms of what you would like to see?

Mr. MICHAEL. Sure. The ELS cotton does exist sort of in a world of its own because of its length and strength characteristics. We do need to be able to stay competitive, China right now is subsidizing their growers over 40¢ a pound, and that has boosted their production to a very high level of ELS that we haven't really seen before. We would like to include that price as a reference point in with the discussions for our competitiveness program that we have in place.

Mr. COSTA. Do we know for sure that China is maintaining that premium blend, or are they, in fact, blending it with other varieties of cotton?

Mr. MICHAEL. Well, it is very possible, from what we have seen with our pima cotton, that there is a lot of blending out there because it is a higher-price product, so retailers are starting to find

that there is actually quite a bit of gamesmanship going on. There is sort of some fraud being perpetrated on the consumer by products that are supposed to be 100 percent ELS cotton are actually heavily blended with lower-quality cotton, mainly at the mill level in China.

Mr. COSTA. Have you or your neighbors been able to utilize, out of the farm bill that we worked very hard on, some of the programs involved, like the EQIP program?

Mr. MICHAEL. We have used the EQIP program and been very successful getting some funding. The one problem is that we are just one entity, and the caps, you hit them pretty quickly. And so it sort of deincentivizes in some ways the larger producers from investing in larger conservation projects because of some of the cap limits. I understand there are reasons maybe for some of those limits, but in terms of water conservation in a state like California, it would be much more helpful if we had additional access to some grant funding. But unfortunately, we get capped out pretty quickly.

Mr. COSTA. I would like to ask all the witnesses quickly, if you can, because my family has been in the cotton business, we no longer are, it was no longer financially feasible with our kind of operation, we went to permanent crops, but there has always been the debate on the use of cotton for fiber in this country and around the world *versus* synthetic blends, and we look at the competition that is out there, where do you see the role of cotton in American and global economy in the next 10 years? Anybody care to comment?

Mr. STEPHENS. Well, of course, we see cotton as the premiere fiber, and the fiber you want to put——

Mr. COSTA. Well——

Mr. STEPHENS.—next to your baby's——

Mr. COSTA.—no, I agree with you.

Mr. STEPHENS.—skin. And what we have seen in the past several years is the largest textile consumer in the world, the textile supplier to the world, has had the highest cotton prices and the lowest polyester prices due to their government policy.

Mr. COSTA. Yes.

Mr. STEPHENS. And so we as U.S. cotton farmers——

Mr. COSTA. Do we have any numbers on utilization of polyester products *versus* cotton today, and any trends over the last 20, 30 years?

Mr. STEPHENS. Yes, sir, we do.

Mr. COSTA. Does the National Cotton Council?

Mr. STEPHENS. Yes, sir, we do. And we will be happy to get those to you.

Mr. COSTA. Yes. Finally, Mr. Cannon Michael, I want to go back to your comments on the Endangered Species Act, and we have dealt with the Sage-Grouse in the Midwest and other problems that you alluded to with regards to the Delta smelt and salmon protection, I mean it is your view that we need to take another look and recalibrate the way the Endangered Species Act is being applied?

Mr. MICHAEL. I just would like to see a little bit more accountability and some metrics set in place where if there are going to be resources allocated for endangered species, there should be a

level of accountability. We have seen in this drought, a high level of focus on urban use and agricultural use, but we are also using our engineered system to supply water for species, and if that is going to be the case, then we need to have that level of accountability. And for any state that is facing Endangered Species Act issues, it is advisable that you all would focus on wanting that to have some accountability because it is being applied in ways in California that are not helping the species, and that are still taking the resources, even though it is not working to help those species.

Mr. COSTA. Thank you. My time has expired, but for the Members of the Subcommittee, a bit of a footnote for history. I said a sixth generation farmer, and I am not sure which generation it would be appropriate, but somewhere back, great-great-great-grandfather was a Speaker of the House of Representatives, by the name of Joe Cannon.

The CHAIRMAN. That is interesting.

Mr. COSTA. So——

The CHAIRMAN. Very interesting.

Mr. COSTA. Yes.

The CHAIRMAN. Thank you, sir. I appreciate that.

Mr. Austin Scott from Georgia, you are recognized for 5 minutes.

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman.

And I could ask this question of any of you, I guess, but I am going to ask it of you, Mr. Wannamaker. We have heard here, and I hear back home, I am from Georgia, cotton is obviously a tremendous crop for us, about the challenges of obtaining financing if the situation doesn't improve. And I look at the stockpiles in China, and other areas around the world, of cotton and I just wonder, what percentage of the producers in our part of the world do you think are under so much pressure that they may not be able to borrow the money to plant next year?

Mr. WANNAMAKER. I would venture to say that the biggest impact will be on young producers. I am 59 years old. I went through some good times, but a lot of these younger producers that are out there now went through some good times, they have never seen any bad times and they don't have any equity built up yet. I mean the young producer is probably the most at risk of any of them. The small, young producer that is just getting started or just got started in the last few years is at the most risk. I don't know the exact numbers, we probably could come up with them, but I would say the main focus should be on the next generation, keeping the next generation in business.

Mr. AUSTIN SCOTT of Georgia. So and if you don't want to answer this question, feel free not to. Sir, do you collateralize your own loan with other assets that you have already accumulated? Do you secure them or do you——

Mr. WANNAMAKER. I do. My lender takes everything he can get. I try to give him as little as I can give him.

Mr. AUSTIN SCOTT of Georgia. I understand. The thing I hear from my bankers is they want the cash back on the loan. They don't want to take anybody's land. I mean that is——

Mr. WANNAMAKER. Right.

Mr. AUSTIN SCOTT of Georgia.—that is not what they are in the business of. But it concerns me that when you see the stockpiles,

and knowing nobody has a crystal ball, I mean 1 year, 2 years, 3 years, how long does it take to——

Mr. WANNAMAKER. It is at least the length of the farm bill, and that is why we are here today. We see it is bad now, but we see it staying this bad and this is probably the most, I don't know, I am really so anxious about this cottonseed program because it is the lifeblood of cotton. Cotton is going to leave the United States if we don't get this. I really believe we are on the road to having that happen.

Mr. AUSTIN SCOTT of Georgia. I am very concerned that you are right as well.

Which brings me to the next question. So Brazil took action against the United States with regard to cotton, but if we are honest, it is China and India that is the problem with the global cotton market. How do we—what suggestions do any of you have for Congress and how we address that issue with regard to China and to India, and maybe why didn't Brazil take action against one of those two countries?

Mr. WANNAMAKER. Well, I think partly because they considered themselves *underdeveloped*. The United States is considered a developed country, and so we are the ones that are picked on all the time. We are the most efficient producers in the world, yet we have to be asked to grow cotton for 64¢ when other countries are being subsidized up to $1.40.

Mr. AUSTIN SCOTT of Georgia. Yes.

Mr. WANNAMAKER. I have made this comment to other farmers around, I said I would be growing cotton in my lot next to my house if I could get $1.40 for it. So we just can't compete against governments. We can compete against producers——

Mr. AUSTIN SCOTT of Georgia. Yes.

Mr. WANNAMAKER.—but we can't compete against governments. So we have to make those governments more accountable and make them give their numbers and be as transparent as we are.

Mr. AUSTIN SCOTT of Georgia. I am down to less than a minute, but if any of the rest of you who are producers would like to speak about that, or any of you have any suggestions on kind of the global market and how long you see it takes to shake out? Mr. Holladay?

Mr. HOLLADAY. Yes. You can see if China's stockpile stays isolated, Shane would speak better to this than I can, but if their stockpile remains isolated and it is something that they are going to use, you can see an up-tick in the market 3 to 4 years out maybe. Maybe sooner, depending on what happens in the rest of the world. I mean it is still a commodity that is used in the world, so depending on what China does with their stockpile would have a great impact on what our prices are going to be.

Mr. AUSTIN SCOTT of Georgia. Yes.

Mr. STEPHENS. Yes. The U.S. producer, and to my knowledge, nobody in the U.S. has any influence or control, it is strictly we are at the mercy of the Chinese Government's decisions with their huge stockpile. It is twice what would be considered a long-term stock-to-use ratio, and it is because of the huge stockpiles in China. The market doesn't know are they available, are they going to be

made available, are they going to be held off the market. It really is limiting our potential.

The CHAIRMAN. The gentleman's time has expired.

We are going to stay in Georgia, move across to Mr. David Scott, and recognize you for 5 minutes.

Mr. DAVID SCOTT of Georgia. Let's stay on the China situation that my good cousin over there, Austin Scott, brought to the fruition. How long do you think that China's current stocks will suppress the world's market, how much longer?

Mr. STEPHENS. We really wish we knew. The only people that can answer that is the authority in China.

What we do know is they continue to increase polyester production into the face of an already oversupplied polyester. They continue to take internal policies that lower the price of polyester in China, and they continue to hold the price of cotton inside China well above world prices.

Mr. DAVID SCOTT of Georgia. So in order for us to really see how we can, over in the United States and our agricultural policy, can thwart this or deal with this, what is your best understanding of why, why is China doing this? Is it to move into other crops, to diminish this, for example, you brought up polyester, some of our own mills are turning to polyester instead of cotton. What is the thinking, if you could get into the Chinese mindset, what is their thinking, they have to have some reasonable rationale for why they are doing this, because it could eventually come back to hurt them as well if they continue and suppress cotton?

Mr. STEPHENS. Yes, sir. I suspect some people might say they don't have to have a reasonable decision-making process, what we understand is that China is a net importer of cotton, and has been for years. They are not a net importer of polyester. They continue to produce polyester inside China——

Mr. DAVID SCOTT of Georgia. Yes.

Mr. STEPHENS.—to satisfy their internal use and the polyester that they sell to the rest of the world. So they are becoming less and less of an importer of raw cotton, so they are not looking——

Mr. DAVID SCOTT of Georgia. Yes.

Mr. STEPHENS.—to the United States to supply raw product like they used to.

Mr. DAVID SCOTT of Georgia. And so for our cotton farmers, because I am very concerned about it because while the Chairman's beloved State of Texas is number one in cotton production, Austin in my State of Georgia is number two. So we are very much concerned. What would you say is the economic impact of the situation right now? In other words, financially, what is it costing our cotton farmers in the United States, this situation in China and India? Anybody? Is there a dollar figure? Is there something we can hang our hat on to say if we don't change this situation, if something isn't happening in 2 or 3 years, or put some kind of figure on it, this is what is going to happen to the cotton farmers in Georgia and the United States?

Mr. STEPHENS. Well, Mr. Scott, we have reported that there is $100 billion economic impact derived in the United States through the cotton industry. And you have heard the producers, and the producers I have talked to all across the mid-South and Southeast

on a weekly basis tell me that the cotton industry will not sustain itself unless something substantial changes relatively quickly.

Mr. DAVID SCOTT of Georgia. Yes.

Mr. REED. And I would add that as a U.S. producer, I feel like, on a level playing field, I can compete against any producer in the world. I don't feel like we are in that situation now with the Chinese and India heavily subsidizing their cotton industry. So that is part of my——

Mr. DAVID SCOTT of Georgia. Yes. And so what would your best recommendation be as to what we need to do about it in terms of our agriculture policy?

Mr. REED. I would say, immediately short-term, have some system in place where cotton farming not even becomes profitable, just becomes where we don't go broke——

Mr. DAVID SCOTT of Georgia. Yes.

Mr. REED.—in the short-term. And that is really what we are asking for is to stop the bleeding. There will be some in this cottonseed program we are proposing. A lot of these generic base acres are going into peanut production, which has a very high government payment, and rice production.

Mr. DAVID SCOTT of Georgia. Right.

Mr. REED. There will be quite a bit of savings there by people not bleeding off acres into cotton production.

Mr. STEPHENS. Oilseed.

Mr. REED. Yes, if we do get the oilseed payment, there will be quite a bit of savings there of people stopping to grow the peanuts just for the farm payment.

Mr. DAVID SCOTT of Georgia. So the one thing that we can do is make sure, if I hear you right, to make sure that the Secretary to Agriculture, Secretary Vilsack, designates cottonseed as *other oilseed?* That is something——

Mr. REED. Short-term, just to stop the bleeding and save our cotton infrastructure, because we are at a definite breaking point. Much less cotton in the mid-South, we are going to see gins fold up, and once that happens, they don't really come back.

Even if the cotton market comes back, it will be very difficult.

Mr. DAVID SCOTT of Georgia. So the one thing we can definitely do as Members of Congress is to get letters and to get in contact with Agriculture Secretary Vilsack to spur him on to make this definition of *other oilseed?*

Mr. REED. Absolutely.

Mr. DAVID SCOTT of Georgia. We will do it. Thank you.

The CHAIRMAN. The gentleman's time has expired.

We are going to continue with the Georgia show and move across the aisle to Mr. Allen. You are recognized for 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman. And I am going to give you a few statistics on Georgia. I guess that is why there are three of us sitting here at this hearing. But first I want to thank our panel for coming before the Subcommittee today.

I was the son of a farmer, so I know a little bit about your pain, although we didn't grow cotton, we were in the dairy business, which is the smartest thing my dad ever did was get out of that business and become a gentleman farmer.

But I represent the 12th District of Georgia, and, of course, in 2014, the State of Georgia planted around 1.38 million acres of cotton, and a yield of about 900 pounds per acre. And, in listening to both our farmers in the district and to you today, I don't see that it is our farmers' fault that prices are so low. Last year, for example, again, we averaged about 900 pounds per acre, compared to a national average of around 685 pounds per acre. So we are getting very efficient at what we do. And the thing that amazes me is that you still ride down the roads of Georgia, and I am sure it is like this in other states, where we have the old textile mills. They are now becoming office buildings and things like that. At least they are being converted, but for so long those buildings were vacant. We lost our textile industry, and for the life of me, I tell you, I do agree with some of our presidential candidates who have talked about our trade policies in the past. I don't understand why China would pay their farmer $1.40 a pound, or more, for cotton, which is less quality than our cotton, they will only pay us 62¢ a pound for the cotton to be able to make this shirt that I paid $35 for, that I bought and was made in China. Somewhere we are getting the short side of that deal, absolutely no question about it, and we need to make our friends in China aware of that. I am assuming that we could buy this shirt somewhere else, possibly. And that is the root of the problem as I see it, is that we have lost our textile industry, and now we are at the mercy of other nations. Eighty percent of our cotton grown in our district is sent through the Savannah port overseas. And we have to find a market for that. Of course, we have some things we have been working on as far as trade goes; but, obviously, we have to get to work on the source of the problem, and that is the ability to stabilize this world market and treat our farmers fairly in this country. And I see that as really a national security issue, Mr. Chairman.

But again, enough on the foreign issues. Obviously, you all have talked about the economic impact of cotton as we reduce acreage. I have 18 gins in our district. When you build a cotton gin, it is a lot of infrastructure. You might be able to—okay, we are going to convert to cotton and grow cotton next year because it is back to $2.50 a pound, it takes years to build that gin. So you have those issues.

I guess what do we do in the short-term? What can we do as a body in the short-term to shore us up and get us where we need to be?

As far as the STAX Program, is there—Mr. Wannamaker, you commented on it. Is there any way we can make that program a bridge—I know we have the cottonseed issue, and our Chairman has sent a letter, which we are party to, to get the cottonseed thing done. But as far as the STAX program in place, is there any future as far as it stabilizing our situation until we can, as a country, get this thing solved?

Mr. WANNAMAKER. STAX is a good program, but the cottonseed thing is—I think is definitely needed now. I mean——

Mr. ALLEN. Okay.

Mr. WANNAMAKER.—I just don't think——

Mr. ALLEN. Well, that is——

Mr. WANNAMAKER. Yes.

Mr. ALLEN. That is an emergency.
Mr. WANNAMAKER. Right. Right.
Mr. ALLEN. Yes. It has to happen.
Yes, sir, Mr. Reed?
Mr. REED. I was just going to add to that that STAX is an insurance program, and this low-price environment that we are in, it is——
Mr. STEPHENS. It is a revenue.
Mr. REED. It is a revenue insurance and it is not—at 64¢ cotton STAX is a little bit irrelevant because no matter how good the yield we make, it still doesn't come out.
Mr. ALLEN. Yes. Well, I am out of time, doggone it. But anyway, thank you. Hang in there and let us know what we need to do to get this thing fixed. I appreciate it.
The CHAIRMAN. The gentleman's time has expired.
The gentleman from Texas, Mr. Neugebauer, is recognized for 5 minutes.
Mr. NEUGEBAUER. Thank you, Mr. Chairman. Thank you for holding this hearing. It is good to see some great folks from the 19th District here today. Thank you, Shawn and Mike, for coming up and being a part of this panel.
When you look at some of the options out there, near-term and long-term, and then you talk about the cottonseed issue, can you kind of walk the Committee through what the numbers would look like? Shawn, if you had something like that in place today on a per acre basis, what would we be talking about?
Mr. HOLLADAY. Well, the preliminary numbers that we are looking at, if you are wanting to look at, basically, you would be using a factor of about 1.4 percent to lint, so you would have a constant factor over to cottonseed. You would have probably a $60 or so acre payment on a 500 pound frozen yield at the FSA Office on your base acres, basically. That is a rough number. That is the way we figured it. That would be not a silver bullet and not enough money to move a whole lot of acres around, but a traditional cotton producer, it would be a big impact, as you well know, on cash flow in an operation. And near-term, without opening the farm bill, that is what we have available to us right now to try to get done, and we appreciate your help in getting that done.
Mr. NEUGEBAUER. Yes, thank you.
And, Mr. Wright, back in your testimony you mentioned that it was hard to factor in STAX when you are doing these cash flow analyses, and you are saying you are getting some pressure from the regulators now of these cash flows. I have had a number of conversations with you and others that these cash flows are really tight, and particularly with the weather patterns we have had over the last 2 or 3 years, a lot of that equity has shrunk and so the cash flow becomes much more important. Can you kind of talk to us a little bit about the difficulties of using STAX in the cash flow projections, and how you incorporate that, and do you incorporate it?
Mr. WRIGHT. Well, we look at it, but STAX is a revenue insurance. And so it is based on, in our area, based on the county. And those 2015 indemnities won't be paid until some time in the late summer of 2016. Well, our guys need the money now. We need the

money then, but it takes that much longer. So it is hard for us to take a number when we don't know what it might be, and it might not be anything. And so we really don't have anything concrete to put our hands on, to put it on paper, to put it in those cash flows.

Mr. NEUGEBAUER. One of the things that you mentioned is these cash flows are getting tighter and the examiners are looking at it harder. One of the things we saw last year was a lot more FSA Guaranteed Loan Program, and one of the things that happened to us because the demand had picked up in that program, is that we had people calling, literally, it was time to plant and they had not been able to get approval on their guarantee.

We talked to the Secretary about that. They put some additional people in there, but my guess is if these prices remain at these levels, that that activity is going to increase because you are going to find it more and more difficult with the scrutiny you are getting, from the regulatory standpoint. Are you seeing where you are going to have to look at moving some more of that business to the guaranteed program?

Mr. WRIGHT. Yes, sir. Yes, sir. We are going to utilize it. We have used it, and it is one of the reasons we are a preferred lender. As a preferred lender, all we can use is our analysis. And so as a preferred lender, when we submit it to the state for approval, we just have to send an application and a narrative. Now, this narrative is about 6 or 8 pages long, but it takes in their whole operation. So once we do that, and that is why it is so critical for us to be a preferred lender. Now, we don't just send loans to FSA for guarantees just for the sake of doing it. If we see that we have a problem, we deal with the problem, we don't push it off on FSA. And another reason that we don't is there are regulations in place through FSA, to be a preferred lender you can't have—and I would have to go back and look at the regulation, but your loss ratio can't be but a certain level. And once you get to that level, then you could lose your preferred lender status. And we can't afford to do that, so we really look at the ones that we really think would go and would make.

We heard some stories last year, we sent ours in early. Last year we had the option of choosing the county office or the state office to submit our applications through. We chose the state office, and it was a little slow down there but it wasn't anything like it was in the county. So we are going to have that again, I feel sure.

Mr. NEUGEBAUER. Well, one of the things we are going to need to do is anticipate that and make sure that they ramp up early and don't cause the kind of delay.

Mr. Chairman, my time has expired. Thank you.

The CHAIRMAN. Thank you very much.

I want to thank each of you for coming. I know this was short notice, and you all responded. We certainly do appreciate that. And we appreciate your testimony. You have given us a lot to think about, a lot to work with.

Before we adjourn, I want to invite the Ranking Member to make any closing statements he would like to make.

Mr. WALZ. Well, again, I thank the Chairman. And you demonstrated it again, you have a strong advocate on your side. We certainly appreciate it. And to each of you, you have made impor-

tant points. Your marching order to us on action steps to take here. This issue on oilseed is immediate, needs to be done. The Secretary is aware of that. All of us will keep helping move them along to make a decision. And then some of these broader issues, from trade and the pressures you are up against. The Chairman keeps reminding me that this is the first step. Soybeans are in their sights too the same way. Once again, it reminds all of us you are fighting a fight for all agriculture, getting this right from unfair trade practices to how we go about some of these regulations to make sure they work.

I would close, Mr. Wright, by thanking you for that quote from William Jennings Bryan. My family's farm is in Nebraska, and it is not often we hear a good Democrat quoted in here, especially from Nebraska. So he also had another quote where he said, "He hopes the Democratic Party's, both wings could flap together." I would say on this one, "both parties are flapping together for you." It is important you are here. We are unified in making this work. And six generations of families doing this, as I said, again, that says something about our heritage and our commitment.

So I thank you all, and I yield back.

The CHAIRMAN. I thank the gentleman.

I just want to say, in dovetailing with the Ranking Member's comments, a couple of things that came to light in your testimony that was consistent across the board, first, I think we can agree that cottonseed designated as an oilseed would go a long way in mitigating any further damage while we address where we go from here. Again, not the silver bullet, but a good starting point. We are going to continue to urge the Secretary to take action on that.

One of the things that I think Mr. Michael referenced this—or no, no, it was Mr. Wannamaker, we are a developed nation, and China and India continue to be referenced as developing nations. They have a competitive advantage against us in the World Trade Organization, so when we have grievances that are aired in the WTO, we are not on the same level playing field.

That is something beyond the scope of this Committee, I believe, but something that maybe the Administration should be addressing is how we address that, going forward, because they are certainly a developed economy and should be treated as such, otherwise we will never fully be able to address these issues to a productive outcome.

Thank you for being here.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material, and supplementary written responses from the witnesses to any questions posed by a Member.

This Subcommittee on General Farm Commodities and Risk Management hearing is now adjourned.

[Whereupon, at 11:26 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY DAN SMITH, MEMBER, BOARD OF DIRECTORS, TEXAS FARM BUREAU

My name is Dan Smith; I'm a fourth-generation cotton farmer from Floyd County, Texas, and Member of the Board of Directors of the Texas Farm Bureau. I appreciate the opportunity to provide testimony on the looming financial crisis in the South Plains of Texas. The seeds of our current situation were sown years ago and threaten to play havoc with the economy of an entire region of my state.

Those interested in the health of the cotton industry wrestled for years with how to address our World Trade Organization (WTO) loss in what is commonly known as the "Brazilian Cotton Case." The WTO loss and decreasing levels of spending on farm programs dictated significant farm policy changes for U.S. cotton. The 2014 Farm Bill gave us a totally crop insurance-based support program for cotton and removed our crop from Title I.

The removal of cotton as a covered commodity could not have come at a worse time. Cotton prices have dramatically decreased and the lack of a safety net has made profitable cotton farming much less likely.

Cotton production is infrastructure intensive. Farmers depend on a network of capital-intensive businesses to process what we produce. From gins at the local level to textile plants at the end of the chain—all must be profitable to stay in business. It's a partnership. The farmer needs the downstream handlers and processors; who need the cotton flowing into the marketing stream. At present, all levels of our domestic cotton industry are hurting, but without farmers growing the crop to begin with, the industry grinds to a halt.

Texas leads the United States in cotton production, growing 55% of the nation's total acres. The value of cash receipts for cotton is the largest of any crop in Texas at $2.2 billion. Needless to say, cotton plays a vital role in the Texas economy. If cotton production declines significantly as a result of persistent low prices, not only will local economies suffer but the state as a whole will suffer.

Prices are one thing; profitability is another. The cotton industry, indeed much of American agriculture, is caught in a classic cost-price squeeze. The prices we pay for inputs are still high and reflect the overall high commodity prices of a few years back. Today's commodity prices are not sufficient to afford inflated input costs that remain high.

The Agricultural and Food Policy Center at Texas A&M University (AFPC) tracks the financial health of representative farms across the country, including 16 cotton farms located in eight states. In March 2015, they released their latest report. **They projected nine of the 16 farms would have a probability greater than 50 percent of a cash flow deficit by 2018.** Half the farms were projected to lose net worth in that same time. *Of the eight representative farms located in Texas, only one was ranked "good" in terms of long-term economic viability, two were "marginal," and five were "poor."* If anything, the AFPC's bleak March forecast has deteriorated further since release.

We are only aware of one proposed solution to address this situation. The request that the Secretary of Agriculture designate cottonseed as an "other oilseed" for purposes of inclusion in the Agriculture Risk Coverage and Price Loss Coverage programs (ARC/PLC) of the current farm bill. I believe this would be a wise step forward for all of agriculture, not just cotton farmers.

When I harvest a cotton crop, I produce two distinct commodities: lint and seed. I bear production and price risk for each of those two products. Certainly if growing conditions are less than optimal, I produce less lint and less seed. However, other factors influence the price risk I face. Cottonseed prices are determined by a multitude of factors, chief among them global supply and demand for cottonseed meal and cottonseed oil. Those two commodities rise and fall in concert with other oilseed products. It stands to reason that they should be treated similarly in terms of government programs.

Further, farmers can purchase a cottonseed endorsement on their crop insurance policies. Since the federally-backed crop insurance program recognizes the financial risk I face for the seed portion of my crop, it follows that the ARC/PLC programs of the 2014 Farm Bill should recognize that risk, as well.

I strongly encourage USDA Secretary Tom Vilsack to use the authority he already possesses, designate cottonseed as an "other oilseed," and get cottonseed eligible for the ARC/PLC safety net as soon as possible. This move will help ensure production of our number one natural fiber, increase the financial viability of family farms, and help the local economies of the Cotton Belt.

Again, Texas Farm Bureau appreciates the opportunity to submit testimony on this important issue and salutes the Subcommittee for shining a spotlight on the current state of cotton production.

SUBMITTED QUESTIONS

Questions Submitted by Hon. K. Michael Conaway, a Representative in Congress from Texas

Response from Shane Stephens, Vice Chairman, National Cotton Council

Question. This is not the first time cotton prices have fallen so low. Can you talk about why the situation this time is different, and what role the cuts in the cotton safety net might be having on cotton farmers in the situation you now face?

Answer. We last saw cotton prices at these low, sustained levels in the late 1990s and early 2000s. And while those were also severely challenging economic times for cotton producers, the low prices were also impacting almost every other major crop. As a result, Congress stepped in to provide economic assistance in the short-term, and then the Agriculture Committees reauthorized the farm bill in 2002 to include programs better equipped to respond to significant price declines. These programs were there for all the crops to help weather the low prices until the economic environment improved, which it did in the latter half of the last decade.

However, today cotton producers find themselves in a situation of extremely low cotton prices (cotton is currently the only crop with prices below the loan rate), yet cotton policy in the current farm bill is the least equipped or adequate to deal with multiple years of low commodity prices. This is largely due to the fact that most of cotton's policy is built around crop insurance products, which can be effective risk management tools for intra-year price and revenue swings, but largely ineffective for periods of sustained low prices. The U.S. cotton industry is now entering the third straight year with cotton prices below the cost of production and to date there has been no meaningful assistance provided.

Response from Nathan B. Reed, J.D., Arkansas State Chairman, American Cotton Producers

Question. We have heard a lot about how prices for cotton are low, and how the market situation is very unfavorable, with cotton farmers looking at net losses for planting cotton. How does the situation for cotton influence cotton planting decisions when you decide what to plant next spring and in future years? With the low market prices experienced for cotton lint, how do you decide whether to plant other crops, and what is the outlook for improved returns from those crops?

Answer. In my area of the cotton belt, the Delta region of Arkansas, and for most producers throughout the Mississippi Delta, we have a number of cropping options given our soil type, climate, and irrigation capabilities. As a general rule, we have seen corn and soybean acreage increase and cotton acreage decline over the last several years as prices and returns from the grain crops have been more favorable than cotton. However, we want to continue to grow cotton, and continue to keep it in our crop rotation. Many cotton producers are also invested in cotton gins and warehouses, and unlike most grain crops that can all be handled by the same grain handling equipment and storage facilities, only cotton can be processed through a cotton gin. And cotton is important for our rural communities as the production inputs and processing of cotton result in more dollars turning over in the local economy than most other row crops.

Given where cotton prices have been in recent years relative to grain crops, our cotton acreage has declined. However, for the upcoming season, with prices lower for corn, soybeans, and wheat, the relative returns for these crops compared to cotton are not significantly different. So, we may see some movement back to cotton acres because of the decline in grain prices not due to an improvement in cotton prices. However, the grain crops still have the advantage of farm policies that help protect against long term price or revenue declines, in addition to the ability to purchase crop insurance. Neither cotton lint nor cottonseed is currently able to utilize long term price and revenue protection offered by the ARC/PLC programs. It is for these reasons that USDA must work to designate cottonseed as an "other oilseed" making it eligible for ARC/PLC.

Response from Shawn L. Holladay, Producer Board Member, National Cotton Council

Question 1. Mr. Holladay, in your written testimony you mentioned that crop insurance was never designed to deal with anti-competitive trading practices by countries like China and India. It was also mentioned that crop insurance does not mitigate against multi-year price declines. I think there is this perspective out there that crop insurance is all a producer needs. Can you expand on whether this is the case?

Answer. Crop insurance is a vital part of a producer's overall risk management portfolio, but it certainly is not all a producer needs to provide effective risk man-

agement. Crop insurance was created to mitigate losses due to a multitude of factors outside of a producer's control. Like any type of insurance, crop insurance is purchased by producers, a loss must be incurred and a deductible (in many cases the deductible is 30–40%) must be met before any indemnity is paid. The most popular type of crop insurance products are revenue based. These products are simply not as effective during a multi-year price decline. Cotton producers need a diversified portfolio of tools such as crop insurance for when disasters occur, but also access to other USDA programs such as ARC and PLC like other commodities to help mitigate multi-year price declines.

Question 2. Can you explain the role the Stacked Income Protection Plan (STAX) plays in risk management for cotton farmers? Does STAX protect cotton farmers from multi-year price declines, and in your view is it sufficiently protecting cotton farmers in the price environment they now face?

Answer. STAX was created in the 2014 Farm Bill for upland cotton producers. STAX is an area wide revenue insurance plan. STAX allows a producer to purchase an area wide plan to cover a range of 70–90% of their expected county revenue in concert with or in lieu of a traditional policy. This can be a very important part of a producer's overall risk management strategy as this can help cover a portion of the deductible of traditional insurance policies. STAX, like traditional crop insurance, was not designed to protect farmers from multi-year price declines as other USDA programs such as PLC focus on this issue. Unfortunately, neither cotton lint nor cottonseed is eligible for PLC. While STAX is functioning as it was envisioned, the cotton price environment and market dynamics have changed since STAX was first conceptualized in 2012 leading up to the new farm bill that was ultimately passed in 2014. During this period and when the bill was passed cotton prices were in the 80¢ range—the harvest price under STAX for 2015 was around $0.64¢. STAX like other revenue-based insurance products are not as effective in a low price environment.

Response from Kendall "Kent" W. Wannamaker, President, Southern Cotton Growers

Question. The written testimony emphasized how cotton production is specialized and requires specific equipment and infrastructure that cotton requires, such as cotton pickers and cotton gins. Can you explain more about any specific equipment and infrastructure for planting, management, harvest, or post-harvest processing that cotton requires?

Answer. Of all the major row crops, cotton is one of the most intensively managed and requires some of the most specialized equipment. For example, cotton typically requires several applications during the growing season of pest control products to control insects, weeds, and diseases. Many other crops only require one or two such applications. In addition, cotton is harvested by either a cotton picker or cotton stripper harvester. These machines cost between $450,000 and $700,000 today and can only be used to harvest cotton. Most other crops are harvested with a combine, which costs on the low end of what a cotton harvester costs, and can be used to harvest multiple crops.

Also, while most grain crops are marketable immediately upon harvest by a combine, cotton must be ginned to separate the fiber from the seed. This results in two marketable products—cotton fiber and cottonseed. This is another unique aspect of cotton production since it yields two separate, distinct, and marketable products from the same acre of production, which is unlike almost any other crop. The infrastructure for cotton production is extensive from the farm gate forward. The cotton gin is the first step in the post-harvest process. Next the bales of cotton fiber are shipped to warehouses for storage. From the warehouse, the bales are marketed by either cooperatives or merchants that sell the fiber to domestic textile mills or into the export market. Cottonseed is also stored in seed warehouses, typically located at the cotton gins, and then shipped to either cottonseed processors for crushing to produce cottonseed oil and meal or shipped to dairies as a feed source. The cottonseed is marketed by cottonseed merchandisers.

Response from Cannon Michael, Producer Board Member, National Cotton Council

Question. We have heard a lot about how prices for cotton are low, and how the market situation is very unfavorable, with cotton farmers looking at net losses for planting cotton. How does the situation for cotton influence cotton planting decisions when you decide what to plant next spring and in future years? With the low market prices experienced for cotton lint, how do you decide whether to plant other crops, and what is the outlook for improved returns from those crops?

Answer. In the Central Valley of California where I farm, there are a number of factors that determine what crops we plant and whether we put ground into trees to produce fruit and nut crops or maintain the acreage in annual crop production,

including cotton. Much of our situation continues to be dictated by the ongoing drought, burdensome and outdated water regulations, misguided environmental regulations that pick winners and losers, and our irrigation capabilities.

Cotton was once a significant crop in the Valley, but we have seen significant acreage declines due to higher returns from specialty crops and the need to fallow acres due to water availability. We need to and want to grow cotton though, and we can produce some of the highest quality, highest yielding cotton in the world when given a chance to plant and produce a crop. However, we need commonsense water and environmental regulations that don't waste our water resources and we need to policy for cotton that allows it to remain competitive with cotton in other countries. On a level playing field, we can compete, however we can't compete with other governments that heavily support their cotton industries such as China and India. We need our government to make sure producers are equipped with policies that help level the playing field with other major cotton producing countries. Until these policy changes are made, we will continue to see acres in California fallowed due to water limitations and acres planted to other, higher return crops. If USDA would exercise their clear authority to designate cottonseed as an "other oilseed" within the Farm Bill, then that would help to tip the scales toward the U.S. in terms of competing with foreign governments supporting their cotton producers.

Response from Mike Wright, Executive Vice President, City Bank Texas

Question 1. Mr. Wright, how does the troublesome financial situation in agriculture translate to farmers' ability to obtain financing? Could the current situation impact how willing banks are to make loans to farmers, regardless of what crop they are growing? What about any potential impacts of your use of FSA loans, and the loan risk FSA will be asked to take on? How widespread do you think any of the issues with obtaining financing will be?

Answer. As we move into working loans for 2016, at this point, cash flow will be the major issue that hinders a producer in obtaining a loan. In our area, crop production has been better than average, but due to cotton grades being down, the prices paid to the producer have fallen. The result is that a big percentage of the producers will still pay in full their operating loan for 2015 but they may not have enough to service their term debt. If they do not pay their operating loan in full, then we will look at setting up a carryover note but then the cash flow problem becomes worse. When we set up another payment, then the margins shrink even more. They still may have some equity in their statement, but can't cash flow another payment.

In our case, it really doesn't matter what crop it is. This is mainly cotton country. We can grow some different crops but the problem remains the same or could be worse depending on the crop and what it takes to harvest that crop if the producer does not have that particular crop harvesting equipment.

We will continue to use the FSA Guaranteed loans as a means to help the producer stay in business, work his or her way out of a problem and give the bank some ability to continue with the producer and at the same time protect the bank and satisfy the regulators. As an FSA Guaranteed Preferred Lender, we mitigate the risk to FSA. If our bank exceeds a certain loss percentage, our preferred lender status could be in jeopardy and we want to avoid that. So if we have a loan that we know just won't make, we will not submit it for FSA approval. We will deal with the credit and work it out.

The issues with financing will be nationwide.

Question 2. Mr. Wright, you mentioned in your written statement that you are anticipating potential cash flow problems from some of your "very good" customers with a long history with your bank. Without divulging details of your bank's operations, can you give us a sense of the financial pressure? Help us understand how big of a problem cotton producers and their lenders face.

Answer. We have discussed this with our management and chairman and if prices don't substantially improve in the next several years, we feel that 50% of our customers could be in dire problems or out of business. I have talked with one of our local auctioneers and he said that his phone has exploded over the last several weeks with people wanting dates for farm sales. I asked him if it was banks calling or people that have been told that they aren't going to be financed and he said that wasn't the case right now. It was producers that have just decided they didn't want to fight it anymore.

Question 3. Mr. Wright, how does the risk to cotton farmers' financial situation impact your bank, and how you structure your loan portfolio? What do you expect the impact on other banks, particularly small community banks, due to these downturns to be?

Answer. Total assets for our bank are over $2 billion. The loan to deposit ratio at the end of the year was at about 82%. We are a very diversified bank as far as loans are concerned with our consumer loans, mortgage loans, commercial real estate loans, commercial business loans and our agriculture loans. The ag loan portfolio is just over 11% and that represents approximately $215 million. It is a very important part of our bank and has been since the beginning of the bank. But smaller rural towns are not as fortunate as a larger city. Their loan to deposit ratios can run 80% to 90% to 100% in some cases the majority being agriculture loans. If the smaller banks lose loans due to the downturn, they don't have the diversity to replace them. It affects the town, the school system and everything in that community.

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