TESTIMONY
Presented to the Committee on Agriculture
U.S. House of Representatives
by
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Introduction

I would like to thank Chairman Conaway, Ranking Member Peterson, and Members of the Committee for the opportunity to present the views of the National Cotton Council regarding government support conveyed to cotton farmers in other countries and the resulting impacts on cotton markets and U.S. cotton producers.

The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, merchants, cooperatives, warehousers, textile manufacturers and cottonseed processors and merchandisers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from Virginia to California. The scope and economic impact extends well beyond the approximately 19 thousand farmers that plant between 9 and 12 million acres of cotton each year. 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. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 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 420,000 workers with economic activity well in excess of $100 billion.

Current Market Situation

Production

As the 2015 harvest progresses in the United States, producers across the Cotton Belt are facing difficult economic conditions. Cotton futures prices at the Intercontinental Exchange have traded in a sideways pattern since August 2014. With futures markets currently trading in the low to mid 60 cent range, prices are at the lowest levels since the middle of 2009. Burdensome global stocks, concerns about world demand, a stronger U.S. dollar and general price pressure in commodity markets have all played a factor in the current price environment.

In response to the weaker price conditions for cotton relative to competing crops, U.S. producers responded with plantings of just 8.5 million acres of cotton in 2015 (based on the October 2015 NASS estimates). Acreage is down in all regions, and the U.S. total is the lowest since 1983, which was a year when acreage was sharply reduced by government programs that encouraged land idling. With the lower cotton planted area, USDA estimates production of 13.3 million bales, down 18% from the 2014 crop.

With 88% of world production occurring internationally, the United States cotton sector can be heavily impacted by developments in other countries. Historically, eight countries – the United States, China, India, Pakistan, Brazil, Uzbekistan, Turkey, and Australia – account for the vast majority of world cotton production (Figure 1). Going a step further, the Top 5 countries account for almost 80% of the world's crop.

Figure 1. World Cotton Production, Historical 5-Year Averages and 2015

	1995-99	2000-04	2005-09	2010-14	2015
World Production (Mil Bales)	90.1	99.4	114.3	121.7	107.4
Share of World Production					
India	14%	13%	20%	24%	27%
China	22%	25%	30%	27%	24%
United States	19%	19%	16%	13%	12%
Pakistan	9%	9%	8%	8%	9%
Brazil	2%	5%	5%	6%	6%
Uzbekistan	6%	5%	4%	3%	3%
Turkey	4%	4%	2%	2%	3%
Australia	3%	3%	1%	3%	2%

China has historically been the world's largest producer. Until 2006, the U.S. followed closely behind China, with India coming in third. Prior to 2004, India generally produced between 10-14 million bales. Starting in 2004, India significantly increased production to 19 million bales and has continued to increase each year since. For the 2015 crop year, India will be the largest cotton producer, surpassing China for the first time.

The latest USDA estimates show a drop in world cotton production to 107 million bales for 2015, which is more than 10 million bales less than last year. China is responsible for the largest decrease in production, with a drop of 4.7 million bales compared to last year. As previously mentioned, the U.S. crop is estimated to be 13.3 million bales, 3 million bales lower than last year. Pakistan's crop is projected to be about 1 million bales less in 2015. Production in India and Brazil is each expected to decline by 500,000 bales in 2015, while Turkey is projected to lower production by 400,000 bales.

Mill Use

Shifting attention to cotton consumption, world mill use for the 2015 marketing year is expected to exceed production for the first time in six years. In a manner similar to production, world mill use is also concentrated in a few key countries. For 2015, the leading eight countries (Figure 2) are expected to account for more than 85% of the world total. China maintains the top spot in terms of mill use, with a market share of 31%, which is stable relative to the previous 5-year period. India's cotton use continues to increase and now accounts for almost one-fourth of the total. U.S. textile mills are expected to increase consumption in 2015, marking the fourth consecutive year of higher consumption as a result of new investment and growth in textile mills in the United States. However, cotton mill use in the U.S. remains well below levels observed in the late 1990s.

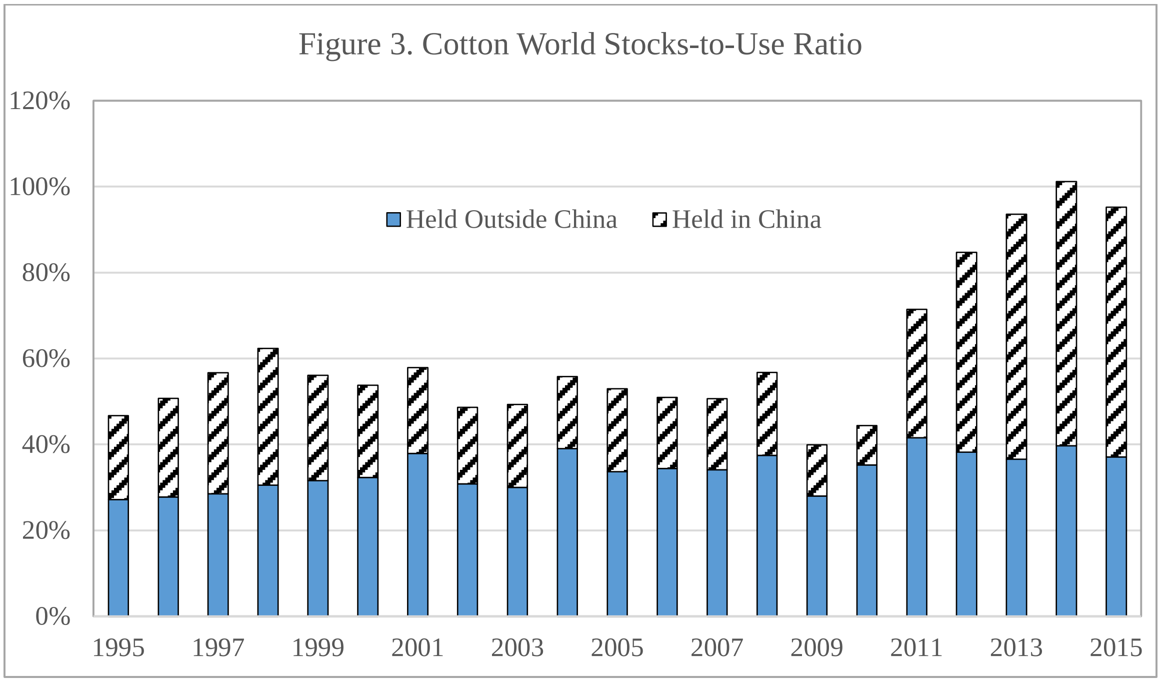
Figure 2. World Cotton Mill Use, Historical 5-Year Averages and 2015

	1995-99	2000-04	2005-09	2010-14	2015
World Mill Use (Mil Bales)	87.4	98.5	119.0	109.7	112.3
Share of World Mill Use					
China	22%	30%	42%	31%	31%
India	14%	14%	16%	18%	24%
Pakistan	8%	9%	10%	8%	10%
Turkey	5%	6%	5%	5%	6%
Bangladesh	1%	2%	3%	4%	5%
Vietnam	0%	1%	1%	2%	4%
United States	12%	7%	4%	3%	3%
Brazil	4%	4%	4%	3%	3%

Even with modest demand growth projected for the 2015 marketing year, total mill use of 112.3 million bales will be 12 million bales short of the record consumption registered in the 2006 marketing year. Reduced cotton demand relative to previous levels remains a factor contributing to the current price levels. Competition from lower-priced manmade fibers and uncertainty in the global economy make it difficult to envision a significant increase in cotton prices in the near term.

Stocks

For U.S. cotton farmers, the prospect of higher cotton prices is further challenged by a world stocks-to-use ratio that exceeded 100% in the 2014 marketing year (Figure 3). Current stocks-to-use ratios stand in stark contrast to historical stocks that generally ranged between 50 and 60 percent of total use. However, the recent increase in stocks was the direct result of policies in place in China for the 2011 through 2013 crops. Outside of China, stocks remain more in line with historical averages. Efforts by China to reduce the reserve level have not been successful and large ending stocks still hang over the market.



Trade

International markets are of critical importance to the U.S. cotton industry with approximately 75% of U.S. cotton production exported. The U.S. will remain the largest exporter of cotton with 2015 shipments estimated at 10.2 million bales. China remains the largest cotton importer although they are projected to significantly lower imports given the current balance between supply and demand. In recent years, China's imports have accounted for as much as 50% of total world trade, but recent declines in their trade position has lowered that share to below 20%. Much of the reduction in Chinese imports is projected to be offset by increased imports from Bangladesh and Vietnam.

In the last five years, the share of U.S. exports by country has changed considerably, particularly for China, Vietnam, and Indonesia. In 2014, China accounted for 23% of U.S. cotton exports compared to their 2010-2014 five-year average of 37%. Vietnam accounted for 15% of U.S. cotton exports in 2014, compared to their 2010-2014 five-year average of 6%. Turkey, Indonesia, and Mexico have continued to remain important export customers as well. Over the past five years, Turkey has continued to be our second largest customer, accounting for about 15% of U.S. cotton exports. In the past few years, Korea, Thailand, Peru, and Bangladesh have also increased imports of U.S. cotton.

<u>Government Support & Trade Policies in Other Countries</u>

While U.S. cotton policy has often been a focal point in international circles, there are ample studies and reports that document the various forms of government support present in almost all cotton-producing countries. In recent years, while U.S. support for cotton has been declining, government intervention in other countries has been on the increase.

India

With one out of every four bales of the global cotton crop now produced in India, their government programs can have a significant impact on the world market. In recent years, India has an active history of intervening in cotton support and trade policies. Since 2010, India has employed a variety of trade policies ranging from export subsidies to export bans.[1] The resulting impact of significant policy changes was to create additional uncertainty in the global market. Changes enacted in December 2014 removed the requirement to register cotton exports with the Directorate General of Foreign Trade in an effort to boost exports.

While India's trade policy has been inconsistent in recent years, the government's support to cotton producers has consistently increased. India operates a Minimum Support Price (MSP) for seed cotton in order to ensure a price that will be received by the farmer. If local market prices fall below the MSP, then India's government will purchase seed cotton at the MSP and then subsequently sell bales of ginned cotton into the market. Any differences between the MSP and the prevailing market price at the time of auction are borne by the government.

The Cotton Corporation of India, a government-run procurement and distribution company, is responsible for administering the price-support program. The MSP is announced by the government each year. Between 2010 and 2015, the MSP for medium staple cotton increased by 52%, while the MSP for long staple cotton increased by 42%. The MSP is announced on the basis of seed cotton. Converting to a lint-equivalent basis requires an assumption about turn-out rates when the cotton is ginned. Assuming gin turn-out rates between 35% and 40%, current minimum prices in India equate to between \$0.70 and \$0.80 per pound.

Cotton farmers in India also benefit from subsidized fertilizer prices. Though not just limited to cotton, total fertilizer subsidies are estimated at more than \$9 billion per year.[2] For urea, producers are estimated to be paying only one-fourth of the costs that it takes to produce the product. On a per-acre basis, fertilizer subsidies are estimated to reduce production costs by approximately \$100.[3] The result is a significant savings in costs of production and a competitive advantage over growers in other countries.

India's government support to cotton is one factor that has allowed India to achieve its position as the largest cotton producer. Over the past decade, India's cotton area is up by approximately 35%, while aggregate area outside of India fell by more than 20% over that time period.

[1] U.S. Department of Agriculture. Foreign Agricultural Service. *India Cotton and Products Annual 2015*. GAIN Report Number IN5039.

[2] http://timesofindia.indiatimes.com/business/india-business/India-can-save-1-8-billion-on-fertilizer-subsidies/articleshow/48806936.cms.

[3] Konduru, S., Yamazaki, F. and M. Paggi. "A Study of Indian Government Policy on Production and Processing of Cotton and Its Implications." *Journal of Agricultural Science and Technology*. Pp. 1016-1028. 2012.

Currently, 38% of world cotton area is located in India, up from a share of 25% just a decade ago. It is also the case that India's area generally shows less responsiveness to market signals than acreage movements in other countries. Barring a significant change in policies, India appears poised to remain a significant cotton producer for the foreseeable future.

China

China offers both tremendous challenges and tremendous opportunities for the U.S. cotton industry. China remains a valued and significant customer of U.S. cotton. China's fiber policies have been one of the largest factors influencing cotton markets over the past five years. In addition, China's policy has been one that has undergone significant changes over those same years and appears to be a policy that is still evolving. For the 2011 through 2013 crops, China supported its cotton farmers by purchasing vast amounts of China's production into government reserves at a price well above the world market. With most domestic production locked in reserves, China imported annually between 14 and 24 million bales from the world market. Over the three year period, total imports from all sources was almost 59 million bales, with 14 million bales being U.S. cotton.

There were a number of significant outcomes resulting from China's policy of building reserves. First, purchasing the majority of the domestic crop at the support level essentially established a floor on internal cotton prices. By late 2011, China's cotton prices were well above international cotton prices and also well above polyester prices. China's mill use of cotton suffered as a result of uncompetitive prices. China's cotton area was generally stable between 12 and 14 million acres.

However, it became clear that continually building stocks was not a long-term solution. After three years of amassing more than 50 million bales of cotton in government reserves, China instituted a target price program for the 2014 crop at a level of roughly $1.45 per pound. The new target price program was applicable to the western province of Xinjiang, while the remaining cotton-producing provinces received a direct subsidy of $0.15 per pound. The target price program was continued for the 2015 crop, although the target price was reduced by 3.5% when measured in local currency. The announced target price equated to approximately $1.40 per pound based on exchange rates prevailing at planting time. In another change from the 2014 crop, no direct support was announced for the eastern provinces. As a result, cotton area in those provinces has sharply declined.

Under the target price program, cotton producers in Xinjiang are compensated for the difference between the target price and an established market price. The current program allows prices to be more reflective of market signals. However, the current situation still provides a challenging situation for the foreseeable future.

China continues to hold approximately 50 million bales in government reserves. Previous efforts to auction cotton from the reserves have yielded very modest success. In 2015, China offered as much as 8.5 million bales for auction, but were only successful in auctioning approximately 290 thousand bales.[4] Cotton made available during the auctions was from either 2011 or 2012 and offered at prices above current internal cotton prices. Given the lack of success in the auctions, China continues to hold significant reserves of cotton. This does not appear to be a situation that will correct itself for some time to come.

At various times during the year, China will announce additional cotton import quota above the WTO-required tariff rate quota (TRQ). The process for determination by Chinese authorities of additional quota is unknown and non-transparent. Furthermore, those imports are generally subject to a variable levy ranging from 5% to 40%, in order to maintain cotton prices in China significantly above international prices and protect prices paid to Chinese cotton growers. An additional problem is that importers must receive import licenses from the central authorities before entering into import contracts. Cotton can also be imported outside of the quota system. However, the importer is still required to acquire an import license and will be assessed a 40% tariff.

With ample supplies in reserves, China has responded by limiting import quota to the WTO-required TRQ of 4.1 million bales. As a result, cotton imports in the 2015 marketing year are expected to be lowest since 2002.

With China's cotton policies limiting demand, manmade fiber consumption has never been greater. Current mill use of manmade fiber is approaching 170 million bales, approximately 5 times the level of cotton mill use. Cotton demand in China continues to struggle with internal cotton prices in the upper 90 cent range, limited import quotas and polyester prices just below 50 cents per pound.

Pakistan

Pakistan, the fourth largest cotton producer, accounts for 9% of world cotton production. In order to provide support to cotton producers, Pakistan's government operates a minimum support price. In November 2014, the Trading Corporation of Pakistan, the government's trading arm, announced that it would purchase 1 million bales at the MSP in order to support prices received by producers.[5] According to industry sources, the 2015 MSP is expected to be set between 2,600 and 3,000 rupees per 40 kg of seed cotton. These values are estimated at the equivalent of between $0.65 and $0.78 per pound of cotton lint.

Brazil

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[4] U.S. Department of Agriculture. Foreign Agricultural Service. *China Cotton and Products Update: MY15/16 Cotton Imports Expected to Plummet.* GAIN Report Number CH15029.

[5] https://www.icac.org/Press-Release/2014/PR-27-Low-World-Cotton-Prices-Incite-Government-In?lang=fr-FR

As reported by the International Cotton Advisory Committee (ICAC)[6], cotton producers in Brazil receive support through a marketing program that is based on guaranteed prices. The program is called the Equalizer Price Paid to the Producer Program, or PEPRO. The premium under the program represents the difference between the minimum guarantee price and the price buyers are willing to pay. In 2014, the Brazilian government authorized purchases of 905 thousand tons, or almost 60% of the 2014/15 crop, under PEPRO.[7] Depending on exchange rates, the minimum guaranteed price ranges between $0.55 and $0.70 per pound.

Brazil also provides support to cotton production through production financing at subsidized interest rates. Credit subsidies to cotton producers in the form of subsidized interest are estimated at $75 million per year. At current acreage levels, that equates to approximately $30 per acre of cotton.

Turkey

In recent years, Turkey has been the second largest export customer for U.S. cotton. The textile industry in Turkey is a critical segment of the overall economy, providing jobs at textile mills and export revenue through trade in textile products. With the assistance of government support averaging approximately $0.25 per pound (as estimated by ICAC), Turkish cotton farmers produce only about half of the cotton required by the textile industry. In addition to a lack of quantity, Turkey's cotton production also fails to meet the quality specifications required for certain textile production. As a result, Turkey has been a reliable customer of U.S. cotton.

However, U.S. cotton farmers and merchandising firms are currently facing a challenging situation due to an investigation launched by the Turkish government. For the past year, Turkish authorities have been investigating U.S. cotton exporting companies to determine if U.S. cotton is being dumped into the Turkish market. According to international trade rules, dumping occurs when product is sold into a market at below costs of production or at a price below that being sold in other markets. An affirmative finding by Turkish officials would mean that an anti-dumping duty would be applied to U.S. cotton imports, while imports from other countries would remain duty free. Turkey has historically been the second largest export customer of U.S. cotton. A duty would undermine the competitiveness of U.S. cotton and directly impact prices received by U.S. cotton farmers. The uncertainty of the ongoing investigation is already dampening interest in U.S. cotton by Turkish mills, as current sales for this marketing year are just one-third of year-ago levels.

The Turkish government self-initiated the investigation shortly after the U.S. announced anti-dumping/countervailing duty (AD/CVD) investigations of Turkish steel pipe. The Minister of Economy was quoted in Turkish press as saying Turkey would launch three investigations for

[6] International Cotton Advisory Committee. *Production and Trade Policies Affecting the Cotton Industry*. November 2014. Washington DC.

[7] U.S. Department of Agriculture. Foreign Agricultural Service. *Brazil Cotton and Products Annual: Domestic Economic Factors to Affect Cotton Planted Area.* April 2015. GAIN Report Number BR0965.

every one the US aimed at Turkish products. The document produced to support the initiation of the investigation is largely redacted, so the information upon which the allegation of dumping is based is not available for parties to rebut. Many observers believe that Turkey seeks to damage the U.S. cotton industry by using the AD investigation not to benefit their domestic industry but out of retribution for the U.S. steel cases. This is just as much in contravention of the WTO as using trade barriers out of protectionist intent.

Comparing U.S. Support with Other Countries

U.S. cotton policy underwent fundamental changes in the 2014 Farm Bill in order to resolve the longstanding trade dispute with Brazil. Fixed support levels under the Counter-Cyclical Payment program and Direct Payment program were eliminated beginning with the 2014 crop. The marketing loan was retained but with modifications necessitated by the resolution of the dispute. As a result, upland cotton's only fixed support price is the marketing loan set at $0.52 per pound. However, even the marketing loan can adjust across years, moving as low as $0.45 per pound should the cotton market enter a sustained period of low prices.

Set well below the costs of production, the marketing loan provides only a basic safety net to producers as a source of cash flow shortly after harvest. The marketing loan is not set at a level that will induce a farmer to plant cotton. In the U.S., cotton farmers are making planting decisions based on market signals of cotton and competing crops.

With reduced support in the 2014 Farm Bill, U.S. cotton farmers are competing with cotton producers in other countries that are benefitting from higher support levels. Two recent reports illustrate the comparative support rates across selected cotton producing countries. In June 2015 testimony to the House Agriculture Committee, Dr. Darren Hudson with Texas Tech University noted that the marketing loan in the United States was below support prices in China, India, Pakistan, Brazil and Uzbekistan.[8]

In a November 2014 report[9], ICAC reported that average direct assistance to cotton production across all countries was $0.26 per pound. However, for the United States, ICAC estimated the average support at $0.07 per pound. Direct assistance to U.S. cotton producers was well below levels provided in other countries. It should be noted that the ICAC study was based on the 2013 crop year, which was the last year before the significant changes implemented by the new farm legislation.

The studies underscore the challenging conditions facing U.S. producers. Unfortunately, current proposals submitted within the World Trade Organization (WTO) would lead to a further imbalance in the situation.

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[8] http://agriculture.house.gov/uploadedfiles/hudson_testimony.pdf

[9] International Cotton Advisory Committee. *Production and Trade Policies Affecting the Cotton Industry*. November 2014. Washington DC.

Cotton's Concerns within the WTO

Notifications and Transparency

The WTO establishes a rules-based trading system that relies on timely and accurate notifications by each member and a transparent reporting process. This includes being responsive to questions and information requests from other WTO members and the WTO leadership. Unfortunately, there continues to be a lack of timely notifications from several major cotton producing and exporting countries. Specifically, neither China nor India have notified their domestic support for cotton (or other commodities) since 2010.

Cotton Dedicated Discussions

As a result of the Bali Ministerial decision on cotton in December 2013, biannual dedicated discussions are held regarding trade-related developments for cotton. The most recent meeting occurred on July 9, 2015. These discussions are seen as a way to help improve transparency and monitoring of WTO member notifications. It was recommended by Chairman Adank that the continuation of these dedicated discussions be considered as part of the outcome of the WTO's 10^{th} Ministerial Conference (MC-10) in Nairobi, Kenya.

At the most recent meeting, the WTO Secretariat provided a revised background paper with Members' responses to questions posed regarding cotton policy, however several Members noted that other Members need to either provide and/or improve their replies and to bring their notifications up to date to allow for a more extensive discussion in relation to domestic support. Chairman Adank also noted that the domestic support pillar of the WTO agriculture negotiations is the most difficult and it would be difficult to envision a specific outcome on cotton in that pillar until a broader outcome became clear.

WTO Ministerial in Nairobi

The drive to further alter U.S. cotton policy in the December 2015 10^{th} Ministerial Conference is flawed on several fronts: Neither the 2005 Hong Kong Mandate nor the 2013 Bali Declaration require further compromise on cotton; U.S. policy changes in recent years exceed any expectation for a "final solution"; and the current state of agriculture markets has rendered the "cotton problem" obsolete.

As Ambassador Michael Froman noted before the Senate Finance Committee this past January, a defensive posture regarding U.S. cotton support is outdated and justifies a shift in focus to other countries' status regarding their WTO obligations.

U.S. cotton policy has evolved dramatically since the Hong Kong Mandate and Bali Ministerial Declaration. As a result of a negotiated agreement between the U.S. and Brazil resolving the WTO dispute on certain agriculture subsidies and trade promotion programs, the Step 2 program was terminated in 2006, and the Direct and Counter-cyclical programs were terminated and the Marketing Loan program modified in the 2014 farm bill. The U.S. also implemented new rules for the GSM 102 program affecting fees and tenor, bringing the program into WTO compliance. Additionally, this past June, legislation was enacted and recently implemented extending the Generalized System of Preferences (GSP) benefits and eliminating import duties on cotton imports from LDCs for five additional tariff lines. This meets the U.S. commitment to provide complete duty free/quota free access on cotton to LDCs. All of these changes to U.S. cotton policy result in a significantly different U.S. cotton industry than that of 2005. U.S. cotton policy criticisms enshrined in the Hong Kong Mandate and Bali Declaration are outdated and no longer apply.

However, at a conference in Geneva, the International Centre for Trade and Sustainable Development (ICTSD) released a report alleging that cotton policies in the 2014 Farm Bill cause significant distortions in global cotton markets, leading to economic damage to cotton producers in other countries. The paper describes itself as an "impartial, evidence-based assessment" intended to provide a "fruitful contribution" to the ongoing debate on agricultural subsidies. However, a review of the analysis and assumptions suggests that the paper misses on both accounts and accomplishes nothing more than spreading misinformation.

In contrast to other economic studies regarding the 2014 Farm Bill, the paper asserts large cotton production and price impacts through manufactured and arbitrary adjustments to a mathematical model. In deriving the alleged effects, the authors are recycling arguments previously rejected by the original panel in the WTO dispute between the U.S. and Brazil.

In addition to standing in stark contrast to other studies, the ICTSD report:

- fails to accurately model current cotton policies;
- imposes crop insurance purchase decisions on the model that are not in line with historical experience; and
- inflates impacts by overestimating expected benefits from insurance.

Specifically, the report presents findings that are inconsistent with other economic studies; misrepresents the U.S. marketing loan program for cotton; exaggerates crop insurance usage by producers; inflates crop insurance benefits; and attempts to dismiss previous findings of the WTO panel in the Brazil case.

In summary, the ICTSD study is grossly misleading and misrepresents the structure and market impacts of U.S. cotton programs. Unfortunately, the report serves only to inflame rather than inform any discussion of cotton programs. It does not capture the realities of today's cotton market or global cotton policies. The reality is that current U.S. cotton policy represents a dramatic shift in the agriculture safety net, which serves to bring U.S. policy in line with WTO commitments.

The African, Caribbean and Pacific (ACP) Group of countries submitted a document to WTO negotiators on July 30, 2015, that proposed possible areas of agreement within the Doha Development Agenda. Among these proposals is a final solution on cotton per the 2005 Hong Kong Mandate. Most recently, on October 12th, the Cotton 4 (C-4) countries of Benin, Burkina Faso, Chad, and Mali circulated their draft decision for cotton in advance of the 10th Ministerial. The C-4 proposal calls for developed countries to provide duty free and quota free access for cotton from LDCs by January 1, 2016; to implement export competition obligations by January 1, 2016; and to reduce amber box domestic support by 50% in 2016 leading to a full elimination by 2018.

The National Cotton Council firmly opposes both of these proposals, as there is no basis for further agreements on cotton while the primary conditions agreed to in the Hong Kong Mandate and the Bail Ministerial Declaration of 2013 remain unmet. The Hong Kong Mandate states:
"Without prejudice to Members' current WTO rights and obligations, including those flowing from actions taken by the Dispute Settlement Body, we reaffirm our commitment to ensure having an explicit decision on cotton within the agriculture negotiations and through the Sub-Committee on Cotton ambitiously, expeditiously and specifically as follows:

- All forms of export subsidies for cotton will be eliminated by developed countries in 2006.
- On market access, developed countries will give duty and quota free access for cotton exports from least-developed countries (LDCs) **from the commencement of the implementation period.**
- Members agree that the objective is that, as an outcome for the negotiations, **trade distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable.** We commit ourselves to give priority in the negotiations to reach such an outcome."

According to this text, reduction of trade distorting subsidies is contingent on a "general formula (that) is agreed," and that it is implemented in less time "than generally applicable," both prerequisites that rely on a general agriculture agreement establishing such formula and implementation timeline. Market access commitments are also contingent on their being a known implementation period, which can only be established through a general agriculture agreement.

Under the Bali Declaration, countries continue to meet in effort to "enhance transparency and monitoring" of cotton trade policy. These meetings underscore the lack of transparency as countries continue to refuse to provide timely notifications of domestic support and a lack of transparency in the administration of tariff rate quotas (TRQs). There should be agreement regarding the content and timing of notifications, and effective enforcement mechanisms. This most basic requirement of providing notifications must be met by all countries before there can be further meaningful dialogue on cotton.

It is our understanding that the U.S. is seeking a limited agreement for the 10th Ministerial in Nairobi and then an agreed to path to move beyond the Doha declaration. We support such an approach and believe that the actions already taken to date by the U.S. with respect to cotton policy should be more than sufficient to allow the U.S. negotiators to resist any further calls for concessions on cotton. Those that are continuing to call for U.S. policy changes fail to recognize the actions and impacts of other major cotton producing countries. We stand ready to assist U.S. negotiators in any way possible to make this case within the WTO membership, as we also continue to inform U.S. policymakers of the significant industry concerns about any further concessions regarding U.S. cotton policy.

Our industry greatly appreciates the work of Ambassadors Froman, Punke and Vetter as they continue their efforts toward U.S. agriculture being able to compete in a fair global market. We especially thank Ambassador Punke for his efforts in Geneva to hold other countries accountable for their lack of notifications and transparency within the WTO.

I repeat our concern and steadfast opposition to any proposals considered in the lead up to or during the December Ministerial that further commits the U.S. to additional changes in cotton policy. I encourage this Committee and our negotiators to hold firmly to the position that agriculture markets have changed since 2005, and that the U.S. cotton industry has evolved in ways that far exceed the demands of the Hong Kong Mandate. A cotton specific "solution" in the WTO negotiations is no longer necessary.

Summary

In closing, I would again like to thank the Committee for providing an opportunity to offer views on the current economic situation and policies impacting the U.S. cotton market. Current economic conditions are characterized by lower prices, weak demand, a strong U.S. dollar, and competition from polyester priced at 50 cents per pound. U.S. growers have responded to the current market situation by reducing area by almost 20% in 2015.

To those groups that continue to criticize U.S. cotton support, our message is simple: U.S. programs are not having a detrimental impact on world markets or producers in other countries. Under the new farm law, U.S. cotton farmers are even more attuned to market conditions than under previous farm legislation. For the U.S. cotton industry to sustain production and infrastructure into the future, it is imperative that production and trade policies in other countries not put U.S. farmers at a disadvantage. It is also important to reiterate that the scope of policies affecting U.S. cotton farmers is not limited to direct cotton support, but also encompasses policies and support for manmade fibers.

Thank you, and I will be happy to answer any questions at the appropriate time.