

TESTIMONY
Presented to the Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management
U.S. House of Representatives
Commodity in Focus: Stress in Cotton Country

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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 two 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.

I think 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. 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 anticompetitive 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 four 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 cent cotton as China and other countries subsidize and glut the world market by guaranteeing their farmers \$1.40 a pound. This senerio 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 Mexico. 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 Bollworm 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 resistance 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.