Mr. Chairman and members of the Committee, thank you for holding this hearing and for providing me the opportunity to present testimony on current and future farm policy.

My name is Allen Helms. I serve as Chairman of the National Cotton Council. I operate a diversified farming operation on which I produce cotton, soybeans, rice and wheat in North Arkansas. I also own and operate a cotton gin.

As you may know, all of the cotton produced in Missouri is produced in this area - known as the Bootheel. During the last 10 years, acreage planted to cotton in Missouri has gradually increased from about 350,000 to 485,000 acres this year. In Arkansas, cotton acreage has been relatively stable at 1 million acres but increased yields have made us the 2nd largest producing state in 2005. There are several key reasons for the stability of cotton production in Missouri and Arkansas. They include the successful eradication of the boll weevil; an effective, stable farm program and new cultural practices and technology-including biotechnology. In both Missouri and Arkansas, 95 percent of cotton acres are devoted to biotech varieties. I would also note that our operations require intensive management and that we continue to invest heavily in technology to remain competitive.

Unfortunately, our longstanding customers, the U.S. textile industry, have not fared as well in spite of their investments and their major gains in productivity. Cotton farmers are deeply concerned with the loss of our manufacturing customer base. We will continue to work with U.S. textile manufacturers to ensure that there are policies in place that promote and reward fair competition. We also are committed to continue supplying the top quality fiber necessary for U.S. manufacturers to produce internationally competitive textile and apparel products. The loss of the Step 2 program had an adverse impact on our domestic manufacturers given their fragile financial conditions. The remaining manufacturers have indicated strong interest in making revisions to our Step 3 import policy and in developing a possible WTO compliant alternative to Step 2.

The rapid decline in raw cotton consumption by domestic mills has created challenges for all cotton farmers who must identify new export markets to replace domestic consumption lost to imported products. The market has placed new and added pressure on our infrastructure including surface transportation and port facilities. We are working with the industry and with USDA and Congress as appropriate to meet those challenges.

Although cotton fiber is our primary product, cottonseed and its products account for 12 percent of the value of the crop at the farm gate. Cottonseed processing facilities provide important markets for our seed, add economic value and create employment. Interestingly, as ethanol production increases, one of the by-products - dried distillers' grain - has depressed the value of cottonseed and meal in feed markets. This is clearly an unintended consequence of policies and programs designed to stimulate production of renewable fuels that has an adverse economic impact on cotton farmers and cottonseed processors and merchants.

During my testimony, I will frequently refer to the success of our current farm law. It is not insignificant that for the past six years no farm organization has called for major modification of current law nor has Congress approved major changes. And, given the diversity of crop production in this area - this also is an excellent location to "test" the balance between commodity programs. If farm policy works for us, and it has, it will probably work well in most areas.

We believe the current farm law has and continues to provide a stable and effective national farm policy for our country. The combination of direct and counter-cyclical payments provide an effective means of income support, especially when prices are low, without distorting planting decisions. The primary shortcoming of the 1996 law was the lack of a counter-cyclical payment that triggered when prices are low. As a consequence, farmers were forced to request emergency assistance from Congress year after year. This has been alleviated by the counter-cyclical program provision in current law. The direct payment mechanism helps provide financial stability required by our lenders and suppliers without distorting production decisions.

It is important to maintain a balance between these two mechanisms. Higher direct payments can have unintended impacts. They can provide an incentive for landlords to take their lands out of producers' hands. Higher direct payments can also create unexpected problems with payment limits, which are currently established separately for each program benefit.

It is also important to consider that sudden, significant program changes can have different regional impacts due to historical differences in cropping patterns and yields.

We strongly support continuation of the marketing loan. In fact, it is clearly our top priority under all circumstances. Cotton and rice were the guinea pigs for this innovative policy in 1985 and it has served us well. The marketing loan responds to low prices, it does not cause low prices. It is effective because it triggers - when necessary - regardless of the cause of low prices and it ensures that U.S. cotton farmers are not left as residual suppliers when they are unable to compete with the treasuries of foreign governments.

It is also especially important that all production remain eligible for the marketing loan so farmers can make informed, orderly marketing decisions. And, it is important to continue to administer the marketing loan in a manner that minimizes forfeitures and allows U.S. commodities to be competitive in domestic and international markets. For example, an ineffective price discovery mechanism or arbitrary limits on loan eligibility signal our competitors that the United States will be competitive on a portion but not all of our production. This is an open invitation for foreign competitors to increase production, even in the absence of, or in spite of, market price signals -- and would return U.S. farmers to being residual suppliers.

The cotton loan structure and world price calculation have served the industry well. There have been minimal forfeitures and robust exports, but some modification may be necessary to respond to the new emphasis on export markets and the termination of Step 2. Simplification of the loan rate schedule and modification of the calculation of a world price should be reviewed as part of any new farm law. We also support elimination of the longstanding prohibition on

USDA projecting cotton prices for the purposes of administering the program.

A sound farm policy is of little value to the cotton industry, including most producers in this area, as well as merchants, cooperatives and processors, if arbitrary, unworkable limitations are placed on benefits. Current law requires USDA to determine if individuals meet certain eligibility requirements and there are statutory limitations on each category of benefits. Unfortunately, these limits have been dictated by public perception, not the requirements of efficient, internationally competitive farming operations. Because there is continuous pressure on USDA to streamline and downsize, it is reasonable to question the cost and efficiency of USDA administering and farmers complying with complicated limitations provisions. Frankly, we believe limitations should be eliminated but at the very least any limitations in future law should not be more restrictive or disruptive than those in current law.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary, cost-share basis and are a valuable complement to commodity programs. However, they are not an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Programs are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive based programs.

Access to an affordable crop insurance program also is an important tool for most farmers. However, given the continued inequities of coverage and service in different regions and for different crops it is probably time for another thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program. This is especially important as the concept of a whole-farm, revenue insurance program is gaining attention as a way to devise a WTO-consistent farm program. While we welcome the discussion, I cannot tell you that a majority of cotton farmers will embrace crop insurance as a major component of future farm policy without a great deal more information. In fact, there are those who would support establishment of a permanent disaster assistance program in lieu of funding crop insurance programs.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export dependant agricultural economy. It also is valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets - but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

The U.S. cotton industry understands the value and benefits of effective promotion. In addition to being original and continuous participants in FMD and MAP, growers finance a very successful promotion program through a self-assessment (check-off) program. In large part, and as a result of effective promotion, the average U.S. consumer purchases 38 pounds of cotton textile and apparel products each year. In the rest of the world, consumption is less than six pounds per person per year. Promotion works! It is important that the authority for farmers to operate self-help, self-financed promotion programs be continued.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft future farm policy.

Frankly, most cotton farmers and a majority of the industry would be satisfied with an extension of current law. We support Senator Talent's proposal. If the current trade negotiations are suspended, we would strongly support an extension of current law. This will ensure that when negotiations resume, the U.S. will be able to negotiate from a position of strength. We also know, however, that maintaining existing policy will face hurdles, both domestically and internationally.

Internationally, we are growing concerned that the Doha Negotiations are isolating U.S. agriculture and U.S. cotton in particular. Our trading partners have clearly "pocketed" the generous U.S. offer on reductions in domestic supports and refused to make an adequate response on market access. Recently, meeting in Geneva, our partners demanded even more U.S. concessions on domestic supports while some of them worked to undermine trade liberalization as the primary goal of this negotiating Round. And while the U.S. cotton industry was targeted for inequitable treatment in the Hong Kong ministerial declaration, China, the largest cotton market in the world, insists on being exempt from market access commitments by claiming status both as a developing nation and a newly acceded member of the WTO.

A Doha Agreement that cuts U.S. amber box support by 60%, targets U.S. cotton for inequitable cuts, provides little or no real market access gains for agriculture in general, and exempts the biggest cotton user in the world from liberalizing its cotton quota system will not find a warm reception here.

These inequitable demands by our international partners will not work for U.S. agriculture. If other countries cannot match the U.S. level of ambition for market access, while continuing their calls for even deeper cuts in U.S. domestic supports, we should either withdraw or reduce our offer on domestic support. We sincerely appreciated your continued, clear commitment to an equitable agreement during the period leading up to the most recent meetings in Geneva and your comments following the meetings. U.S. negotiators apparently rejected calls for modifications in the already ambitious U.S. proposal and I am certain that your and your colleagues' vocal support enabled our negotiators to be more effective during the meetings.

We disagree with Director General Lamy who seemed to say a few weeks ago that any WTO agreement is better than no agreement. We appreciate you and our negotiators for rejecting that approach.

We would be far better off constructing a new farm bill under current WTO rules than we would accepting an agreement with rigid, inflexible, poorly defined limits that contains no real gains in market access. Mr. Chairman, we would rather have a $19.1 billion amber box ceiling and current rules, than a $7.6 billion ceiling and worse rules.

We also appreciate your steadfast support for cotton throughout the WTO negotiations and your recent statements reminding U.S. negotiators of your opposition to an early harvest for cotton. We remain concerned that your strong message has not been fully appreciated. Cotton has already given more than any other commodity in these negotiations. The Step 2 program has been eliminated, the subsidy component has been removed from the Export Credit program and in Hong Kong, least developed countries were assured of receiving duty free, quota free access to the U.S. raw cotton market as soon as an agreement is reached. An agreement that singles out U.S. cotton for even more inequitable treatment will not earn the support of U.S. cotton producers.

Finally, we are deeply disturbed by continual claims that 80 percent of all program benefits go to fewer than 20 percent of the producers and that only the so-called program crops receive direct benefits from farm law. These comments are misleading and serve to divide rather than inspire cooperation. First, it's important to remember that program benefits do not just come as direct payments. Virtually every commodity receives some type of support, whether through direct income payments, price support programs or barriers to import. For example, for some commodities, the U.S. imposes higher tariffs on imports during times when domestic supplies are the most plentiful. In addition, some commodities receive support through government purchases of the product or by mandating use of the product. Favorable tax laws also are used to provide support for certain products but the benefits are not directly attributed to individual farmers. It also should be recognized that our current farm programs provide very real benefits to the livestock sector. Livestock interests benefit because our current farm programs facilitate preservation of a reliable, safe and affordable supply of feedstuffs such as corn, soybean meal and cottonseed.

It is also misleading to compare payments going to the number of farmers. With the natural consolidation of agriculture, it is inevitable that the majority of program benefits will go to the farmers who account for the majority of production. However, it is also true that per-pound or per-bushel support is consistent across producers regardless of size. Plus, payments to producers represent just a fraction of the costs and risks incurred to enable farmers to produce. This is especially true in the current environment of increasing fuel and energy costs. Today's program benefits are an important safety net and not a windfall.

I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

Thank you for the opportunity to testify today. I will be pleased to respond to your questions at the appropriate time.