

## MEETING CHALLENGES TO U.S. COTTON

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### Introduction

It's a distinct pleasure for me to be able to welcome you to this very important annual gathering of cotton people. The breaking of attendance records at Beltwide Conferences has become commonplace. We've simply come to expect that each Conference will attract greater attendance than the last. That speaks well of the people who are responsible for organizing the conferences, and I want to commend you all.

The title of my speech today is meeting the challenges of U.S. cotton. In thinking about the future of our industry it occurs to me that no meeting industry members will attend this year will be more important than the Beltwide Cotton Conferences. Quite unlike any time before, the ability of our industry to meet the challenges ahead is dependent on new technology, risk management and improved efficiencies across the board.

This is not to say that farm programs and other public policy issues will not be important. They will. The federal government is here to stay and we must use it, mold it, fight it and cooperate with it--often all at once.

It is unlikely in the near term, however, that our federal government will solve more problems than it causes for our operations. If we do not make the most of the opportunity to improve our own profitability the turn of the century could find us in disarray.

### Challenges

So, what **are** our major challenges?

Raw cotton imports? Textile imports? Man-made fibers? Competition from other commodities for land and other production resources? Rising input costs? Federal regulations?

Yes, **all** of these and more.

But, you can sum up our challenges in a word -- margins. Margins are too thin at the farm. And our customers' margins are too thin. That's our primary dilemma. Farmers need higher prices to improve margins. But, under today's market conditions, our textile mill customers are not always able to pass through higher raw material costs in the price of their products.

Of course, there are two fundamental ways to improve margins. Higher prices and lower costs. Fortunately, the two approaches are not mutually exclusive. Working through the National Cotton Council, the industry already has action plans in place to work on both.

The U.S. cotton industry has a long record of successfully confronting challenges. We've been especially successful over the past ten years. Our industry has done an admirable job of sizing up the economic and political environment in which we compete and then putting highly effective action plans in place. The payoff has been record production and offtake, expanded market share and improved profit margins.

But the global competitive environment is one of continual change, with a steady flow of new challenges. We compete in a world where agricultural subsidies are commonplace. They will be phased down under terms of GATT and NAFTA, but our competitors will continue to have more help from **their** respective governments than we'll have from **ours**.

Is this a level playing field? No. Is it fair? No -- but it **is** reality.

We can, and should, continue to work on more equitable international trading rules. However, **reality** dictates we keep our primary focus on building value into our product which enables it to command a better price. Reality dictates we keep a focus on trimming enough cost out of our production, processing and distribution system to permit us to compete effectively and profitably in a global market where foreign subsidies will continue to exist -- and where centrally planned governments can make decisions that are not always attuned to the economics of the marketplace.

Such market realities underscore the importance of these conferences. Almost without exception, any significant technological development that holds promise for cutting costs or increasing profits in cotton production, processing and distribution is reported first at the Beltwide Conferences.

### Imports

Before sharing some observations which are directly related to the objectives of these conferences, I want to say a word or two about the issue that has been very much on the minds of all segments of our industry over the past year -- raw cotton imports. There will be a special report on this subject at the end of the afternoon general session and I hope all of you will make plans to attend. The report will summarize findings of a special study of cotton's 3-step competitiveness plan which has been carried over from the Act of '90 into current farm law.

Among other things, this afternoon's report will help you see, first, that imports probably have been given credit for more of our current price problem than deserved; and, second, there are no easy solutions to the problem. It is an issue that remains under study and will be discussed by National Cotton Council delegates when they convene next month in Orlando.

### Non-Price Advantages

There are several other important competitive factors which are somewhat removed from the subjects which will be dealt with at these conferences. One, for example, is **market building**. The U.S. cotton industry has done an admirable job of boosting demand here at home through the promotional programs of Cotton Incorporated. And we're doing an equally solid market-building job **abroad** through Cotton Council International. These efforts set U.S. cotton apart from foreign growths. There is a 'Cotton USA Advantage' and these promotional programs help the world see that advantage and enable U.S. cotton to command a premium in the world market.

The industry's efforts with electronic cotton warehouse receipts, permanent bale identification, less foreign material contamination, and uniform bale packaging are also partly responsible for the premium U.S. cotton receives in both domestic and export markets.

### Reducing Costs

Now, let's focus on some issues that are more germane to these conferences. I'm personally optimistic about our ability to trim production costs through new technology. I said as much in a speech several months ago, suggesting it might be possible to reduce costs as much as 8 to 10 cents a pound by the year 2002. This observation prompted one farmer to write a letter in which he rather pointedly questioned my judgment.

This is an understandable reaction, I think. Good farmers do everything they can to control costs. They tend to take a dim view of any statement that would in any way call into question their management capabilities.

It was not my intent to suggest that I see ways for cotton farmers to cut 8 to 10 cents out of production costs with today's technology.

What I **do** see is new and **emerging** technology that will enable costs to be reduced this much over the next six or seven years.

These conferences will point to a host of new and very promising cost-cutting technologies. We're already having good experience with some of the first generation new technologies.

Recently commercialized and soon-to-be commercialized technology holds some real promise for reducing costs throughout the cotton production, processing and distribution system. And I'm betting that you will leave these conferences sharing that outlook.

For example, we've seen huge strides in pest control in cotton over the past few years. Transgenic cotton is the most celebrated. Insect growth regulators likewise have shown remarkable results on whitely infestations. Efforts with sterile moths and other biological controls have also proven their worth. Coordinated, area-wide pest control programs hold promise for still greater strides in pest management.

However, as impressive as these technologies are, nothing reduces the cost of producing a pound of cotton quicker than an **increase** in the number of pounds produced per acre. Our industry must continue to focus on this very important factor.

As you begin to adopt new technologies and new strategies, the Council will do its part to assist in achieving federal approval when necessary and appropriate. The Council is also committed to achieving international acceptance of biotechnology. We'll fight restrictions imposed on genetically altered plant materials which have been proven time and again to be safe. With the technology available to us and a strong commitment to research and its implementation, there's good reason to expect that we can achieve and maintain a competitive edge on our foreign competitors.

### Risk Management

Another way to improve margins is to do a better job of managing risk. It's riskier to be a cotton producer in the United States today than under previous farm policy. The National Cotton Council will unveil its Cotton Risk Management Network tomorrow, focusing on both price and cost risk management. Three seminars have been scheduled at different times tomorrow to help acquaint you with the Network and how it can serve your needs. I urge you to make plans to attend one of them.

### Trade

We continue to depend on export markets for about 40% of our annual offtake. Accordingly, we must be competitive abroad as well as at home. I have already mentioned some of the hurdles we face in international markets. Competition is stiff, but opportunities are abundant.

We've had some successes. The growth in textile trade between the U.S. and Mexico and the Caribbean region has been so great that the region has surpassed the Far East in textile imports to the United States. Many of those textile imports contain U.S. cotton or yarn -- often both.

There are other markets with similar potential throughout the Americas. There also are potentially huge markets for U.S. textiles in countries such as India that have a substantial middle-class.

It should be our goal to use trade negotiations to open markets that previously have been closed to U.S. textiles and then move aggressively to sell price-competitive, value-added U.S. products in those markets.

### **Environment**

All sectors of our industry continue to face costly regulatory burdens, including conservation requirements for producers, immigration laws and emission control laws, to name a few.

We have an opportunity this year to improve on several aspects of the current regulatory scheme. And as new laws on pesticide registration and clean water and clean air are debated and implemented, we also face challenges in ensuring this new regulatory framework does a better job of considering our competitive position and our business needs.

### **Conclusion**

I said at the beginning of my remarks that our most fundamental problem is thin margins and I can't imagine a more important forum than these conferences for learning ways to improve margins. I'm confident that we **will** solve our problems and that we **will** retain our leadership in the world cotton market.

Recently a cotton farmer who happens to serve with me as a National Cotton Council officer said he has never been more optimistic about the future of U.S. cotton. Asked why, he said "because for the first time in my career I'm able to increase yields and cut input costs at the same time."

His experience is **not** unique. Many others are having the same experience and I predict we're on the verge of some dramatic progress.

I hope you enjoy these conferences and I extend best wishes for a most profitable year ahead.