

TESTIMONY
Presented to the Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management
U.S. House of Representatives
Commodity in Focus: Stress in Cotton Country
by
Cannon Michael
Los Banos, California
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Introduction

Thank you, Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee for the opportunity to testify today regarding the current condition of the U.S. cotton industry, the significant challenges cotton producers face, and what policy changes are needed to address this worsening situation. My name is Cannon Michael and I farm in Los Banos, California.

Farm and Background

I manage the Bowles family farming operation. I am the 6th generation of my family to be involved with California agriculture. My great-great-great grandfather came over from Germany as a young man and was able to start a cattle business on some of the same land that we now farm today. Starting at age 13, I began to work on the farm during the summer months. I learned about efficient irrigation practices, operation of farm equipment and gained experience with many aspects of managing an integrated farming operation in California's San Joaquin Valley. I met my wife in Los Banos in 1999 and we now have three sons. I live on the farm with my family and cannot imagine a better environment to raise my children. We farm in an area that has a very historic water right, but that has not spared us from the impacts of the ongoing drought.

I'm a farmer and I'm here to talk about what I know best: farming, and farmers and ranchers in California and elsewhere in the West have been hit hard by the drought.

Acreage and Infrastructure Impacts

The acreage planted to cotton in the West region, which includes Arizona, California, and New Mexico, for 2015 is 318,000 acres. This includes 167,000 acres of upland cotton and 151,000 acres of Extra Long Staple (ELS) cotton in the three-state region. A decline of this magnitude is having severe consequences for the entire cotton industry in the region, from producers, gins, warehouses, marketing cooperatives, merchants, and cottonseed processors and merchandisers. The West region has the highest per acre yields of any area of the Cotton Belt and produces some of the highest quality cotton due to our unique climate. Yet, we also have the highest production costs of anywhere in the Cotton Belt, largely due to the heavy regulatory burden placed on agriculture in California, particularly.

Policy Needs

Given the current economic situation facing the U.S. cotton industry, it is imperative that some action be taken to help stabilize the escalation of acreage declines and infrastructure loss in our region. While there are other cropping options in many parts of the Cotton Belt, there is significant importance and value in maintaining crop diversity that includes cotton. The increased production of perennial tree crops in our area has picked up some of the acres previously devoted to cotton. However, each year, we are seeing more and more acres that are fallowed as a result of the worsening water crisis in California. I will address this issue in more detail later in the testimony.

To address the current crisis, the National Cotton Council and all of the U.S. cotton industry is seeking the designation of cottonseed as an 'other oilseed' for purposes of the ARC/PLC programs in the 2014 Farm Bill. As you know, the farm bill gives the Secretary of Agriculture the authority to designate oilseed crops for such purposes, and this can be accomplished without reopening the farm bill. We are seeking this designation for all cottonseed, whether produced from upland or Extra Long Staple (ELS) cotton, since there is no distinction in the seed produced from both types.

Extra Long Staple Cotton Policy

The 2014 Farm Bill continued the Extra Long Staple (ELS), or "Pima" cotton loan program as well as a competitiveness 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 and not program benefits.

According to the farm bill, the ELS Competitiveness Payment Program (CPP) is intended to:

- Maintain and expand the domestic use of ELS cotton produced in the U.S.;
- Increase exports of ELS cotton produced in the U.S.; and
- Ensure that ELS cotton produced in the U.S. remains competitive in world markets.

While this program has proven to be an effective and efficient tool to address global competitiveness issues for ELS cotton since its implementation in 1999, there is a relatively recent development that is hampering the proper operation of the program. In December 2014, USDA FSA announced, without any notice to the industry, that it would be withdrawing one of the foreign growths of cotton used in the program – Egyptian Giza 86 price quote. FSA indicated this action was taken due to a decrease in the quality characteristics for the 2014 crop of Giza 86 compared to previous crop years. The removal of this key quote significantly impacts the operation and effectiveness of the program as the other foreign price quotes currently used in the program have relatively small amounts of production. The U.S. industry is concerned that the current foreign price quotes being utilized do not adequately allow for the appropriate determination of potential CPP payments. We strongly urge that USDA reinstate the use of the Giza 86 quote for use in the program this marketing year.

In addition, there is a separate issue with regard to ELS cotton production in China. China has been the largest market for U.S. ELS cotton for a number of years, yet in 2014, China introduced a domestic subsidy for Chinese ELS cotton. This has led to a significant increase in ELS cotton

acreage in China. For this reason, we believe USDA should also add the Chinese ELS 137 cotton price quote as one of the competitive growths for the CPP. This price quote is currently available and should be added to the CPP to ensure the program serves the intended function of helping to ensure a competitive market for U.S. ELS cotton production. We ask this Subcommittee to please engage USDA to help ensure these necessary changes are made and are effective for the current marketing year.

Policy Costs

Western Water Policy and Drought

Water connects us all – farms, cities and the environment – and while drought presents unique problems for each sector, our solutions should be interconnected and mutually beneficial – not divisive. That requires a willingness of all parties, including federal agencies, to be creative and flexible. That is happening in some places. In other places, it's not. The most helpful thing that Congress can do for drought-stricken states is to encourage, demand and mandate, where necessary, creativity and flexibility on the part of federal water management and regulatory agencies.

In 2014 our family fallowed more than 15% of our farm. This year, we have a quarter of the farm abandoned or fallowed. When one hears that land is "fallowed" it might only seem that the impact is to the farmer, but that is definitely not the case. Every acre of farmed land generates jobs, economic activity and products. That is why the drought is so devastating to the rural agricultural communities of the Central Valley.

If I leave an acre fallow, my workers have less work and I use my tractors less. If I use my tractor less, I buy less fuel, lubricants and parts and tires, which means the local businesses that supply these things sell less and their companies suffer. When I don't purchase inputs for the land (fertilizer, seeds, amendments, etc.), the local companies that sell these items suffer reduced sales and the truck drivers who deliver these items have less work. With fewer trucks running fewer routes, fuel and parts purchases are reduced.

This is a very scary time for me and my family, since substantial investments are being made, primarily with the intent of converting more of our operation to drip irrigation, which we hope will stretch limited water supplies. Those investments will be for naught if the current drought / regulatory paradigm persists into the future and there is no water to conserve.

Five years ago, reservoirs in California were brim full of water. Since then, much of that stored water – which had previously supplied Central Valley farms for decades – has been allowed to flow out the Golden Gate by federal fisheries agencies, with no apparent benefit for the fish species it is intended to protect.

The key challenges Western irrigators face in times of drought include competition for scarce water supplies, insufficient water infrastructure, growing populations, endangered species, increasing weather variability/climate change, and energy development.

Water Infrastructure Improvements

Also, new tools to assist in financing major improvements to aging water infrastructure will be needed in the coming years to ensure that farmers and ranchers charged for these upgrades can afford repayment. Water infrastructure is a long-term investment, as are farms and ranches, and

long repayment and low interest terms will be crucial in reinvesting in aging facilities to meet the challenges of tomorrow. Such improvements could include investments in everything from new water storage reservoirs (both on- and off-stream), regulating reservoirs, canal lining, computerized water management and delivery systems, real-time monitoring of ecosystem functions and river flows for both fish and people, and watershed-based integrated regional water management. With the advent of the Water Infrastructure Finance and Innovation Act (WIFIA) in the WRRDA 2014, the Alliance believes a similar affordable loan program could be instituted at Reclamation to assist in providing capital for such investments. Also, more flexibility may be needed to allow for private investments at Reclamation facilities in order to attract additional capital to meet future water supply needs.

Western irrigators need flexible, streamlined policies and new affordable financing tools that provide balance and certainty to support collaborative efforts and manage future water infrastructure challenges. Solutions in all of these areas will be crucial to future enhanced agricultural production, conservation and community outcomes in the West.

Growing concerns about the delays and costs associated with the proposed Sites off-stream reservoir project in the Sacramento Valley of California, as well as the need for a local voice, led to the formation, in August of 2010, of the Sites Project Joint Powers Authority (Sites JPA). The Sites JPA, which includes Sacramento Valley counties and water districts, was formed with the stated purpose of establishing a public entity to design, acquire, manage and operate Sites Reservoir and related facilities to improve the operation of the state's water system.

The project would also provide improvements in ecosystem and water quality conditions in the Sacramento River system and in the Bay-Delta, as well as provide flood control and other benefits to a large area of the State of California. The formation of local JPA's was included as a key provision in the 2009 California Water Package Water Bond legislation for the purposes of pursuing storage projects that could be eligible for up to 50% of project funding for public benefits.

As the Sites JPA began working with the Bureau of Reclamation and California Department of Water Resources, the JPA took a common-sense approach. The JPA worked with Reclamation and DWR to put together *Foundational Formulation Principles*. In other words, first identifying the needs of the water operations system and then designing the project that would meet those needs. Local project proponents envisioned a project that would be integrated with the system they already had, and one that would also operate effectively regardless of future operational changes to the larger system, such as construction of new conveyance to export water users located south of the Delta. The JPA wanted to maximize the benefits associated with existing infrastructure and provide as much benefit as possible to both the existing state and federal water projects at the lowest feasible cost.

The JPA approached the Sites project with the goal of making the best possible use of limited resources, and in the end, local irrigators believe they have identified a project that is both affordable and will provide significant benefits. The proposed project maximizes ecosystem benefits consistent with the State water bond, which states that at least 50 % of the public benefit objectives must be ecosystem improvements. Other benefits include water supply reliability,

water quality improvements, flexible hydropower generation, more recreation benefits and increased flood damage reduction. In short, the JPA approached the Sites project with the goal of generating water for the environment while improving statewide water reliability and regional sustainability in Northern California. They believe they have achieved that goal.

Environmental Regulatory Costs

Endangered Species Act

We need a new way of looking at how we manage our limited water resources, one that includes a broader view of how water is used, along with consideration of population growth, food production and habitat needs. The goal should be to integrate food production and conservation practices into water management decision making and water use priorities, creating a more holistic view of water management for multiple uses. We must begin to plan now in order to hold intact current options. Planning must allow for flexibility and consider all needs, not just focus on meeting future needs from population growth.

In many parts of the West, litigation stemming from citizen suit provisions of environmental laws including the Endangered Species Act (ESA) and Clean Water Act (CWA) is producing federal court decisions (or court approved "settlements") that direct federal agency "management" of state water resources.

Congress should recognize that this type of litigation and resulting settlements can actually harm the overall health and resilience of landscapes and watersheds by focusing on single species management under the federal Endangered Species Act (ESA). We should seek solutions that reflect a philosophy that the best decisions on water issues take place at the state and local level. Finding ways to incentivize landowners to make the ESA work is far more preferable than what we have been seeing in recent years, where the ESA has been used by special interest environmental groups and federal agencies in court as a means of "protecting" only a single species (such as the Sacramento-San Joaquin River Delta smelt in California) without regard for other impacts, including those on other non-listed species.

Litigation and the manner in which certain federal agencies administer the ESA are very much driving water management decisions these days, at least in the West. And adversarial, single-purpose approach is not helping the agencies recover very many species. Recent research into litigation associated with federal environmental laws is beginning to uncover some unsettling facts: the federal government appears to be spending about as much money funding plaintiffs' environmental lawyers as it does to directly protect endangered species. Certain tax exempt, non-profit organizations have been consistently awarded attorney fees from the federal government, for suing the federal government. These same environmental groups are receiving millions of tax dollars in attorney fees for settling or "winning" cases against the federal government.

We must manage water to meet all needs but in a manner that "shares the pain," not creates winners and losers, especially when the losers are the very beneficiaries the federal water projects were originally built to serve. The past federal management of water in California's Bay-Delta, which has redirected under the ESA millions of acre feet of water away from human uses and towards the perceived needs of the environment, with no documented benefit to the

ESA listed fish intended for protection, is a prime example. Meanwhile, California water and power customers have suffered enormous, unmitigated losses due to this "management by perception" approach.

To Central Valley Project agricultural water contractors, the loss of 123,000 acre-feet of Trinity River water that could have been diverted to the CVP for drought relief in today's water market equates to nearly a \$250,000,000 replacement value. And this calculation doesn't account for the other known socio-economic impacts resulting from fallowed acreage, lost production, lost sales, lost employment, and increased need for social services throughout the San Joaquin Valley's communities, many of which are considered disadvantaged under federal and state laws.

Good water management requires flexibility, as well as adaptive management. More regulation usually reduces this flexibility. Federal agencies managing the competing demands for water in the West have in some cases failed in creating opportunities for more flexible water management during times of drought.

The original intent of the ESA - stated in the Act itself - was to encourage "the states and other interested parties, through federal financial assistance and a system of incentives, to develop and maintain conservation programs which meet national and international standards." Of special importance to the Family Farm Alliance is that the ESA explicitly declared that it was the policy of Congress that "federal agencies shall cooperate with state and local agencies to resolve water resource issues in concert with conservation of endangered species."

The authors of the ESA clearly believed in applying the ESA in a way that would foster collaboration and efficiency of program delivery, in an incentive-driven manner. Unfortunately, implementation of the ESA has "progressed" in recent years toward an approach that is now driven by litigation and sometimes the inappropriate, inconsistent and incorrect interpretation of the law by federal agencies. As far as the Act itself is concerned, little to no progress has occurred to keep this 40-year-old law in step with the modern era. The ESA has not been substantially updated since 1988.

The ESA is an outdated law that is clearly not working as it was originally intended. It needs to be more about incentives and collaboration and less about litigation and regulation. Fewer than 2% of the species ever listed under the Act have been recovered and removed from the list, and the failures under the law far outstrip the successes. Meanwhile, the economic and sociologic impacts of the ESA have been dramatic. From the Alliance's standpoint, the law has really only inflicted harm and generated litigation that uses the Act as a weapon against our members' ability to use our natural resources for farming and ranching, while doing little to help the environment or the very species it was designed to protect.

More surface and groundwater storage is still a critical piece of the solution to water shortfalls. Congress should streamline regulatory hurdles to assist in developing new environmentally sensitive water storage projects and other necessary water infrastructure improvements. Congress should work to facilitate the construction of new surface storage facilities, providing a more effective process to move water storage projects forward.

New Federal Ozone Air Quality Standards

The EPA has recently adopted yet another, more restrictive, and unrealistic, ozone standard for California. The new standard is 70 parts per billion (ppb) which will be extremely overwhelming for California agriculture. Specifically, the San Joaquin Valley has not yet been able to meet the previous three ozone standards by EPA. In fact, the plans to meet these earlier standards haven't even been written, yet EPA is moving forward with a new, stricter standard.

As you know, California already has some of the strongest air regulations in the country, and much of the world. These standards are resulting in severe economic consequences for agriculture in the state due to requirements such as:

- Mandatory replacement of all trucks used in agriculture
- Mandatory replacement of all irrigation pump engines
- Mandatory replacement of all tractors and harvesters
- Rule for the control of on-farm dust
- Reduction of pesticide VOCs

This is all being done in an area that already has background levels of ozone at 60 ppb. Yet, EPA has stated "For California's nonattainment areas to meet the updated ozone standards, the state and EPA have recognized that transformational change is likely needed, such as transition to largely zero or near-zero emission vehicle technologies, and a significant turnover of the legacy fleet of vehicles, among other changes."

To be able to even come close to meeting the new EPA standards for ozone, it would require converting all equipment to electric, yet the technology to do so does not exist today. As a result, failure to meet the new standards will lead to penalties that all businesses, including agriculture, must pay. These are costs and penalties that are unnecessary and lead to an uncompetitive business environment, yet California already has the cleanest, lowest emission equipment in the world, and the toughest regulations to go along with it.

Conclusion

I would like to thank the members of this Subcommittee for the opportunity to discuss some of the extreme challenges facing the U.S. cotton industry, and particularly the excessive regulatory burdens on California producers. With today's market prices, the added costs of regulatory compliance and added production costs are making a bad situation much worse. There must be some relief provided, both to provide some economic stability and to relieve some of the stifling regulatory regime. Thank you again for this opportunity and I will be glad to respond to any questions at the appropriate time.

Delta Flows 2/1/14 to 11/29/15

Total Inflows to Delta = 14,782,000 AF

Sacramento

River + Tributaries
@ Freeport

12,977,600 AF Sacramento

Yolo Bypass
& Misc
279,500 AF

Sac Regional
Treatment Plant
265,200 AF

East Side Streams
384,700 AF

Stockton

San Joaquin River
@ Vernalis
905,000 AF

Net Outflow Index*

9,122,300 AF

61.7% of Inflow

Net In-Delta

Consumption

2,217,600 AF

Tracy

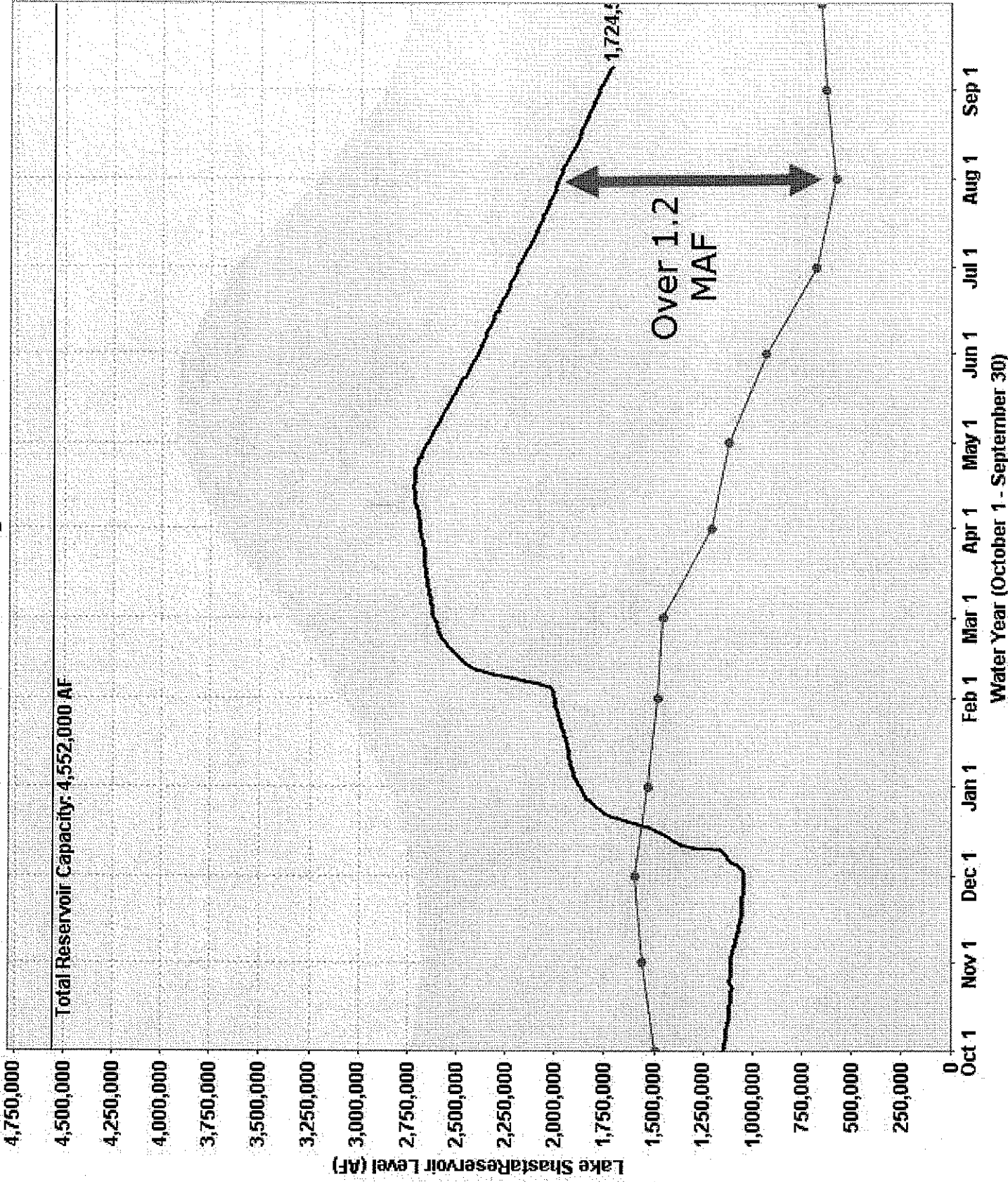
* Note that the Net Delta Outflow Index is a calculated number to account for all flows. See <http://www.water.ca.gov/bayflow/info/vs/index/> for more information. North Bay Aqueduct and Contra Costa Canal use not shown here. SWP Pumping is approximated by intakes to Clifton Court Forebay.

SWP Banks Pumps = 1,784,900 AF

CVP Jones Pumps = 1,467,300 AF

To OCEAN

Lake Shasta Storage Levels



Historical Average — Total Reservoir Capacity • 1976-1977 (dry) — 2014-2015 (current)