TESTIMONY
2010 House Agriculture Committee Field Hearing
Agriculture Policy Review
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Presented by, Allen McLaurin

Chairman Peterson, Congressmen McIntyre and Kissell, other members of the Committee and guests, my name is Allen McLaurin. I am cotton, peanut and grain producer from Laurinburg, North Carolina. I am also farm manager for ZV Pate, Inc. a diversified agriculture entity located in Scotland County. Thank you for hosting this hearing and for the opportunity to testify before you regarding farm policy issues.

Agriculture is far and away the single largest industry in North Carolina with cotton being the cornerstone in our region and throughout the Cotton Belt. Its scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year in the 17 cotton-producing states. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state with much of this infrastructure located right here in North Carolina. Beyond the farm-gate, the distribution and processing of cotton includes cotton gins, independent merchants and cooperative merchandisers, warehouses, cottonseed distributors and processors, and textile mills. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200 thousand workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420 thousand workers with economic activity well in excess of $100 billion.[1]

In the 6-state region of Alabama, Florida, Georgia, North Carolina, South Carolina and Virginia, the cotton industry's ripple effect is responsible for over 173 thousand jobs and generates economic activity surpassing $47 billion annually.

Sound farm policy is essential for an economically viable agriculture. Effective farm policy should adhere to several principals:

1) It should be market-oriented with a goal of promoting quality, efficiency and domestic competition;
2) It should allow for full production to meet market demand;
3) Because of the uncertainty of weather and markets, farm policy should provide for an effective financial safety net for farmers without regard to farm size or structure.

I believe the 2008 farm bill meets most of these principles and has worked well for the cotton industry. We are very grateful to the Agriculture Committee for the work done on this legislation.

The centerpiece of the upland cotton program and traditional commodity programs has been without question, an effective marketing loan program. It provides a safety net for producers but does not harm the competitiveness of U.S. commodities. It is a program component that makes sense, that works, and that serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available. This foundational program has also been the lever to move other important reforms, such as standardized bales and bale packaging for cotton, electronic warehouse receipts, and heightened standards for storage and elevator facilities for cotton and for other commodities.

With respect to cotton, while the 2008 farm bill maintained the marketing loan and several other program components from prior law, the bill also made many reforms, such as a revision in the calculation of cotton premiums and discounts on the USDA loan schedule, placing a ceiling on the payment of storage credits for cotton under loan, and an economic adjustment program for the U.S. textile industry.

Fundamentally, we continue to support the 2008 farm bill's approach to the cotton program and all of its components, from the marketing loan to direct and counter-cyclical payments. Each component serves a distinct purpose that is extremely beneficial to North Carolina farmers.

The 2012 farm bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding. The WTO Brazil Case puts cotton's marketing loan and counter-cyclical programs under special scrutiny even though the cotton program, as revised by the 2008 bill, has never been evaluated by a WTO Panel. Ongoing negotiations in the Doha Round of trade negotiations could result in a dramatically altered landscape for domestic commodity support. If circumstances arise that make it impossible to maintain a reasonable safety net using existing delivery mechanisms, the cotton industry will look at alternatives.

As evidenced by recent sign-ups, the ACRE program has not been a very attractive alternative for cotton farmers in our region or across the Cotton Belt. The support mechanisms within ACRE do not provide an adequate safety net for cotton farmers when compared to the traditional DCP program. If a revenue-based approach is to find support among cotton producers, a more reasonable revenue target would have to be established. I applaud Chairman Peterson’s recent statements that he would support changing the current ACRE calculations from a state wide to a county wide basis. This is definitely a step in the right direction.

Even as our industry commits to an in-depth review of the structure of the cotton program, I must emphasize our commitment to the principles I outlined earlier in my statement. One of those principles is that effective farm policy must maximize participation without regard to farm size or income. The 2008 farm bill contained significant changes with respect to payment limitations and payment eligibility. In general, the limitations were made more restrictive, and the adjusted gross income test was substantially tightened.

In addition to the legislative changes, I believe that USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated and restrictive. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits. A new model six row cotton picker costs approximately $550,000. This picker can reasonably be expected to harvest roughly 18 to 2000 acres. In order to justify purchasing a second picker, a grower would basically have to double the size of his operation. Unlike a grain combine, this machine is capable of doing only one thing and that is pick cotton. The vast majority of these commercial-size operations are true family farms that have expanded in size in an attempt to lower per unit cost of production (economy of scale).

Conservation programs were strengthened in the 2008 farm bill. The Conservation Stewardship Program and similar conservation programs can lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. The Conservation Stewardship Program has also been hampered by overly restrictive payment limitations contrived by USDA regulators - restrictions that I do not believe are supported by the statute. USDA's unilateral decision to exclude commercial-size farming operations dramatically limits the environmental and conservation benefits to North Carolina that are possible with this program. In an effort to improve the effectiveness of these programs, I recommend that all conservation payments and other administrative responsibilities be turned over to the Farm Service Agency. In other words, let FSA do the paper work which in turn will enable the Natural Resources Conservation Service to devote all their efforts and expertise towards providing technical assistance. Furthermore, lack of consistency between county offices is often an issue. For example, a producer who farms in more than one county may or may not qualify for a like conservation program or practice and often times at varying levels of support.

I support a permanent natural disaster program as part of the farm bill, but my understanding so far with the SURE program indicates it cannot provide an effective level of natural disaster assistance. I understand that some growers have yet to receive assistance for disasters that occurred back in 2008. This is hardly reassurance to the banks that must grapple with the decision to continue to make production loans to these growers. I recognize the challenge facing Congress to make improvements in this program. Without increased baseline spending authority, there will be no funds to even continue the program in the next farm bill much less make the necessary improvements for it to be an effective disaster relief mechanism. However, I would oppose reallocating existing spending authority from current farm programs to apply to SURE.

Crop insurance is an essential risk management tool for cotton producers in our region. As a matter of fact, over 87% of all cotton acres in North Carolina purchase buy-up coverage. Our industry continues to examine concepts that improve the various cotton crop insurance products. Revenue coverage, enterprise policy rates and group risk products are examples of improved products that can provide a menu of risk options for growers. However, as you are well aware, the profit margin in agriculture is very narrow. In other words, a 10 to 15% loss would jeopardize whether or not I as a farmer will be able to service my debt let alone make a profit. Being able to insure my crop at a higher buy-up level would be of real benefit. Another change I do support would be to allow separate enterprise units for irrigated and non-irrigated practices in the same county. Some growers do not opt for the enterprise unit deal (with the additional subsidy) because it throws their irrigated and non-irrigated units together. However, we continue to view the current insurance products as complements to traditional commodity programs but do not consider those programs as a replacement system for delivering farm program support.

While the cotton industry supports a viable bio-fuels industry, it must be recognized that benefits are not equally shared by all commodity producers. Renewable fuels mandates and other policies regarding bio-fuels have changed the competitive balance between commodities, placing severe pressure on cotton infrastructure in certain parts of the Cotton Belt. Mandated demand can result in excessive and harmful market distortions. The support given to bio-fuel crops must be taken into consideration when comparing relative levels of support across commodities, when evaluating payment limitations and before trying to mandate a one-size-fits-all farm program for bio-fuel and non-bio-fuel commodities.

In summary, our industry believes the cotton provisions of the 2008 farm bill are working well. If policy changes are inevitable as part of the 2012 farm bill, the cotton industry remains ready to work with the Agriculture Committees to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within budget constraints.

Mr. Chairman, thank you for holding this hearing in North Carolina and for allowing me to be a part of the discussion.