

2010 Beltwide Conference
NCC Report
Jay Hardwick, NCC Chairman
February 5, 2010

Next on the agenda, I would like to offer some opening remarks about this conference and discuss some recent activities of the National Cotton Council.

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. The Beltwide partnership has 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. In addition, the three-day conference format, which this committee implemented several years ago, has made the technical conferences more accessible to a larger audience, which is paying dividends for all attendees.

For a third year, conference planners have included a cotton consultant conference which had a primary focus on cotton diseases and pests as well as the value of transgenics. This is a very significant addition to Beltwide. Conference Coordinator **Bill Robertson**, as well as the Beltwide Steering Committee, is to be commended for organizing a special conference for this important group.

I also want to say a special word of thanks to the Conference's sponsors and ask all conference attendees to please take time to personally convey the industry's appreciation to the representatives of those companies who are in attendance at this meeting. 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 and a look ahead to some of the challenges we will face this year.

Throughout 2009, the Council continued its tradition of being a tireless advocate for the U.S. cotton industry. With a primary focus on farm bill implementation and trade, the Council also worked on emergency disaster assistance and responded to a number of pressing technical issues.

Farm Bill Implementation

The final passage of the farm bill came after more than two years of hard work. Overall, we are pleased with the results. We were able to maintain the general structure of the cotton program while instituting a more accurate world price formula and providing assistance for the domestic textile industry. Storage credits were also continued.

The cotton program was implemented in late 2008 in accordance with the law, which was closely followed by the issuance of regulations for Direct and Counter-Cyclical Payment and the ACRE programs.

The law includes significant changes in program eligibility and payment limits. We now have direct attribution and no three-entity rule. Spouse eligibility was expanded and the law removed the limits on Marketing Loan Gains and Loan Deficiency Payments, but there are now means tests on farm and non-farm income.

The Council was very disappointed that USDA's rules included significant changes to the provisions determining a person "actively engaged in farming." The Council submitted extensive comments to these proposed rules.

In response to these comments, on December 31st USDA announced finalization of a Memorandum of Understanding with the IRS to establish an electronic information exchange process for verifying compliance with adjusted gross income eligibility provisions for farm program and conservation program benefits. This authority was provided in the 2008 farm bill. This USDA-IRS process will evaluate program participants' compliance with the AGI Means Test provisions. The NCC will be monitoring the implementation of this process.

USDA also announced a less restrictive interpretation of the labor and management provisions of the actively engaged requirements for some entities for 2010. For operations where the total direct payments do not exceed \$40,000, only stockholders that have at least 50% interest in the legal entity have to make a significant contribution of active personal labor or management. Otherwise, we believe the eligibility regulations for 2010 will be unchanged.

The cotton industry expresses its appreciation to congressional efforts led by Senators' Lincoln and Chambliss to ensure that regulatory changes for 2010 would not further undermine producers' abilities to fully participate in farm programs.

Given the emphasis on conservation programs in the new farm bill, the Council has taken an active role in responding to proposed program rules. This includes our comments to EQIP, the Wetlands Reserve Program and the Conservation Stewardship Program.

In that regard, I am looking forward to Jimmy Webb's conservation presentation later this morning. Jimmy, of course, is the chairman of the Council's Conservation Task Force.

In summary, the Council believes the 2008 law is a good farm bill but we are continuing to work for fair implementation of the commodity and conservation provisions in a manner that is consistent with the statute and Congressional intent—and in recognition of the already extensive and far-reaching reforms to program eligibility and payment limitations that were included in the farm bill.

Federal Budget

The Council also has opposed efforts to re-open the farm bill solely to achieve budget savings. You will recall that the Administration's budget proposal would have required the re-opening of the farm bill and terminated storage credits, phased out direct payments for operations with more than \$500,000 in annual gross sales, imposed a \$250,000 cap on program benefits, and reduced funding for the Market Access Program.

The Council strongly objected to this proposal and registered our opposition in meetings with USDA and in letters to the Budget Committees in both Houses.

Thankfully, Congress finished its budget resolutions and there were no amendments to the farm law.

Appropriations

The Council also worked through the appropriations process to secure funding for the industry's priority programs which included continuation of the cost share for the Boll Weevil and Pink Bollworm eradication programs, additional support for FSA, funding for the Foreign Agricultural Service to carry out its important export market work and increased support for the USDA ginning laboratories.

In addition, during the appropriations markup for FY10, the Council worked with key Congressional leaders and other agricultural groups to ensure that there would be no provisions included that would result in amendments to the current farm bill.

Trade

On the trade front, the Council is engaged in several important issues.

The WTO Brazil cotton case --which first began back in 2002— moved through an arbitration phase as Brazil sought the authority to retaliate against the GSM export credit guarantee program and certain aspects of the cotton program.

The US had strongly objected to the Brazil claims that it be allowed to seek countermeasures of \$2.7 billion due to the continued operation of GSM, the failure to immediately stop Step 2 in 2005, and because the US still maintains the marketing loan and countercyclical payment programs. The US countered that there is no subsidy or net cost to GSM, the Step 2 program ended three years ago and with the rest of the cotton program—if there is any damage at all—it can be no more than \$30 million, according to reasonable academic assessments.

In a decision released in September, the Arbitration Panel authorized \$147 million in retaliation authority for cotton. The amount of countermeasures that Brazil may impose for the export guarantee program will vary from year to year based on a formula established by the panel. Brazil has previously implied that it will be entitled to over \$650 million in retaliation for the export credit guarantee program, which would bring total countermeasures to more \$800 million.

In November, the WTO's Dispute Settlement Body officially recognized the Arbitration Panel's findings. In response to this action, the Council issued a statement expressing astonishment that anyone could conclude that US cotton production is damaging Brazil's cotton interests. Moreover, world cotton data continue to demonstrate that the US cotton program cannot be damaging Brazil or any other country's interests.

The Council has had meetings with the office of the US Trade Representative to examine our options. We have encouraged them to prepare to call for a new panel if Brazil announces retaliation and that retaliation is excessive. The establishment of a new panel will provide the US with the opportunity to introduce all of the changes that have been made to the US cotton program and to GSM which we believe will clearly demonstrate our compliance with WTO rules.

Regarding the WTO Doha negotiations, the Council continues to support a comprehensive agreement that does not include any reductions in commodity programs without proportionate documented gains in market access. In addition, we are asking our negotiators to not agree to any modifications to the cotton program in advance of a comprehensive agreement. We also are continuing to emphasize that the proposal --that was presented in July 2008 during the ministerial in Geneva-- should not be the basis for future negotiations.

As a final point on the trade negotiations, I would like to reiterate the cotton industry's appreciation for the stance taken by USTR Ambassador Ron Kirk during the recent WTO meetings in Geneva. We were reassured to hear his defense of the U.S. cotton program in the face of continued, but unwarranted, criticism. In addition, Ambassador Kirk stands

firm in the position that there must be greater ambition in market access than currently displayed in the draft text.

Disaster Assistance

With growers, ginners, warehousemen and cottonseed handlers facing significant financial losses resulting from a rain-delayed harvest in the Mid-South and parts of the Southeast and a severe drought in South Texas, the Council –along with other organizations-- sought prompt and necessary emergency assistance.

Senators Cochran, Lincoln and Wicker introduced bipartisan legislation that utilizes the Direct Payment delivery mechanism to provide assistance to growers in counties with Secretarial disaster declarations. The bill includes a fund to provide assistance for cottonseed losses and specialty crops and livestock are also eligible for assistance.

Representatives Berry and Childers followed by introducing similar legislation in the House. The Council is urging Senate and House leaders to support this legislation and find the appropriate legislative vehicle for timely delivery of the assistance.

In addition to strongly supporting this bill and working for its passage, the Council has urged all agencies to fully utilize existing programs and authorities to provide financial assistance to growers and related agribusinesses.

I would also note that we are not being critical of the good intentions of Congress to include a permanent disaster program in the 2008 farm bill, but that program cannot deliver the assistance necessary to address these very serious losses.

Regulatory

In the regulatory arena, the Council has been working on a number of important issues, ranging from key environmental concerns to the commodity futures market.

Some of these include:

- The Sixth Circuit Court of Appeals ruling that all pesticide applications over or near US waters will require a permit,
- Legislation in the Senate to amend the Clean Water Act to greatly expand its jurisdiction,
- Climate change legislation that has narrowly passed the House and is now under consideration in the Senate,
- A food safety bill that passed the House, which contains several negotiated on-farm exemptions but still includes gins and cottonseed facilities under its provisions, and

- The Council's testimony and strong support for the House Agriculture Committee bill which will provide the Commodity Futures Trade Commission with more enforcement authority and impose new requirements for reporting and clearing of trades. I am pleased to report that this bill's provisions were incorporated in the more comprehensive financial reform bill that passed the House late last year.

Other Activities

In addition to the Council's work on the farm bill, trade negotiations and in the regulatory arena, we are also focused on increasing export demand for US cotton, cottonseed and cottonseed products—through the continued efforts of Cotton Council International.

Beyond the near-term challenges that our industry faces, the Council has implemented a plan for effectively addressing several important long term goals. I am pleased to report good progress on the Cotton Foundation's Vision 21 project, which provides a three-pronged approach for addressing the critical issues facing the US cotton industry. Often times, it is difficult to take a longer-term view of issues when there are so many short-term challenges. However, this project's primary work areas are necessary for our industry's future success. These include an assessment of the fastest growing consumer markets for cotton textiles, life-cycle studies to strengthen cotton's sustainability message, and a thorough analysis of ways to improve cotton flow. I am pleased to report that contracts with consulting firms are in process to carry out the work in the three work areas.

The Vision 21 is a Cotton Foundation project is jointly managed by the Council, CCI and Cotton Incorporated. The project is being underwritten by a \$1 million grant from Monsanto, with additional funding being sought from other Cotton Foundation member firms. I am pleased to report that John Deere has come forward with project funding of \$90,000.

Summary

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.

To conclude, I encourage your full participation in the Conference's general sessions as well as the special workshops and seminars. Also a wide array of technical conference will be held on Wednesday afternoon and Thursday that cover virtually every cotton discipline and I encourage you to take advantage of this great information. These are excellent examples of the efforts underway in a variety of research areas designed to lower costs and apply technology to a host of problems and opportunities.

I also urge your continued support for the Council through your membership and your participation in the Council's political action committee, the Committee for the Advancement of Cotton.

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