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U.S. Cotton Production and the FAIR Act of 1996

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Thank you Bill for that introduction and good morning ladies and gentlemen. It is a pleasure to present my thoughts on cotton production as impacted by the current U.S. farm policy. Since the charge for this presentation was fairly wide open, my comments will include an overview of current policy; what impact it has had on production decisions on Buckskin Plantation, my farming operation; how the new policy has impacted the Delta region of cotton production; and finally some thoughts about the policy implications on the Cotton Belt.

As we are all aware, the FAIR Act of 1996 has changed the mindset of all program crop producers and probably has had at least some impact on the production decisions of all producers. This certainly is the case for cotton farmers. It is no secret that during the farm bill debate, the cotton industry was one of the last "converts" to this new policy which provided total planting flexibility with decoupled income support payments. In fact, until we were able to secure retention of the marketing loan provisions, competitiveness provisions and basically status quo on further payment limits, we did not support the proposed legislation.

But with that bit of history aside, I believe cotton growers have adapted well to this new policy environment. The transition has actually gone smoother than our industry predicted. While some changes in land tenure were made, for the most part, landlords and tenants have gotten comfortable with the new requirements. From time to time, however, we still face administrative adjustments or budget challenges that threaten this transition and which cause producers some concern. It is critically important that USDA carefully consider the disruption to farm operations before making any significant program changes.

Based on industry consensus, one legislative change was made to modify the operation of the cotton provisions, placing more emphasis on the use of certificate payments rather than unneeded import quotas as a competitive measure. Fortunately that change was enacted last year and takes effect this October.

Planting flexibility, where applicable, has been readily accepted and embraced by most cotton producers. Depending upon market signals, producers have made cropping changes that fit their land types and price expectations. One of the side benefits of this added flexibility is crop rotation. Many producers are now able to rotate crops and enjoy benefits of soil fertility improvements and lower pest pressures from weeds, insects and other production problems resulting from continual cotton production. Flexibility has also allowed them to spread their risks and adapt to financing restraints.

However, with this added flexibility comes added uncertainty. Producers have had to pay even closer attention to market signals in deciding their crop mixes. Timely market information is at a premium. They are now required to make decisions sooner in the production year and, in some cases, make multi-year decisions as to tenure arrangements and crop mixes.

Through the years many cotton farmers have attempted to augment profits from cotton production by diversifying into ginning, warehousing and crushing. To date, the FAIR Act's flexibility provisions that have prompted acreage to shift out of cotton have, at the same time, hurt these volume-dependent enterprises. This outgrowth of flexibility is another factor we must incorporate into our planning processes.

It was disconcerting for agriculture to take such a drastic budget hit in the FAIR Act. We certainly were the first sector of the economy to contribute to the balanced budget efforts of Congress. Fortunately, thanks to the great leadership of our friends such as my Senators' Cochran and Lott, and other Cotton Belt members, agriculture was given credit for these budget savings and spared any further cuts in last year's round of negotiations that led to the balanced budget agreement.

During the first two years of the AMTA payments, cotton farmers have actually received higher payments (amounting to about 11 cents per pound for 1996 and 1997), than would have been received under a continuation of the previous target price program. The real test, however, will be if income support is adequate in the out years of this farm bill when payments decline substantially. On the marketing side of the equation, our Step 2 marketing certificate payments have worked as intended to help promote export sales and underpin domestic consumption. Of course, certificate funds are capped at $701 million and may be depleted before the FAIR Act ends in 2003.

I would now like to share with you a view of what's happened in my operation since this new farm bill went into effect. Prior to the passage of the current farm bill, our operation was over 90% cotton. I planted corn for the first time in 1996 and again in 1997. Next month I expect to plant roughly 1/3 of my acreage to corn. While acreage devoted to corn could be affected by excessive moisture, growers in my region intend to make a substantial switch if able. Due to extremely poor pricing opportunities for cotton, as I speak, cotton acreage will certainly decrease in Mississippi in 1998 -- to what I believe will be surprisingly low acreage numbers. .

Our growers are fortunate to have the flexibility to plant corn and early maturing soybeans as alternatives to cotton. In my judgment the acreage loss cotton will suffer in Mississippi will be irrigated acres moving to corn. The risk/reward ratio is out of balance for cotton and until that turns around, our industry will suffer at the expense of crops that are cheaper to grow. The benefits of moving to lower cost-of-production crops will be partially offset by reduced returns to our cotton-related processing and handling enterprises.

From my conversations with producers around the Cotton Belt, I think my experiences typify those of many producers. Unfortunately, most growers have operated on slim margins over the past two years because of a number of factors. Some growers may attribute these financial problems to a change in farm policy. However, as I stated earlier, we have actually received more support, to date, under this farm bill than we would have under a continuation of the 1990 farm bill provisions. Our core problem, as I see it, is our inability to reduce production costs in the face of low fiber prices. If our competitors abroad are willing to grow cotton when New York prices are in the low 70's, the message is clear. We have to find ways to reduce our cost of doing business.

The ability to shift crop mixes has actually allowed many traditional cotton farmers who are under financial distress or who have better return prospects from other crops to shift from cotton without any program consequences. If the recent planting intentions survey results released by the National Cotton Council on January 30 are accurate, we will see the most dramatic example of the shift this year. A projected reduction of upland cotton acreage of 12.5% is a significant decline that could result in a nearly 2 million bale production loss from last year.

That certainly has the processing and marketing sectors, as well as our customers, the domestic textile manufacturers, concerned. It comes as no surprise that when looking at intended plantings by region, we saw the largest shifts from cotton in the areas with the highest costs and most options for alternate crops. I am speaking of the MidSouth, which projects a 21+% decline, and the West, which projects an almost 18% reduction. Corn and soybean production in the MidSouth and vegetables, alfalfa and permanent crops in the West, are expected to account for much of the acreage leaving cotton. The market will need to send the proper price signal quickly if it needs increased cotton acreage in the U.S.

Crop acreage shifts and degrees of market volatility are to be expected under this new farm policy. It will take some time for growers to get accustomed to procedures for incorporating these uncertainties into their production decisions.

As with any prudent businessman, cotton growers must continue to adjust to an ever-changing global cotton market and the risks and rewards that result. More and more the work of dedicated trade organizations such as the National Cotton Council and self-help market development efforts such as Cotton Incorporated become critical to the well-being of cotton producers. As we compete in this global market economy with less support from government, we must capitalize on every opportunity to get our costs down on the one hand and boost demand that underpins prices on the other. We must increase efforts to minimize the burden of unneeded government regulations that add costs to our operation and limit the availability of necessary inputs. It is absolutely imperative that sound basic and applied production and processing research be continued and even expanded. We must have fair trade rules that give us access to needed export markets along with government/industry partnerships that develop new trade opportunities. And, yes, we must also look ahead as to what type of farm policy, if any, will follow this act.

Perhaps I have raised more questions than I have answered, but I remain optimistic that in spite of these new challenges, the U.S. cotton farmer will continue to be a major player in the world cotton economy. Thank you for allowing me to share these comments with you today.