

U. S. COTTON INDUSTRY ISSUES AND AGENDA

**John Maguire
National Cotton Council
Washington, DC**

As Chairman Greene said earlier, this impressive audience is truly representative of the broad scope and diverse interests of the US cotton industry. The Beltwide Conferences have often been cited as a model for the way to bring varied interests together to exchange views and transfer information that will be useful in daily operations. For me it is truly an honor and an intimidating challenge to be invited to address this morning's general session in the company of outstanding industry leaders like Bobby Greene, Woody Anderson and Billy Dunavant; my colleagues Gary Adams and Berrye Worsham; and my boss — Dr. Mark Lange.

In my opinion, this year's Conference theme is certainly appropriate. Every segment of the cotton industry experienced significant challenges during 2003. Constant criticism of farm programs —especially the cotton program; continued threats in Congress to amend the new farm law; challenges to the legality of the U.S. cotton program in international forums; and, alarming increases in imports of cotton textile and apparel products all combined to generate plenty of serious challenges for the industry. Fortunately, recent price improvements, a reasonably good harvest, and success in turning back farm bill amendments may allow some segments of the industry to regain a measure of prosperity. On the other hand, in spite of an apparently effective defense of the U.S. cotton program presented in several international forums, the ultimate decision will not be known until later this year. And a continued flood of low priced textile imports threatens our manufacturing sector.

It is truly a tribute to the foresight of this industry's leaders that there are strong organizations like the National Cotton Council, Cotton Council International and Cotton Incorporated in place-- capable of meeting the wide variety of today's challenges and developing tomorrow's solutions. During the remainder of my time this morning, I will review some of our future challenges and opportunities.

When Congress returns to work on January 20, the Senate is expected to attempt to complete work on the omnibus appropriations bill and on the energy bill. Both of these measures include important provisions for agriculture. The appropriations measure is necessary to fund USDA operations and programs for the remainder of fiscal 2004. The renewable fuel provisions of the energy bill are particularly important to corn and soybean producers.

The House and Senate Agriculture Committees will probably hold hearings on the recent outbreak of BSE or Mad Cow disease. It would not be surprising to see legislation and emergency funding promptly enacted to address issues raised as a result of the recent outbreak.

Once Congress settles-in, attention will turn to the 2005 budget resolution and appropriations measures. Congress also needs to quickly enact legislation to repeal the so-called extraterritorial income tax benefit, ruled illegal by the WTO, or face the consequences of \$6 billion in retaliation by the European Union. Agricultural products, including cotton, as well as cotton textile and apparel products are prominent on the Europe's retaliation list.

There is also speculation that Congress may write far-reaching new transportation legislation and will again try to tackle immigration reform.

Election year politics will dominate the debate on every issue considered by Congress this year. It remains to be seen whether Congress and the Administration can work together in a highly charged, partisan environment to craft any legislation beyond what is absolutely necessary.

I mentioned that we have been successful in maintaining the current farm bill in spite of continued challenges during 2003. Stronger commodity prices should significantly reduce farm program expenditures in 2004, but the growing budget deficit will generate pressure for change.

The White House has already announced intentions to propose spending reductions as part of the President's budget proposal. Even though spending on agriculture accounts for less than 1.0% of total federal spending, farm programs will likely be included in the proposed budget cuts. When Congress begins debating the new budget there will undoubtedly be proposals to save money by modifying programs or by the now all-to-familiar, annual proposal to reduce payment limits. Some members continue to believe commodity programs ought to be strictly limited because they mistakenly believe that a single policy fits all commodities and farming operations. Others want to cut funds from production agriculture and move them to conservation, nutrition or other more politically attractive programs.

The Council will continue to work with all agriculture and allied organizations to effectively defend commodity programs and other key provisions of the new farm law. We will build and maintain coalitions. Last year over 80 organizations, including farm, conservation and nutrition groups, joined together to urge Congress to maintain current law during the budget debate. The groups told Congress that the new farm law is balanced in its approach to production, conservation and nutrition program funding and that groups should be encouraged to work together not be pitted against one another.

We will continue to speak up for production agriculture as Mark Lange did when he addressed the Payment Limit Commission and when Tennessee farmer John Lindamood met with international TV news crews to explain how farm programs work to benefit all Americans.

We will continue to respond to the *New York Times* and the *Wall Street Journal* though it's impossible to have a fair hearing when industry responses to lengthy, biased, serial editorials are limited to 100 words.

Mark Lange will cover trade policy in more detail in his presentation, but you can expect criticism of farm programs to continue to be part of the debate on trade legislation and during negotiation of new trade agreements. Brazil has filed a formal complaint in the WTO against the U.S. cotton program. The Council is working closely with USTR and USDA to support presentation of an effective, fact-based defense of the program. A successful defense is not only important to cotton; success is critical to all commodity programs.

You are probably aware of the efforts by OXFAM, a UK based aid group, to use four sub-Saharan African countries as pawns in an effort to discredit the U.S. cotton industry and U.S. farm programs. OXFAM, like the U.S.-based Environmental Working Group, has an agenda to destroy current U.S. farm policy. The Council, again working with USTR and USDA officials, supported making a creative proposal to the African countries and their allies during the WTO meeting in Cancun. The U.S. proposed not limiting the discussion solely to the U.S. cotton but initiating discussions covering **all** practices that distort trade in cotton and textile products program, practices that restrict market access and reduce income for both African and U.S. farmers and industries. The U.S. suggested talking about the doubling of synthetic fiber production spurred by government subsidies and investment; about government loans made to textile manufacturers otherwise incapable of competing in world markets; about the failure of certain countries to open their markets; and about other trade distorting practices. Not surprisingly, no one accepted the U.S. challenge. Yet we continue to hear calls for the elimination of the U.S. cotton program – as if that single act will solve the problems of the developing world.

In addition to our work with the administration, we are reaching out to engage the sub-Saharan African countries in more direct dialogue. In those conversations we have stressed that our respective industries have more in common than differences. We must build demand, we must be competitive with synthetic fibers, and we must be able to compete with China. Congress may soon take up legislation known as the African Growth and Opportunity Act III. This legislation will truly present a challenge to our industry-particularly our textile manufacturers. But there may also be an opportunity for the U.S. and African cotton industries to develop more mutually beneficial trade relations-in spite of the efforts of third parties like OXFAM and the *New York Times*.

We are all frustrated by the inaccurate, biased attacks on farm programs generally and cotton specifically. Incredibly, farm programs have been cited as fostering terrorism and contributing to obesity. We don't have the financial resources to launch an all-out rebuttal which reaches all Americans. We can and will continue to respond when provided the opportunity and most importantly we can continue to educate those who write and administer our laws. That's why the Council works so hard to continuously provide accurate and timely information to Members of Congress and their staff. That's why we continue to urge those of you who rely on this industry for your livelihood to be politically active; to know your Representative, your Senators and their aides; and, to know how and when to contact them to express your views.

The challenge of establishing workable, widely-acceptable trade policy for an industry with as diverse interests as the U.S. cotton industry is truly daunting.

On the one hand, raw cotton exports account for a growing portion of our annual production. This year exports may reach a record 13.2 million bales.

On the other hand, domestic textile mills –our most reliable customers - are being hammered by low priced imports. Numerous mills have closed, thousands have lost their jobs-yet US textile mills continue to buy virtually 100% of their cotton domestically. And in spite of the plant closings and lay-offs, the US textile industry is still a major employer and contributor to our economy.

Recently, we joined our textile customers in calling on the U.S. government to utilize the safeguard provision built into the China WTO accession agreement. Imports of knit fabrics, bras and dressing gowns were increasing so rapidly, some as much as 700% per year, that they were seriously disrupting U.S. markets. The industry's petitions were found by the Department of

Commerce to have merit. Quotas, allowed under the WTO, have been put in place through December 2004 or until the U.S. and China negotiate an alternative solution. The quotas still allow Chinese exports to grow from current levels by 7.5% per year so there is no reduction in trade volume.

At the same time, we have urged the U.S. to enforce another provision in the China WTO accession agreement. To join the WTO China committed to open her markets to U.S. and other growths on a consistent and predictable basis—not just when it is convenient. We are pleased that USTR has maintained a strong position on this issue when discussing China's compliance with her commitments. This year China needs imported cotton, but we want to make sure markets are open every year.

The Council has joined with the National Association of Manufacturers and others to insist that the U.S. government not allow other countries to manipulate their currency values to gain a trade advantage. For example, it is generally recognized that China's currency, which is pegged to the US dollar is 20-40% undervalued. No U.S. manufacturer or farmer can overcome a 40% price advantage!

The bottom line is that we must insist that the U.S. our government negotiate balanced, effective trade agreements that benefit U.S. producers and processors not third parties. We must also insist that the U.S. government aggressively enforce existing trade laws and agreements.

While defense of farm programs, promotion of effective trade policy and maintenance of a viable manufacturing base continue to be top priorities for the Council, we must also identify other opportunities to enhance our competitiveness. The boll weevil eradication program has generated economic and environmental benefits—it is time to finish the job. A pink bollworm eradication program, utilizing soft technology, will be highly beneficial to growers in the West. USDA's work to eliminate aflatoxin in cottonseed has been effective in Arizona and shows promise in South Texas. A textile marker system developed by Clemson University will allow U.S. customs to better track textile and apparel imports to ensure they are qualified for entry into the U.S. Export promotion programs like the Market Access Program (MAP) and Foreign Market Development program (FMD) can continue to work to maintain and expand export markets for cotton and cotton products. I mention these particular programs because each is jointly funded by industry and government. They are examples of successful public-private partnerships. However, there is intense competition for limited federal funds. We must make sure Congress knows about the successes and continues to provide the federal cost-share for these programs, which generate measurable economic benefits for farmers, processors and rural communities.

The Council is working to meet the challenges of environmental stewardship. The new farm law has been praised for providing increased funding for conservation programs. In addition to extending successful, long-term programs like the Conservation Reserve Program (CRP) and the Wetlands Reserve Program (WRP), Congress provided a significant increase in funding for the Environmental Quality Incentives Program (EQIP). The law also authorized a new program known as the Conservation Security Program (CSP). The CSP is being launched this year and is designed to reward producers for maintaining and improving land, air and water quality. As with every new program, there will be learning curve. USDA NRCS officials visited every region of the cotton belt as they prepared the regulations for the new program. We will continue to work closely with NRCS officials as the rules are finalized and the initial sign-up is conducted later this year. I encourage you to attend a special session this afternoon at 2:30 pm in Salons A & B of the Rivercenter where NRCS officials will review the rule recently published by USDA and discuss the operation of the CSP.

The Council continues to work closely with technology providers and regulators to make sure producers have ready and reasonable access to both biotech and conventional crop protection products. We work closely with technology providers and regulators as products are reviewed and rules for use established. The members of the Council's Environmental Task Force work closely with companies, regulators and staff to ensure that producers' priorities are established and industry recommendations are effectively communicated to legislators and regulators on a wide variety of topics including drift, endangered species, refuge and other key issues.

I mentioned earlier that election year politics will affect every issue considered by Congress and the Administration this year. The cotton industry is fortunate to have members of Congress who understand our industry and are willing to address key issues. We are fortunate that an experienced member like Senator Thad Cochran chairs the Agriculture Committee. Key cotton belt Senators including Senators Chambliss, Lincoln, Talent, Cornyn, Hutchison and others continue to closely follow the issues that are important to our industry. But, we must always be prepared to adjust to change. For example, six key cotton belt Senators, many with lengthy service like Senator Breaux, have already announced their retirements effective at the end of the year. When you combine these six with the six new cotton belt Senators elected in 2002, at least twelve new cotton belt Senators, over one-third, have served less than one full term in the Senate. In North Carolina, South Carolina and Georgia none of the six Senators in the 109th Congress will have served a full-term—an incredible change for states that have recently been represented by Senators with legendary seniority.

In the House, we are fortunate to have Representative Stenholm, a Texas cotton farmer, who welcomed you earlier, serve as a ranking member of the Agriculture Committee. There is no doubt that the current farm bill was enacted as a direct result of the combined effort and determination of Representative Stenholm and then Chairman Combest. We are also fortunate to have cotton belt representatives in other key positions. Representative Bill Thomas, whose cotton producing district is in the San Joaquin Valley, serves as Chairman of the powerful Ways & Means Committee where trade and tax policy are written. And, don't forget San Antonio's Representative Henry Bonilla who chairs the important Agriculture Appropriations sub-committee.

Redistricting and retirements will generate changes in the House for the next Congress. We will need your support to make sure the newly elected members are familiar with our industry and issues. Like it or not, one vote in Washington can permanently change an industry.

In conclusion, I want to remind you that meeting challenges and finding solutions depend on your continued active involvement in the industry and its organizations. The Council and other organizations are only as effective as their leaders and members. You have put strong, effective organizations in place. We need your support to maintain and effectively utilize the political, technical, legal and financial resources necessary to meet the wide-variety of challenges and opportunities confronting our industry. Please continue to support and guide your local and national organizations and their resources.

Thank you for your attention this morning