

NCC REPORT
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I am pleased to have this opportunity to participate in these conferences, which represent the largest annual gathering of the cotton industry, including its agribusiness partners, scientists, universities and friends in government.

The Beltwide Cotton Conferences are unsurpassed in terms of their diversity of audience and the number of research disciplines represented. All our participants fully understand the importance of this gathering and can appreciate this year's theme—"Orchestrating Your Opportunities"—given the Conference's location.

The Beltwide partnership has had a tremendously successful track record. All of the Conferences' organizers deserve our thanks and recognition for their hard work and the excellent job they do in coordinating the many events.

In addition, the Beltwide Steering Committee, chaired by Kenneth Hood, deserves special recognition for conducting a thorough review of the conferences and making recommendations for the future as well as planning the general conference program. The Committee's overall goal is to maximize Beltwide attendance and to enhance technology transfer.

The planning committee has put together an excellent program during the next day and a half. They have identified a number of key innovations and will provide expertise on how these new ideas can be applied profitably. The three-day conference format has made the technical conferences more accessible to a larger audience, which is paying dividends for all attendees.

This year's inclusion of a cotton consultant conference, with a primary focus on best management practices, is a significant addition to Beltwide. Conference Coordinator Bill Robertson, as well as the Beltwide Steering Committee, are to be commended for organizing a special conference for this important group.

Also, along with our Conference sponsors, I want to say a special word of thanks to the companies that took advantage of the Beltwide's group incentive program to organize the attendance of groups of growers. In that regard, Delta and Pine Land Business provided excellent leadership by making arrangements for approximately 160 growers to attend the Conferences from the Southwest region.

Needless to say, there have been many who have stepped forward to make this year's conference a great one—and they all deserve our thanks.

As with the Beltwide partnership, I am pleased at how our industry's collective resources have been effectively applied to an array of priority issues this past year through the Council. At this time, I appreciate the opportunity to kick off this conference with a brief review of some of the major developments this past year.

The Council's agenda in 2007 included efforts on a number of fronts with a primary focus on defending the U.S. cotton program and attaining sound trade policy.

Farm Bill

When Council leaders convened during our annual meeting last February in Austin, it was critically important that we had a policy consensus within the industry as we addressed our priorities for new farm legislation and trade. During our meeting in Austin, the Council was able to re-confirm our priorities for sound farm policy. We also prepared to undertake a number of internal initiatives in preparation for the farm bill debate.

Heading into the farm bill debate, it quickly became clear that cotton was targeted for change. The current farm bill and the current cotton program received unwarranted and yet significant criticism. Our situation was made worse by

the attention the U.S. cotton program received in the WTO, with the ongoing case brought by Brazil and the unfounded claims by Oxfam and other international groups that the U.S. cotton program is the cause of the economic difficulties faced by West African cotton growers.

The budget environment added another challenge. While the 2002 farm bill was developed during a time of budget surplus, the new farm bill is confronted with budget deficits. CBO's baseline spending projections, which are based on an extension of current policies, have resulted in a budget environment that has made it very difficult to hold on to the necessary funding for maintaining existing programs.

In addition, the administration has maintained that the cotton program is not functioning properly and is in need of radical change. In meetings with Secretary Johanns, he cited our industry's lower exports, high carry-over and an anticipated increase in loan forfeitures as the basis for these changes.

The Council's earlier testimony before the House and Senate afforded us with the opportunity to express our industry's support for the basic structure and provisions of the 2002 farm law and acknowledge the need for adjustments in marketing loan administration and flexibility in loan redemptions.

Our meetings with Secretary Johanns also allowed us to give our assessment of the current marketing conditions and review the Council's policy for studying cotton flow and all facets of the marketing loan program.

That policy led to the establishment of the Marketing Loan Working Group. This working group developed a comprehensive set of recommendations which address the calculation and application of loan premiums and discounts, discovery of the world price, adjustments to the AWP, efficient movement of cotton, and loan redemption flexibility. Those recommendations, which were part of a package of marketing loan program adjustments adopted by the Council's Executive Committee, came at a very important time --as the House Agriculture Committee was moving toward farm bill mark-up.

A majority of the Council's recommendations--regarding the structure and operation of the cotton program-- were included in the House Agriculture Committee's farm bill proposal.

During the days leading up to the farm bill consideration on the House floor, in response to a number of Council action alerts, our members went to their phones to contact their House members in support of the Agriculture Committee's farm bill and opposition to the Kind-Flake and other damaging amendments. A team of Council leaders, representing virtually every industry segment, came to Washington on very short notice to participate in the successful effort to defeat the Kind-Flake amendment and pass the Committee's bill. The Kind-Flake amendment, which was overwhelmingly defeated, would have completely dismantled current farm bill structure.

The Senate Agriculture Committee completed its work on its version of the new farm bill in late October. However, as Congress recessed for Thanksgiving, the Senate was unable to agree on a procedure to consider more than 250 amendments which had been filed.

After Thanksgiving, Senate leaders agreed to limit amendments to 20 for each party and re-start the farm bill debate. The Council sent another action alert to our members in anticipation of the Grassley-Dorgan amendment being one of the first to be considered.

The Senate had invoked a 60 vote rule to avoid a filibuster, and several potentially damaging amendments, including those by Grassley-Dorgan, Lugar-Lautenberg and Klobuchar, failed to pass under the rule. Grassley-Dorgan, with the imposition of overly-restrictive payment limits, was particularly onerous. Finally, the Senate invoked cloture and passed their version of the farm bill by a vote of 79-14.

The Council joined 31 other agricultural organizations on a letter to the Senate and House Agriculture leadership to urge a convening of the farm bill conference committee as soon as possible. The letter also expressed appreciation for a three month extension of current law but urged completion of the conference report by no later than late January or early February. Later this morning, John Maguire will provide more specific information on the content of the two bills and timetable for completion.

Trade Issues

The Council also has continued active involvement in WTO issues, including the Brazil compliance case and Doha agricultural negotiations.

Brazil's case, which was heard by the compliance panel in late February, contends that U.S. actions –relative to the programs for Step 2, export credit guarantees, marketing loans and countercyclical payments, are not enough to comply with the original ruling.

Council staff were in Geneva during these proceedings to assist the U.S. defense team throughout the entire process and have worked closely with the U.S. team with rebuttal submissions and answers to the panel's questions.

In late July, the dispute panel sent its preliminary ruling to both countries' governments. The formal report was publicly released last month. Following the release of the report, the Council sent a letter to USTR urging an appeal of the decision. If USTR proceeds with an expedited appeal, it could be final by early May.

Also within the WTO, Crawford Falconer – chairman of the WTO agricultural negotiations – issued two papers challenging Doha members to conclude an agricultural agreement and offering his opinion that the U.S. should allow more cuts in support and accept less market access than the U.S. initially offered.

More recently, Falconer issued a draft modalities text that would require the U.S. to reduce “amber box” spending on cotton by more than 90 percent, as compared to recent levels. Falconer's text also contained higher reductions in overall trade distorting support and less market access than the U.S. had originally agreed to. Immediately after seeing this text, the Council urged the Administration to strongly oppose the cotton-specific language and not accept any agreement containing similar language. Without this assurance, the U.S. cotton industry undoubtedly will have to oppose any extension of trade promotion authority.

In addition, in regular communications with U.S. trade negotiators, the Council has detailed our industry's priorities on market access and pointed out that a successful Doha outcome must include significant increases in market access to China. We have also remained active in combating misinformation appearing in the popular press, such as our recent responses to editorials in the *Wall Street Journal* and *Washington Post*.

China

With China continuing to be the largest market for U.S. cotton exports, it is not only important that we expand our market access-- but also strengthen our relationship with our largest customer.

At last year's Beltwide, I provided a report on the activities of the 2006 China Cotton Leadership Exchange Program, which took a delegation of 10 industry leaders to four different Chinese provinces to meet with government agencies, cotton associations as well as select textile, ginning, warehouse and farming operations.

That trip included the signing of a formal agreement with China Cotton Association to help ensure long-term cooperation and good will between both countries' cotton industries.

This past June, Vice Chairman Larry McClendon led another U.S. cotton industry delegation in China to address the specific quality issues that were raised during our trip last year.

In keeping with our Memorandum of Understanding with China Cotton Association, the cotton industry hosted a Chinese delegation in the U.S. in September, where we arranged tours and meetings with U.S. industry leaders in each of the four growing regions.

Technical

While farm program defense and trade issues have been our primary focus during 2007, the Council worked in several regulatory arenas to ensure the U.S. cotton industry was not burdened with rules or denied access to products that would compromise its ability to compete in the world marketplace.

In 2007, these efforts included:

- Responding to proposed rulemaking for plant incorporated protectants and chemical facility anti-terrorism standards;
- Working with EPA and crop protection registrants in the efforts to maintain the availability of a number of important crop protection products and
- Establishing an industry working group to help develop the industry's response to the proposed revisions to EPA's Worker Protection Standards.

The Council and Cotton Incorporated also have continued to further develop the industry's joint initiative on cotton sustainability to enhance U.S. cotton's image in domestic and overseas markets.

Cotton sustainability – along with global demand research and understanding the industry's structure and product flow-- will be the preliminary focus of the Cotton Project that is being developed by the Council, CCI and Cotton Incorporated, with the initial support provided by Monsanto through a Cotton Foundation project.

In summary, I believe our industry has excellent prospects for achieving profitable cotton production and processing. There are still many challenges before us. Research, education and technology transfer continue to be critically important. I assure you that the Council will continue its longstanding commitment of its resources for technology development and transfer and bringing resolution to the technology-based priorities.

In concluding, I encourage your full participation in the Conference's general sessions as well as the special workshops and seminars. These are excellent examples of the efforts underway in a wide array of scientific disciplines to lower costs and apply technology to a host of problems and opportunities.

I hope you enjoy the remainder of the Conferences and I extend best wishes for the year ahead."

Thank you