TESTIMONY
Presented to the
Committee on Agriculture, Nutrition and Forestry
U.S. Senate
By
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On behalf of the
National Cotton Council and Southern Peanut Farmers Federation
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Introduction

I would like to thank Chairman Roberts, Ranking Member Stabenow, and Members of the Committee for the opportunity to offer the views of the National Cotton Council and Southern Peanut Farmers Federation regarding implementation of the Agricultural Act of 2014 (Farm Bill). My name is Ronnie Lee, and my family and I raise cotton, peanuts, corn, small grains, pecans, hay and cattle in Bronwood, Georgia.

The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandisers, merchants, cooperatives, warehousers and textile manufacturers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from Virginia to California. The scope and economic impact extends well beyond the approximately 19 thousand farmers that plant between 9 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year. 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.

The Southern Peanut Farmers Federation (Federation) is comprised of the Alabama Peanut Producers Association, the Florida Peanut Producers Association, the Georgia Peanut Commission and the Mississippi Peanut Growers Association.

Importance of Sound Farm Policy

Our industries believe that sound farm policy is essential to the economic viability of the cotton and peanut industries. We appreciate the tremendously challenging and lengthy process this Committee endured to bring the 2014 Farm Bill to passage. We applaud the Committee's efforts in what was a difficult budgetary and political environment that was further complicated by outside challenges. It was critically important to provide certainty to those involved in production agriculture since they make long-term investment decisions based in part on federal farm policy.

As this Committee is well aware, the U.S. cotton industry faced the unique challenge of resolving the longstanding World Trade Organization (WTO) dispute with Brazil. In developing new farm

legislation, the U.S. cotton industry followed through on its pledge to work with Congress and the Administration to resolve the Brazil WTO case and remove the imminent threat of retaliation.
Given the cyclical and volatile nature of commodity prices and generally thin margins relative to production input costs, it is critical that U.S. farm policy is designed and implemented to provide a sound foundation for production agriculture. Our industries are focused on efforts to ensure the continued implementation of the farm bill in accordance with the statute and Congressional intent. In addition, we want to work with this Committee and the full Senate and Congress to ensure the 2014 Farm Bill and the Federal Crop Insurance Act are maintained. We believe any attempts to reduce funding for either Act will only undermine the purpose and ability of farm policy to provide the safety net and effective risk management tools necessary for production agriculture. In addition, at the time of passage, the Congressional Budget Office (CBO) estimated that the 2014 Farm Bill would save $23 billion over 10 years. The reauthorization of the farm bill by the Agriculture Committees represents one of the few areas in the Federal budget that has actually generated savings.

In the cotton industry, we are currently experiencing a significant downturn in cotton prices relative to prices just one year ago when the 2014 Farm Bill was signed into law. As is the case with many commodities, U.S. cotton prices are largely influenced by the global cotton market, which is impacted by various macroeconomic factors and government policies in major cotton producing and importing countries.

Like other commodities, the peanut market fluctuates and peanut prices are low at this time. The University of Georgia's National Center for Peanut Competitiveness (the Center) has been monitoring peanut acres through its representative farms for many years. These representative farms stretch across all regions of the Peanut Belt. The Center reports that the 2014 certified planted peanut acreage of 1,342,689 acres was below 2005, 2008 and 2012 certified acres. These three years are high acreage points for U.S. peanut plantings. The 2015 peanut planted acreage would require a 28% increase over the 2008-12 Olympic average of peanut planted acreage to exceed acreage in 2005 and 2012.

The Runner variety of peanuts comprises about 80% of U.S. peanut consumption. Runners are used primarily for peanut butter. For all varieties of peanuts, processors need approximately three to four months carryover. When evaluating the supply and demand of the 2014 crop, we will have approximately a 120 day carryover, for all peanuts, when we begin the 2015 crop year. Runner peanuts will have approximately a 99 day carryover, which is a very tight market for Runner peanuts.

Peanut Policies

The peanut industry is pleased with the peanut provisions of the 2014 Farm Bill. I would also like to acknowledge USDA's implementation of the farm bill to date. Although all regulations are not finalized, the Department has done a good job of Farm Bill implementation in a timely manner. In addition, Congress included a new Peanut Revenue Insurance Program in the 2014 Farm Bill. The Risk Management Agency (RMA) team worked with stakeholders to establish this new program. RMA's effort was an inclusive process and has produced an insurance tool that we believe will benefit farmers. We are in an educational stage with peanut organizations and land grants providing information to producers about the new insurance policy.

Stacked Income Protection Plan

Farmers understand that agriculture is an extremely risky endeavor, but they also understand that effective risk management is the key to long-term viability. While the goal of farm programs is not to completely remove the risk associated with farming, farm programs should strive to provide opportunities for effective risk management. The Stacked Income Protection Plan (STAX) was designed to work in concert with other insurance products in order to provide a fiscally responsible and effective safety net for upland cotton producers. STAX, like other area-wide, revenue based crop insurance policies, establishes a level of protection based on coverage levels selected and purchased by producers and the commodity price determined by the U.S. futures market. This results in a market-oriented farm policy that is unlikely to influence planting decisions and allows producers to plant based on market signals.

We strongly commend RMA for the tremendous work it has done to implement the STAX policy for upland cotton in an efficient and timely manner, making the policy available for 2015 in all cotton producing counties that already had an underlying cotton policy in place. We estimate STAX will be available on more than 99% of cotton acres in 2015. We appreciate RMA's accessibility and transparency during this implementation phase and their receptiveness to industry input and feedback.

As with any new crop insurance policy, there are some unanticipated issues that we hope to address for the 2016 crop year as we continue working with RMA. Our focus will be to ensure STAX is expanded to all counties with any cotton production starting in 2016 so that all cotton producers have the opportunity to purchase STAX for their risk management needs. We also are focused on providing additional flexibility for producers in tailoring their risk management choices by allowing STAX purchase decisions by growers to be completely independent for irrigated and non-irrigated practices.

Crop Insurance Enhancements

Across the Cotton Belt, crop insurance is an essential risk management tool for cotton producers. Given the diversity of weather and production practices, we supported the farm bill provisions that provided a menu of insurance choices that are diverse and customizable, thus allowing for the fullest participation and most effective coverage. We urge RMA to maintain this goal of flexibility in the ongoing implementation of the 2014 Farm Bill crop insurance provisions. We believe providing maximum flexibility is important to make crop insurance as cost effective as possible and strongly support the crop insurance enhancements that provided greater flexibility for producers, such as enterprise units by practice and coverage levels by practice. We appreciate the timely implementation by RMA to make these changes effective for the 2015 crop year.

One of the enhancements critical to many areas of the Cotton Belt that are facing multi-year drought conditions is the actual production history (APH) yield exclusion option for crop insurance. This important enhancement should allow producers in these drought stricken areas to purchase insurance coverage for a level of production more representative of actual production levels during periods of more normal weather conditions.

Upland Cotton Marketing Loan

The non-recourse marketing loan program for upland cotton remains a cornerstone of farm policy for the U.S. cotton industry. While resolution of the Brazil WTO case required a modification to the program by utilizing a formula for determining the annual upland cotton loan rate, other existing features of the upland cotton marketing loan were retained in the 2014 Farm Bill. These include an effective determination of the adjusted world price (AWP) for purposes of loan redemption in times of low prices, as well as the provision of storage credits should the loan redemption price fall below the loan rate.

In the current economic environment and low price situation for U.S. cotton, the marketing loan program is an especially crucial tool for multiple segments of the cotton industry to effectively market cotton and provide cash flow for producers to meet financial obligations. One of the hallmarks of the marketing loan program is its function to ensure cotton flows through the marketing channels and encourages orderly marketing of the crop throughout the year. An impediment to the proper functioning of the marketing loan program is the application of a payment limit, and in the case of the 2014 Farm Bill, the unified payment limit that applies to multiple farm bill programs.

Implications of Unified Payment Limitation

One of the most challenging implementation issues 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 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. With the expected ARC and PLC payments for the 2014 crop scheduled to be paid in October 2015, many producers could find themselves with either no limit left for the payments or only eligible to receive a portion of the payments. 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 in recent months to help facilitate information sharing between FSA and industry marketers in an attempt to develop more accurate and timely tracking of loan benefits. To date, this process has not made the progress we had hoped for. 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. Looking ahead, 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. In an attempt to address this growing problem, we continue to urge USDA to utilize existing authorities to follow the intent of the marketing loan program, which is to minimize the forfeiture of loan commodities and encourage loan redemptions. In fact, last year's "cromnibus" appropriations bill included report language that stated:

> "The Secretary is directed to operate the marketing assistance loan program in a way that encourages redemption and minimizes forfeitures of loan commodities to the Federal government, and enables the orderly marketing of loan commodities throughout the year. Further, the Secretary shall ensure that the marketing assistance loan program remains a viable tool for all producers to use in marketing loan commodities freely and competitively."

We appreciate all the efforts of USDA, to date, to work through the many issues created by the unified payment limit on the marketing loan program. We intend to continue working with USDA, and would urge this Committee to work USDA as well, to find a workable solution to the unintended consequences of this provision – a solution that allows the marketing loan program to function as intended since its implementation nearly 30 years ago.

'Actively Engaged' Rulemaking

Another area of concern regarding 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 Committee 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.

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 carries out this provision.

Extra Long Staple Cotton

The 2014 Farm Bill continued the Extra Long Staple, 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.

Conservation Programs

Conservation programs continue to be extremely popular across the cotton and peanut belt. Specifically, the Environmental Quality Incentives Program and the Conservation Stewardship Program both enjoy broad participation. We commend the Committee for streamlining conservation programs in the 2014 farm bill. This will make the programs easier for the Natural Resources Conservation Service (NRCS) to administer, but more importantly easier for producers to utilize. These programs have become integral parts of many producers operations and achieve the goal of improving and protecting the environment while also improving farming operations.

Export Promotion Programs

The continuation of fully funded export promotion programs, including the Market Access Program (MAP), Foreign Market Development (FMD) Program, and Emerging Markets Program (EMP), is critically important in an export-dependent agricultural economy, including for cotton and peanuts. In the case of U.S. cotton, approximately 80% of the crop is exported annually. 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.

Exports are also important for peanut farmers. Between 2004 and 2014, peanut exports have more than doubled. Exports to the main markets of the European Union, Canada, Mexico and Japan continue to grow, while China presents significant expansion opportunities for U.S. peanut exports. As a result of the 2014 Farm Bill, we anticipate sufficient peanut production going forward which will allow for increased exports of U.S. peanuts. While we recognize that we are in a challenging budgetary period, it is important to consider future options to enhance these programs, which have not seen a budget increase in more than 10 years. Meanwhile, many of our international competitors continue to outspend the United States in export promotion activities.

USDA Purchasing Programs

Federal government purchases of peanut butter continue to decline even though peanut butter remains one of the cheapest proteins, helps deter obesity and addresses malnourishment. Federal peanut butter purchases reached a peak of approximately 80 million pounds in the mid 1990's but the amount of purchases have continued to decline with less than 30 million pounds purchased in the 2012-13 time period and even fewer purchases in 2013-14. We understand that there are additional variables with regard to these purchases such as state and local product requests. We would like for USDA to determine what has caused the decline and how, working with USDA, we can turn this situation around.

Farm Bill Education and Outreach

Given the fundamental changes and new policies included in the 2014 Farm Bill, our industries put a substantial focus and priority on conducting outreach to and education of producers, landowners, crop insurance agents, lenders, and other industry members to ensure they have complete, accurate information. This is critically important given the many choices and decisions that producers and landowners are facing in the farm bill, many of which will be in effect for at least the five-year duration of this bill. We want to be sure decisions are made with the best information available and with the best understanding possible of the implications.

To this end, the NCC has conducted two separate rounds of farm bill meetings across the Cotton Belt. This included 49 meetings in the spring of 2014 following the bill's passage, and then 25 meetings in the fall of 2014 once additional information was available from USDA. In addition, NCC conducted four webinars to provide the same information shared at the meetings. It is estimated that more than 6,500 individuals were reached through these efforts.

The Federation has held farm bill educational meetings across its member states as well as farm bill webinars. In addition, state land grant universities have provided farm bill peanut educational opportunities for our producers.

Conclusion

We appreciate the opportunity to provide these comments on the importance of maintaining the 2014 Farm Bill and the Federal Crop Insurance Act with no further budget reductions and to provide our perspective on implementation progress and challenges to date. We look forward to continuing to work with the Agriculture Committees and USDA on full implementation of the farm bill and to address any shortcomings or unintended consequences. As producers in the midst of making critical decisions on the various program options provided in the farm bill and program election and sign-up deadlines are still ahead, it would be highly disruptive and punitive to make adverse policy changes or budget reductions while the bill is still being implemented. And, with cotton's safety net now comprised solely by the marketing loan program and crop insurance, we are especially concerned by the recent actions and statements focused on eliminating key crop insurance tools. Farm policy generally, and cotton policy specifically, were substantially reformed, funding reduced, and market orientation increased in the 2014 Farm Bill, so now is not the time for further changes that will only undermine the foundation of risk management for production agriculture.

Thank you and I will be pleased to respond to questions at the appropriate time.