Testimony of Nathan Reed
2023 Farm Bill: Perspectives from the Natural State
Senate Agriculture Committee
June 17, 2022
Jonesboro, AR

Introduction

Good morning, I am Nathan Reed, from Marianna, and I am the owner and operator of Nathan B. Reed Farms (a farming equipment ownership entity), and Eldon Reed Farms, Inc (a row crop farming corporation). My wife Kristin and I own and operate N&K Reed Farms and Palmreed Inc. (both row crop farming entities) all in Marianna where we farm approximately 8,000 acres of cotton, corn, soybeans, and rice.

I am a proud graduate of the University of Arkansas Dale Bumpers School of Agricultural, Food, and Life Sciences with a degree in Agricultural Business and the University of Arkansas School of Law. Kristin and I reside on the farm in Marianna with our four children twins, Jane-Anne & Stanley "Eldon" (10 years), Katherine (8 years), and Grace Austin (6 years).

I am also actively involved with the National Cotton Council as a Producer Director and current chairman of the American Cotton Producers as well as a member of the Agricultural Council of Arkansas Board of Directors and the Lee County Farm Bureau.

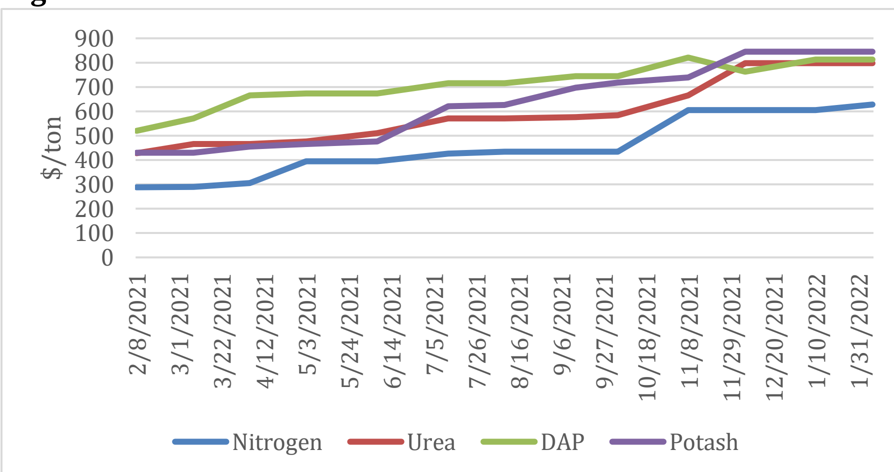
The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandizers, merchants, cooperatives, warehousers, and textile manufacturers. A majority of the industry is concentrated in 17 cotton-producing states stretching from California to Virginia. U.S. cotton producers cultivate between 10 and 14 million acres of cotton with production averaging 12 to 20 million 480-lb bales annually. The downstream manufacturers of cotton apparel and home furnishings are in virtually every state. Farms and businesses directly involved in the production, distribution and processing of cotton employ more than 115,000 workers and produce direct business revenue of more than $22 billion. Annual cotton production is valued at more than $5.5 billion at the farm gate, the point at which the producer markets the crop. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 265,000 workers with economic activity of almost $75 billion. In addition to the cotton fiber, cottonseed products are used for livestock feed and cottonseed oil is used as an ingredient in food products as well as being a premium cooking oil.

Economic Overview

U.S. cotton acreage is expected to increase in 2022 due to higher prices. Recent estimates suggest that 2022 acreage could range from 12.0 to 12.7 million as compared to 11.2 million acres in 2021. Although planted acreage is expected to be higher than last year, unharvested acreage is also expected to be higher due to extreme drought conditions throughout the Southwest growing region. Acreage continues to decline in the West due to prolonged drought conditions and limited water availability.

Although cotton prices are higher than in recent years, higher input prices, manufacturing shutdowns due to COVID-19 and supply chain disruptions have resulted in significant increases in production costs for 2022. Most producers are expecting a 25 to 40% increase in input costs in 2022, largely due to higher fertilizer, energy and pesticide costs. As compared to a year ago, fertilizer prices have increased by 55-120% (Figure 1).

Figure 1. Fertilizer Prices



Source: USDA AMS

World cotton demand remains strong and is projected to increase to almost 126.0 million bales for the 2022 marketing year, which represents an all-time high for cotton demand. While demand for U.S. exports has been very strong thus far in the 2021 marketing year, transportation and logistics issues continue to impact U.S. cotton shipments. The latest NCC estimate of U.S. exports for the 2021 marketing year is 13.8 million bales, which is 950 thousand bales below the February 2022 USDA estimate. However, concerns remain regarding a slowdown in apparel purchases due to the possibility of a recession due to inflationary pressures among consumers. The current supply chain challenges are also adding economic stress to our merchandising segments that were still feeling the impacts of the sharp slowdown in demand when COVID shutdowns were at their peak. We continue to look for opportunities to assist these critical segments of the industry.

Safety Net Programs

The safety net for producers must consist of two key components: 1) an effective commodity policy that provides either price or revenue protection to address prolonged periods of low prices and depressed market conditions that span multiple years; and 2) a strong and fully accessible suite of crop insurance products that producers can purchase to tailor their risk management to their specific needs to address yield and price volatility within the growing season.

The annual producer election of either Agriculture Risk Coverage (ARC) or Price Loss Coverage (PLC) included in the 2018 Farm Bill has worked well for growers and should continue in future farm bills. Under the 2018 Farm Bill, producers have overwhelmingly selected the PLC program, with more than 90% of seed cotton base acres choosing that option. Agricultural markets are cyclical, and an effective safety net is imperative for the inevitable times of low prices. The combination of commodity program options and crop insurance provides farmers as well as their lenders the confidence entering the planting season that downside risk is mitigated in periods of steep price decline or a significant loss of production.

Upland Cotton Marketing Loan and Seed Cotton Loan

The non-recourse marketing loan program for upland cotton remains a cornerstone of farm policy for the U.S. cotton industry. While current prices are well above the loan rate, we know that will not always be the case. During times of low cotton prices, the marketing loan program is an essential tool for multiple segments of the cotton industry to effectively market cotton and provide cash flow for producers to meet financial obligations. Even in times of higher market prices, the marketing loan is utilized by the cotton industry to provide cash flow for producers and flexibility in marketing. 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. In recent years, over 50% of the upland cotton crop enters the loan and use of the loan approaches 80% when market prices drop. Also, in periods of low prices, if growers choose to forgo the marketing loan, they may receive a Loan Deficiency Payment (LDP) representing the difference in the market price and the loan rate. This is an important component of the marketing loan program that should be retained.

Complete automation of the marketing loan program should be addressed in the next farm bill. During the December 2018 lapse in government funding, these programs were severely impacted due to the need for direct personnel involvement in processing the entry and redemption of cotton in the marketing loan program. During this period, some growers were not able to enter cotton into the loan and access those funds, while others could not sell their cotton because they could not redeem the loan. We urge this Committee to work with USDA to provide the necessary support to ensure that any future lapse in government funding does not negatively impact the marketing loan program.

Another loan program that has been utilized more in recent years is the Seed Cotton Recourse Loan. Seed cotton recourse loans help upland and Extra Long Staple (ELS) cotton producers meet cash flow needs while waiting for their harvested cotton to be ginned so it is then marketable. Recourse loans also allow producers to store production at harvest and provide for a more orderly marketing of cotton throughout the year. Several factors such as the speed and efficiency of harvest operations and longer cotton ginning seasons have contributed to the increased use of this program.

Payment Limits and Program Eligibility

Our industry is opposed to any further tightening of payment limits and program eligibility requirements, as we believe these policies are already too burdensome and restrictive considering the size and scale of production agriculture necessary to be competitive and viable in today's global market. 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 antagonistic with a market-oriented farm policy. In fact, the current program limits are incompatible with the cost structure and capital investments necessary for today's family farms. We are encouraged that Congress has recognized this reality in recent disaster assistance by including increased payment limit levels for producers who realize the majority of their income from their farming operation. This same consideration should be given to Title I program limits in the next farm bill. Other proposed arbitrary restrictions regarding the contribution of management and labor through changes to the definition of 'actively engaged' are out of touch with today's farming operations and would only contribute to inefficiencies.

Extra Long Staple Cotton Policies

There are important policies in place for ELS or Pima cotton. The 2018 Farm Bill continued the ELS cotton loan program as well as a 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 instead of support levels.

Economic Adjustment Assistance for Textile Mills

After a decade of experiencing a precipitous decline in the amount of cotton used by U.S. textile mills, U.S. mill consumption has stabilized since 2008 due to ongoing assistance provided in the Farm Bill.

The recent years of stability and expected future growth can be attributed to the continued benefits of the Economic Adjustment Assistance for Textile Mills (EAATM), originally authorized in the 2008 Farm Bill. Recipients must agree to invest the proceeds in equipment and manufacturing plants, including construction of new facilities as well as modernization and expansion of existing facilities. EAATM funds have allowed investments in new equipment and technology, thus allowing companies to reduce costs, increase efficiency and become more competitive. By allowing U.S. textile mills to make the new investments necessary to remain competitive, the program supports a manufacturing base that brings jobs to U.S. workers. Furthermore, in the current global environment and the need to re-shore or nearshore manufacturing of critical goods and materials, having a strong and robust U.S. textile manufacturing sector is key to produce many products for our defense industry and personal protection equipment (PPE) as highlighted during the COVID pandemic.

Disaster Programs

In recent years, Congress authorized several rounds of *ad hoc* disaster assistance in response to hurricanes, wildfires, wind events, drought, and other natural disasters. While *ad hoc* disaster assistance has been extremely helpful to farmers and allowed many of them to remain in business, the effectiveness of assistance has been diminished due to the long delay in delivery. While we recognize the budgetary constraints, we believe the Committee should review options to include either a permanent disaster assistance program in the upcoming Farm Bill or seek policy options to help further minimize the deductible producers are left to cover with most existing, affordable crop insurance products.

Conservation

A strong Conservation Title is beneficial for the environment and is an important tool for producers across the United States. The voluntary use of these programs has provided cost-share assistance for installing approved conservation practices, rewarded producers for implementation of basic and enhanced conservation practices on working lands and provided a means to devote marginal production acres into long-term conserving uses.

Working lands conservation programs are of utmost importance to most producers. As world population and demand grows, it is vital that the U.S. be able to continue to produce more food and fiber while protecting the environment needed for that production. We support a Conservation Title that delivers robust funding for working lands programs now and in future years.

U.S. Cotton Trust Protocol

Brands and Retailers are under extensive pressure to verify the sustainability of the products they are sourcing. Virtually all the top 100 global brands and retailers have created lists of sustainable raw materials and publicly committed that 100% of their sourcing will come from these lists over the next 5-10 years. Despite its reputation for quality, U.S. cotton risks not being included on these lists due to the rigorous criteria that must be met. The U.S. Cotton Trust Protocol was created and designed to meet and exceed these criteria.

The Trust Protocol underpins and verifies U.S. cotton's sustainability progress through sophisticated data collection and independent third-party verification. Choosing Trust Protocol cotton will give brands and retailers the critical assurances they need that the cotton fiber element of their supply chain is more responsibly and sustainably grown with a lower environmental footprint. Brands and retailers will gain access to U.S. cotton with sustainability credentials verified through Field to Market, measured via the Fieldprint Calculator and certified through third party audits. Through the Trust Protocol, growers can show continued improvement in reducing greenhouse gas emissions, land, water, and energy use, and other environmental factors.

Sustainability programs, such as the Cotton Trust Protocol will be an important complement to existing Farm and Conservation programs by allowing farmers to prove their commitment to responsible production and the investment being made by taxpayers through a strong safety net.

U.S. Climate Smart Cotton Proposal

The U.S. Cotton Trust Protocol has submitted a proposal for a grant through USDA's Climate Smart Agriculture and Forestry Partnerships. If approved, the proposal would establish a 5-year, collaborative pilot to provide technical and financial assistance to 1,650 U.S. cotton farmers (including historically underserved cotton producers) to advance adoption of climate smart conservation practices on 1.2 million acres, produce 4.2 million bales (480 lbs.) of climate smart cotton over five years, and demonstrate 1.4 million metric tons of CO_2e reductions and $350M in economic benefits to farmers.

International Programs

The Market Access Program (MAP) and Foreign Market Development Program (FMD) are extremely important tools that support U.S. exports. Cotton Council International, the foreign market promotion arm of the U.S. cotton industry utilizes both programs and the industry has seen clear benefits from these programs. Our industry supports the Coalition to Promote U.S. Agriculture Exports proposal to double funding for both MAP and FMD. MAP has not been increased since 2006 and one-third of funding has been lost to sequestration, inflation, and program administration. FMD has not been increased in almost 20 years. The U.S. is operating under an agriculture trade deficit. In the wake of trade wars, deficits, and global disruptions, U.S. agriculture exports need the ability to compete now more than ever.

Farm Bill Resources

Since the passage of the 2018 Farm Bill there have been several forms of other *ad hoc* assistance provided to the agriculture industry outside of the Farm Bill construct. Whether it is disaster assistance with WHIP/WHIP+, ERP, the Market Facilitation Program (MFP) or COVID pandemic relief (CFAP), two things are certain: they all were necessary for various regions and commodities and they were separate from the Farm Bill because the existing policies and programs were not fully meeting the extraordinary and unpredictable need. Producers are also faced with a dramatic increase in production costs that has weakened traditional farm policy and crop insurance tools that protect revenue and yield losses. As previously mentioned, many producers are anticipating a 25 to 40% increase in production costs relative to 2021. The sharp increase in costs translates into a significant decline in the effective safety net offered by the PLC reference price. As Congress plans the path forward for the 2023 Farm Bill, additional funding is necessary to address the challenges both on the farm and throughout the supply chain. The dynamics faced by the agriculture industry continue to change, evolve, and become more volatile. With those changes, America's farmers need a Farm Bill that has the resources to ensure that the American people and the world have a safe and affordable supply of food and fiber.

Conclusion

In closing, I encourage the Committee to write a Farm Bill that provides long term stability for the future. There will be price declines from where they are today, there will be natural disasters with losses more severe than the essential assistance that commodity programs and crop insurance can respond to, and there will be trade disputes that can wreak havoc on our export markets.

The NCC looks forward to working with the Committee and all commodity and farm organizations and other stakeholders to develop and pass a new farm bill that effectively addresses the needs of all commodities and all producers in all regions of the country.

Thank you for this opportunity, and I would be pleased to respond to any questions.