

2011 National Cotton Council Report to Members

This Report to Members highlights major NCC action in 2010.



NCC Chairman Eddie Smith stressed the need for stable farm policy during a House Subcommittee on General Farm Commodities and Risk Management hearing to review U.S. farm safety net programs in advance of the 2012 farm bill.

Joint Message from the Chairman and the President

Communication with lawmakers and Administration officials, whether through meetings, letters or via the news media, was a heightened priority in 2010 as the U.S. cotton industry faced legislative and regulatory threats to its global competitiveness.

For example, accompanied by National Cotton Council (NCC) Senior Vice President of Washington Operations John Maguire, we met with Congressional leaders and Administration officials to discuss key issues, including the World Trade Organization (WTO) dispute with Brazil and the upcoming 2012 farm bill development. Later, the NCC issued a press statement saying President Obama's FY11 USDA budget ignored the extensive changes to production

agriculture support that were embodied in the 2008 farm law and that the Administration's proposal to eliminate the upland cotton storage credits was a failure to discern critical differences between commodities.

Responding to misinformation in the popular press also was necessary. We sent letters to the editor in response to errors contained in *Wall Street Journal* and *Washington Post* editorials about the U.S.-Brazil WTO case. Likewise, we issued a response to a negative *Congressional Quarterly* cover story on U.S. cotton policy and the U.S. cotton industry.

Despite these challenges, there were some bright spots in 2010.

Overall NCC resources were boosted through our members' record-level contributions to the industry's political action committee, the Committee for the Advancement of Cotton (CAC). This enabled the NCC to support those Congressional Members who share our priorities and to work with new Members on issues of concern.

Another positive was the Administration's announcement of a negotiated settlement in the WTO/Brazil cotton case – one that avoids the immediately harmful economic effects of trade retaliation and puts the serious discussion concerning U.S. cotton program changes before Congress in the 2012 farm bill. Even though a minimal impact will be felt near term by our industry, the longer-term implications are more serious with the potential of having to make significant cotton program changes.

On an unprecedented note, Agriculture Secretary Tom Vilsack and EPA Administrator Lisa Jackson met with the NCC and the chairmen of five other commodity groups at EPA headquarters to discuss key regulatory issues that could affect agriculture, including the contentious *NCC vs. EPA* case regarding the permitting of pesticide applications over U.S. waters. The Supreme Court's failure to review the case created an uncertain regulatory future for the application of agricultural crop inputs. However, Secretary Vilsack responded favorably to our request for future meetings to talk about such issues and suggested these be discussed in working groups established with commodity group representatives, USDA and EPA.

Perhaps one of the most encouraging developments was that global demand for cotton and cotton products experienced an upturn, along with a need to refill fiber and textile pipelines worldwide. It's a fact: the world needs more cotton fiber – particularly in rapidly developing economies like China and India – and the NCC's overseas promotion arm, Cotton Council International (CCI), is committed to capitalizing on that opportunity.

The Cotton Foundation continued its important role in industry members' quest for profitability. The Foundation's agribusiness members contributed dues of \$278,800 in support of 20 general research and education projects during the Foundation's 2010-11 year.

With the support provided to both CCI and to the Foundation, coupled with the insight of visionary leaders and a dedicated staff, we are optimistic that a prosperous decade for the U.S. cotton industry lies ahead. Nevertheless, increased financial support for the NCC and more involvement by industry members will remain top priorities..



Eddie Smith
Chairman (2010)



Mark Lange
President/Chief
Executive Officer

Legislative Affairs

Major activities carried out during 2010.

Farm Legislation

The National Cotton Council and virtually every commodity and general farm organization filed detailed comments on an Interim Rule that USDA issued regarding actively-engaged-in-farming. The modified rule would affect the 2010 crop. Later, a group of 69 House members and 21 Senators cosigned a letter to the Secretary urging him to publish a final rule that more closely reflected the provisions in the Food, Conservation, and Energy Act of 2008 (farm law) and Congress' intent.

The NCC issued a press statement saying President Obama's FY11 USDA budget ignored the extensive changes to production agriculture support that were embodied in the 2008 farm law. The NCC noted that USDA already had announced unwarranted restrictions in program eligibility during that legislation's implementation. The NCC emphasized that the Administration's proposal to eliminate the upland cotton storage credits was a failure to discern critical differences between commodities, and said it was puzzled by the proposed reduction in Market Access Program funding, especially in light of the Administration's new emphasis on exports.

In a letter to Agriculture Secretary Tom Vilsack, NCC Chairman Eddie Smith stressed the importance of preserving the agricultural baseline budget that ultimately will serve as the measuring stick for the 2012 farm bill. The letter noted that the farm bill will be developed amidst an even tighter budget situation than the current farm law and stated that if any program changes are necessary, USDA should structure those adjustments in a manner that did not lead the Congressional Budget Office to reduce the overall baseline.



NCC Chairman Eddie Smith, left, discussed the 2012 farm bill and other key issues with Rep. Randy Neugebauer (R-TX) and other Congressional leaders.

Chairman Smith, joined by NCC President/CEO Mark Lange and NCC Senior Vice President of Washington Operations John Maguire, also met with key Congressional leaders and Administration officials to discuss key issues, including the 2012 farm bill. In visits with the Texas Congressional delegation, Smith thanked the Members for their support and stressed the need for maintaining a strong farm safety net.

The Senate Committee on Agriculture, Nutrition, and Forestry conducted hearings on reauthorization of the Food, Conservation and Energy Act of 2008. Johnny Cochran, a fourth generation Georgia cotton and peanut producer, and Dow Brantley, an Arkansas rice, cotton, corn and soybean producer, testified that the legislation provided a sound and stable farm policy foundation that is essential for farming operations.

In addition, the House Subcommittee on General Farm Commodities and Risk Management conducted hearings to review U.S. farm safety net programs in advance of the 2012 farm bill. In testimony before one of those House hearings, Chairman Smith stressed that stable farm policy was essential for the U.S. cotton industry and that sound farm policy should provide an effective financial safety net for producers while abiding by U.S. trade policy commitments. He noted that the NCC continues to support the 2008 farm law's cotton program components: the marketing loan and direct and counter-cyclical payments. At another hearing, Allen McLaurin, a North Carolina producer and president of Southern Cotton Growers, echoed the cotton industry's general consensus in support of the 2008 farm law's cotton provisions. He stated that 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.



Arkansas cotton producer, Dow Brantley, far right, and Georgia cotton producer, Johnny Cochran, second from right, testified before the Senate agriculture committee that the 2008 farm law provided a sound and stable farm policy foundation that is essential for farming operations.

In other farm program activity, the NCC:

- Posted on its website a copy of Notice FI-2950 regarding the Farm Service Agency's (FSA) inclusion of an insert in the 2009 tax year CCC-1099-G to recommend recipients make certain all payments are listed correctly on that form. The NCC also prepared and posted a document that provided some background concerning changes from the 2008

form to the 2009 form;

- Joined with other agricultural organizations onto a letter to Agriculture Secretary Vilsack expressing concerns about proposed cuts of \$4 billion over five years to federal crop insurance – cuts that could affect the program's availability;
- Supported Senate and House leaders, who also sent letters to USDA urging the Risk Management Agency not to make deep cuts in crop insurance during renegotiation of the Standard Reinsurance Agreement with crop insurance providers;
- Sent a letter to Agriculture Secretary Vilsack recommending that USDA make the determination of the advance counter-cyclical payment (CCP) for 2009 upland cotton on February 26 after the release of the *Agricultural Prices* report – and if price data warranted a payment that timely distribution in early March was made to eligible growers;
- Convened by conference call its Quality Task Force, chaired by Chuck Coley, to 1) hear reports on planned changes in spot price reporting and the possible implications of these changes on the Commodity Credit Corporation loan schedule and 2) agreed to coordinate industry consensus on the proposed loan schedule changes;
- Wrote to both the Senate and House Agriculture Appropriations subcommittees, noting support for: 1) adequate funding for FSA to continue to deliver essential farm and conservation programs and services and 2) FSA's efforts to modernize its computer system;

- Joined with other agricultural organizations on issuing a letter to Senator Herbert Kohl (D-WI) to express support for legislation that would protect eligibility for farmer borrowers participating in FSA guaranteed farm loan programs; and
- Developed and posted on its website a Conservation Stewardship Program summary that included changes in the final rule.

Legislative Affairs

In letters to the chairmen and ranking members of the Senate and House Appropriations Committee's subcommittees on Agriculture, Rural Development, Food and Drug Administration and Related Agencies, the NCC relayed the cotton industry's request for FY11 funding for selected programs under those panels' jurisdiction.

In addition to expressing strong support for the 2008 farm law and solid opposition to efforts to re-open it in order to further restrict farm program benefits, the NCC letter cited the essential need for successful completion of the boll weevil eradication program, full implementation of the pink bollworm eradication effort, new technology developed through research, and demand building export programs including the Market Access Program, the Foreign Market Development program and GSM credit.

The NCC, along with other agricultural organizations, wrote to Senate Majority Leader Harry Reid (D-NV) and Republican Leader Mitch McConnell (R-KY) expressing support for permanently raising the estate tax exemption to no less than \$5 million per person and reducing the top rate to no more than 35 percent. The letter also noted the importance for the exemption to be indexed to inflation, provide for spousal transfers and include the stepped-up basis. Late in the year, the NCC joined nine other agricultural organizations in a Washington, DC, press conference urging Congress



At a Washington, DC, news briefing, Taylor Slade, a North Carolina cotton producer and NCC delegate, said that if estate taxes were allowed to be reinstated at the beginning of 2011 with only a \$1 million exemption and top rate of 55 percent, U.S. agriculture would be severely harmed.

to act on estate tax reform during the lame-duck session. Taylor Slade, a North Carolina cotton/peanut producer and NCC delegate, told the media that if estate taxes were allowed to be reinstated at the beginning of 2011 with only a \$1 million exemption and top rate of 55 percent, U.S. agriculture would be severely harmed.

Market Volatility

The NCC issued a statement welcoming the Commodity Futures Trading Commission's (CFTC) release of their findings from their investigation into the abnormal price fluctuations which occurred in the cotton market in February and March of 2008. The NCC also reiterated the U.S. cotton industry's continuing concerns about the ability of the futures market to serve as an effective tool for hedging physical cotton. The NCC emphasized that no regulatory change had been promulgated that would prevent a recurrence of the early 2008 events and that absent legislative progress – the CFTC should use their regulatory authority to initiate much-needed changes.

In other activities, the NCC:

- Commended Rep. Marion Berry (D-AR) for his distinguished public service first as a senior USDA official and later during his seven terms as the Representative for Arkansas' 1st District;
- Joined 25 state and national farm, livestock and commodity organizations in urging Congressional repeal of a proposed IRS Form 1099 reporting requirement that would have placed burdensome requirements on producers beginning in 2012; and
- Sought deliverance of comprehensive assistance for 2009 weather-related crop losses, specifically urging USDA to find the means to expand a special program to producers in all areas suffering 2009 weather-related losses.

Trade

Major activities carried out during 2010.

Early in 2010, the National Cotton Council joined a broad coalition of food and agriculture organizations in a communication urging Senate leaders to act promptly on the nominations of Isi Siddiqui to be chief agricultural negotiator at the U.S. Trade Representative's office and Michael Punke to be deputy USTR based in Geneva. The letter cited the exceptional qualifications of both candidates, who were approved by the Senate Finance Committee. The letter also pointed out that there were a number of critical trade disputes and negotiations requiring immediate attention and that a complete USTR team needed to be in place.

A Presidential Memorandum affected future participation by some NCC staff in several agricultural advisory committees, including the Agricultural Policy Advisory Committee for Trade (APAC) and six Agricultural Technical Advisory Committees for Trade (ATAC). To be considered for advisory committee membership, the memorandum stipulated that nominees had to submit an affirmative statement that the applicant was not a federally registered lobbyist. Previously, key staff members of commodity organizations, including the NCC, served on these panels.

World Trade Organization

Late in the year, key World Trade Organization (WTO) members agreed to seek agreement on a Doha Round package covering all major sectors during 2011. Representatives from the United States, the European Union, China, India and Brazil agreed to launch intensified negotiations in early 2011.

Regarding the WTO Brazil-U.S. trade dispute, Brazil published a list of 102 products that were to be subjected to increased tariffs as a result of the ongoing dispute concerning certain provisions of the U.S. cotton program and the export credit guarantee program. The U.S. cotton program's share of the retaliation awarded to Brazil by the WTO was relatively small and fixed at \$147 million. The remaining damages of \$682 million were associated with the export credit guarantee program and determined annually using a formula developed by the arbitration Panel. In response to Brazil's announcement, the NCC stated that Brazil's latest actions were imposing unwarranted harm on Brazilian and American interests in times of economic hardship for all. The NCC also stated that it is unfortunate that Brazil was taking retaliatory steps even though world cotton prices in early 2010 were more than 50 percent higher than 2005, the year that was the basis for the original Panel ruling.

After Brazil published a list of 21 items under consideration for cross-retaliation in the ongoing dispute, NCC staff continued discussions with the U.S. Trade Representative, USDA and key Congressional offices. A negotiated Framework Agreement was hailed by NCC Chairman Eddie Smith as "a positive development" in the long WTO case. "The two critical aspects of the agreement are that it avoids the immediately harmful economic effects of trade retaliation and it puts the serious discussion concerning changes in the U.S. cotton program before Congress in the 2012 farm bill, which is where that discussion belongs," Smith said in the NCC response. Then, the NCC signaled its support of progress in the ongoing efforts to resolve the trade dispute with Brazil after U.S. officials announced the signing of a Memorandum of Understanding between the two governments.



NCC Vice Chairman Charles Parker, far left, led a U.S. cotton industry delegation on a nine-day tour of China's cotton and textile industries.

In June, Chairman Smith said in a statement that the U.S. cotton industry would work with Congress and the Administration on the 2012 farm bill in order to develop cotton policy that will

continue to provide the safety net needed by U.S. farmers while helping assure trading partners that U.S. cotton programs do not cause unfair trade distortions in the world cotton market. That promise came following the United States' and Brazilian officials' announcement that the two countries concluded a Framework Agreement with respect to the WTO dispute involving the export credit guarantee programs and certain provisions of the upland cotton program. Chairman Smith, along with NCC President Mark Lange and Senior Vice President John Maguire, also were briefed by high level Administration officials and given additional details and background regarding that Framework Agreement.

The Export Credit Working Group, comprised of agricultural trade associations, including the NCC, heard an update from the Administration on the long-running trade dispute that includes the export credit guarantee programs, in addition to certain upland cotton program provisions.

China

NCC Vice Chairman Charles Parker led a U.S. cotton industry delegation on a nine-day tour of China's cotton and textile industries. Also participating were producers Shawn Holladay, Lubbock, TX; Richard Kelley, Burlison, TN; and David Dunlow, Roanoke Rapids, NC; ginner Kirk Gilkey, Corcoran, CA; cooperative official Michael Quinn, Garner, NC, and Harrison Ashley, the NCC's vice president of Ginner Services. The delegation was the fourth to visit China since the establishment of the U.S.-China Cotton Leadership Exchange Program by the NCC and the China Cotton Association.



NCC Vice President Andy Warlick, a North Carolina manufacturer, emphasized the importance of enhanced U.S. trade law enforcement at a press briefing announcing the Textile Enforcement and Security Act of 2010.

In other trade activities, the NCC:

- Emphasized to Congressional leaders the importance of enhanced US trade law enforcement -
- through NCC Vice President Andy Warlick's statement at a press conference announcing the Textile Enforcement and Security Act of 2010;
- Joined the National Council of Textile Organizations (NCTO) in working with relevant agencies and Congressional Members to promote programs that could be utilized by U.S. spinners to facilitate their export business -- including urging

EX-IM and the Small Business Administration to make modifications in their credit guarantee programs so they can be better utilized by the textile industry;

- Coordinated with other organizations representing US textile manufacturers, fiber suppliers and employees on a letter to Secretary of State Hillary Clinton and USTR Ambassador Ron Kirk conveying strong opposition to a proposal to expand Reconstruction Opportunity Zones in Pakistan and Afghanistan – a move that would cause irreparable damage to the U.S. textile industry and result in significant job losses;
- Participated with representatives of NCTO, the American Cotton Shippers Association and AMCOT in meetings with Administration officials to raise concerns regarding India's ongoing restrictions on cotton exports – a move that had added to the volatility and uncertainty in the world cotton market.

Communications

Major activities carried out during 2010.

Public Attitudes

The National Cotton Council sent letters to the editor in response to the misinformation contained in *Wall Street Journal (WSJ)* and *Washington Post* editorials about the U.S.-Brazil WTO case. The NCC stated that the *WSJ* was “quick to focus on 2009 government payments without clarifying that the payments were elevated because of low prices stemming from the global recession. It said the *WSJ* editorial failed to note that the World Trade Organization found no fault with a significant portion of the payments made to U.S. cotton. That letter was drafted from a more detailed response document the NCC prepared and sent to its leadership. The letter to the *Post* noted that newspaper's crusade against the cotton industry, and that the editors were “quick with inflammatory adjectives but short on facts when it comes to agricultural policy and trade disputes.”



NCC and Cotton Incorporated staff provided a progress report on the Vision 21 project's 2010 activities to news media during the 2011 Beltwide Cotton Conferences.

The NCC also issued a response, available at www.cotton.org, to a *Congressional Quarterly* cover story on U.S. cotton policy and the U.S. cotton industry. The response noted that the story was steeped in error, surprising bias and fallacy, and that the author used every tried and true tactic to distort the picture -- from sentence structure to carefully missing facts. The NCC's response emphasized that when Congress, the Administration and the United

States cotton industry begin to consider new farm policy in the light of the next farm bill, "we are confident that debate will not lose sight of the importance of agriculture to America and the importance of cotton to agriculture in the United States."

In another initiative, the NCC coordinated media coverage on the need for comprehensive disaster relief for producers who suffered from 2009 and earlier weather events. That included working with the agricultural writers and broadcasters and the distribution of localized news releases. The NCC also arranged for its leaders and staff to participate in various news briefings ranging from estate tax legislation to progress on activities such as the Vision 21 initiative.

The NCC updated its Boll Weevil Eradication Program and Pink Bollworm Eradication Program educational videos to keep both incumbent and newly-elected Congressional members informed of the significant progress – and the importance of completing eradication and preventing any re-infestation.

The NCC continued to support and offer input to America's Heartland, the only nationally-distributed program on agriculture in America. The program began its sixth season in September on public television and RFD-TV with new stories and features demonstrating the importance of American agriculture to the nation and the world.

Information Services

The NCC continued to post a wide range of information on www.cotton.org, from proposed government regulations to program fact sheets -- to keep NCC members informed of key Congressional, Administration and NCC activities.



That included information contained in the NCC's

NCC-created web portals, including the "Conservation in Cotton Production," provide members with updates in areas ranging from conservation programs to fighting weed resistance.

"Conservation in Cotton Production" website portal at www.cotton.org/econ/govprograms/conservation-programs.cfm. The continually updated portal is aimed at helping NCC producer members determine which federal conservation programs would be beneficial to their operations and to better understand the programs' requirements and enrollment process. The portal contains videos on the new Conservation Stewardship Program, the Conservation Reserve Program, Environmental Quality Incentives Program and other easement programs as well as a "Tips" video that offers suggestions for improving producers' odds of acceptance into these programs. The videos contain commentary from Bruce Knight, former chief of USDA's Natural Resources Conservation Service, along with cotton producers who have utilized the programs.

The NCC updated its weed resistance management video to help producers address that threat.

Technical

Major activities carried out during 2010.

Regulatory

The U.S. Supreme Court, without comment, denied two industry petitions seeking review of a Sixth Circuit Court of Appeals decision in *NCC v EPA*. That decision vacated a 2006 EPA rule that pesticides applied in accordance with the Federal Insecticide, Fungicide & Rodenticide Act (FIFRA) to, over, or near water do not require National Pollutant Discharge Elimination System Permits (NPDES) under the Clean Water Act (CWA). The National Cotton Council issued a statement saying the Supreme Court's failure to review the *NCC v. EPA* case creates an uncertain regulatory future for the application of agricultural crop inputs. The NCC, along with 31 other agricultural organizations, also signed onto a letter in opposition to Senate bill S. 787. The NCC

noted that should this bill pass in conjunction with the Sixth Circuit decision, there could be severe ramifications for cotton producers, including CWA permitting for pesticide applications and increased wetland protections.

The NCC issued another similar statement after Senate Agriculture Chairman Blanche Lincoln (D-AR) and Ranking Member Saxby Chambliss (R-GA) introduced a bill that would amend FIFRA to exclude pesticide applications from the need for permits, provided the pesticides are applied in accordance with the product label. The NCC noted that, “This bill will restore certainty for cotton farmers who use crop protectant products safely and responsibly.” House Agriculture Committee Ranking Member Frank Lucas (R-OK), along with six of his Committee colleagues, introduced a companion bill that clarified that the use of a pesticide consistent with its registration under FIFRA should not be subject to a costly, redundant and unnecessary permit process under the CWA. House Agriculture Committee Chairman Collin Peterson (D-MN) introduced a similar bill.



Pesticide users and stakeholders warned of possible legal issues as EPA moved forward with its draft general permit for pesticide applications over, to, or near U.S. waters.

Later, pesticide users and stakeholders warned of possible legal issues as EPA moved forward with its draft general permit for pesticide applications over, to, or near U.S. waters. Industry groups also contended that EPA's plan would unlawfully expand the scope of waters subject to the permitting program by regulating discharges to conveyances such as man-made irrigation ditches that connect to U.S. waters.

AK), the NCC and 137 other commodity and agricultural organizations declared their support for her introduction of a bipartisan disapproval resolution to stop EPA from regulating greenhouse gas emissions under the Clean Air Act (CAA). The resolution sought to repeal EPA's finding that greenhouse gas emissions endanger the public health and welfare. The breadth of support from agriculture, which eventually grew to 175 groups later in the year, encouraged several Democratic senators to co-sponsor the resolution.

In a NCC-coordinated letter to Senator Lisa Murkowski (R-

Prior to the Senate consideration of the resolution, NCC President/CEO Mark Lange sent a letter to Cotton Belt Senators urging its adoption. The letter stated that without relief from Congress, EPA's regulation of greenhouse gases under the Clean Air Act would impose a severe economic impact on the US cotton industry and market disadvantages with its international competitors in India, China and Brazil who do not incur such regulatory burdens.

Later in the year, a bipartisan bill was introduced by House Agriculture Committee Chairman Collin Peterson (D-MN), along with Representatives Ike Skelton (D-MO) and Jo Ann Emerson (R-MO), that would amend the CAA to prohibit EPA from regulating greenhouse gases based on their effects on global climate change. In addition, a dozen House Republicans and 17 associations/companies filed a lawsuit in the U.S. Court of Appeals for DC challenging EPA's finding that greenhouse gas emissions endanger public health and welfare under the CAA. Responding to bipartisan pressure, EPA Administrator Lisa Jackson told Senators she would delay regulation of greenhouse gas emissions until 2011 at the earliest, adding that regulation of the smallest emitters would not begin until 2016.

In response to an Occupational Safety and Health Administration (OSHA) Advanced Notice of Proposed Rulemaking request for comments relating to the regulation of combustible dust in the workplace, the NCC and seven other cotton industry organizations submitted comments that urged the agency to "use caution" in considering additional industry regulations. In addition to the comments, answers to 69 questions posed by OSHA were provided. A NCC letter cited industry support of OSHA's overall efforts to improve safety in the workplace but cautioned OSHA to focus its efforts in this case to industries that have experienced problems with combustible dust. It asked them not to attempt to regulate operations such as gins, warehouses, cottonseed storage and processing facilities, and textile mills that have "no demonstrated history of combustible dust incidents" and that can demonstrate that conditions conducive to achieving dust minimum explosive concentrations do not exist.

The NCC worked closely with other organizations and Senators in an effort to ensure that a Senate food/feed safety bill did not include arbitrary, unnecessary and burdensome tracing requirements and fees on gins, cottonseed handlers and processors. As part of that effort, the NCC, along with 27 other associations, sent a letter to the Health, Education, Labor and Pensions (HELP) committee expressing concern for traceability or record-keeping requirements that would hinder traditional marketing on a commingled basis. In addition, NCC President Mark Lange sent Cotton Belt Congressional Members of HELP a letter outlining the cotton industry's concerns. The Senate passed legislation that would greatly strengthen the Food and Drug Administration's role in food safety but a Senate/House conference (add final outcome) did not occur in the late year lame duck session.

Pest Management

In an unprecedented event, NCC Chairman Eddie Smith, along with other commodity organizations' chairmen, met with Agriculture Secretary Tom Vilsack and EPA Administrator Lisa Jackson at EPA headquarters. Among issues of concern discussed were the proposed spray drift language, atrazine and the regulatory slow-down for biotech trait approvals. Smith asked the administration officials for further similar meetings and Secretary Vilsack agreed and suggested that working groups be established with representatives of the commodities, USDA and EPA to discuss issues that affect U.S. agriculture.

The NCC submitted a FY11 federal budget request of \$22.19 million for USDA's Animal & Plant Health Inspection Service (APHIS) to provide a federal cost share for the boll weevil and pink bollworm eradication programs, which are combined into a joint Cotton Pests account. Included in the NCC's request were \$7.86 million for pink bollworm eradication and \$14.33 million for boll weevil eradication – the total being lower than the approved FY10 request of \$23.39 million. The NCC also 1) requested sufficient funding to allow the Farm Service Agency (FSA) to make at least \$100 million in loans to eligible Boll Weevil Eradication Foundations and 2) conveyed strong support for providing FSA with continued authority to make loans for activities associated with the pink bollworm eradication program as previously provided in the FY05 and subsequent years' appropriations legislation.



EPA officials expressed their appreciation for a NCC-coordinated opportunity for them to gain a better understanding of the severity of tarnished plant bug damage to cotton.

The NCC continued working in conjunction with other agricultural organizations and registrants to improve the ESA consultation process. The Center for Biological Diversity filed notice of intent to sue the EPA for failing to adequately evaluate and regulate nearly 400 pesticides for their impact on hundreds of endangered species throughout the nation. Favorable rulings for the plaintiffs could result in restrictive buffers around critical habitats or the banning of certain pesticides in specific areas.

EPA received requests from the registrants to voluntarily cancel all product registrations containing methyl parathion, a restricted use organophosphate insecticide and acaricide used primarily on cotton, corn and rice, as well as other agricultural crops.

EPA announced it would terminate all uses of endosulfan, an important product for whitefly control on cotton in Arizona and California, after the agency's determination that the risks posed to farm workers were greater than were previously determined in the agency's 2002 re-registration decision.

EPA officials expressed their appreciation for a NCC-coordinated opportunity for them to gain a better understanding of the severity of tarnished plant bug damage to cotton and difficulties in controlling these insect pests. The nine-member EPA contingent met with Mid-South Extension/research entomologists, producers, consultants and state agriculture department representatives.

Cotton Flow/Packaging

USDA's Commodity Credit Corporation approved specifications passed for the 2010 crop year by the Joint Cotton Industry Bale Packaging Committee. The JCIBPC had modified the 2009 bale packaging specifications by adding ultraviolet (UV) ray inhibitors (light stabilizers) for all polyolefin (polyethylene film and polypropylene fabric) bale bags. As part of the UV inhibitor action, the JCIBPC included a statement reiterating NCC policy that packaging materials are approved with conventional bale storage in mind. It was stated that the action was not an endorsement of outside storage but an acknowledgement that UV inhibitors play a role in polyolefin bag performance.



USDA's Commodity Credit Corporation approved specifications passed for the 2010 crop year by the Joint Cotton Industry Bale Packaging Committee.

In a separate action, the JCIBPC agreed to continue the policy of strongly encouraging gins using materials approved for use in experimental test programs to recess their bale ties. Gins also were urged to record and provide testing firms with a bale tag list when experimental test products are used.

The NCC monitored Federal Motor Carrier Safety Administration hours-of-service rules, including participating in their listening sessions on this key trucking issue. It also monitored ocean

transportation developments, including when Congressional members made it clear that they were aligning themselves with their constituent exporters at a recent House Committee Transportation and Infrastructure Subcommittee hearing on Coast Guard and Maritime Transportation. The NCC remained an active member of various transportation coalitions that follow developments in all agricultural transportation modes. It supported several bills that moved through Congress that would make changes in the rail industry and at the Surface Transportation Board.

The APHIS Memphis office issued the first electronic signature on Phytosanitary Certificate Issuance and Tracking (PCIT) certificates for baled cotton. In addition, APHIS said a procedure for issuing an electronically signed PCIT certificate for a baled cotton shipment was implemented on a trial basis through that office. APHIS plans to make this option available across the Cotton Belt once the new procedure is accepted by U.S. cotton's trading partners and some minor technical issues are addressed.

The NCC also continued to encourage merchants to utilize the EWR, Inc. “Update Shipping Order” feature.

Research/Education

Major agricultural groups, including the NCC, resigned from a multi-stakeholder effort to develop a consensus-based national standard for sustainable agriculture. The reason was “systemic limitations and chronic” anti-agriculture biases in the composition of the Standards Committee membership, which was weighted heavily toward organic production. However, the NCC remained committed to the development and implementation of a valid approach to U.S. cotton industry sustainability, including jointly managing “Vision 21,” a Cotton Foundation project that has as one of its three goals -- completion of life-cycle studies to strengthen U.S. cotton’s sustainability message.

On other technical issues, the NCC:

- Cooperated with the National Cotton Ginners Association in promoting the Southwest, Western and Stoneville ginner schools and in reminding ginners to be diligent in adhering to all OSHA and workplace safety standards;
- Increased industry awareness about protecting U.S. cotton’s reputation after the “Cotton Contamination Survey 2009” found U.S. raw cotton fared well compared to other countries’ growths with five U.S. growths among the 10 growths from around the world where the degree of contamination was judged to be non-existent or insignificant;
- Applauded The Society of Agricultural and Biological Engineers’ announcement on its endorsement of the use of natural-fiber products, such as cotton, in remediating the Gulf of Mexico oil spill; and
- Welcomed the U.S. Supreme Court’s reversal of a lower court’s nationwide ban on the cultivation of biotech alfalfa. The NCC was part of a coalition of agricultural organizations which had filed a joint friend-of-the-court brief to the Supreme Court in support of the petitioners in *Monsanto Co. v. Geertson Seed Farms*.

Cotton Council International

Major activities carried out during 2010.

Global demand for cotton and cotton products is experiencing an upturn, along with a need to refill fiber and textile pipelines worldwide. It’s a fact that the world needs more cotton fiber, particularly in rapidly developing economies like China and India. Cotton Council International (CCI) is committed to working with its partners and licensees throughout the supply chain to continue strengthening demand for cotton and U.S. cotton products worldwide.

Fiber Servicing



Nearly 450 leaders from throughout the global cotton industry converged in California for the 6th biennial Sourcing USA Summit.

The first step to increasing overall demand for U.S. cotton is to instill in spinners an understanding of the benefits of sourcing cotton fiber from the United States, and to increase demand for U.S. cotton throughout the textile and apparel supply chain. CCI conducted several key events to illustrate the benefits of sourcing U.S. cotton fiber:

Nearly 450 leaders from throughout the global cotton industry converged in California for the sixth biennial Sourcing USA

Summit. It provided a unique platform for executives in the cotton production, textile and export industries to build relationships and exchange information.

- The third COTTON USA Cotton School in China gathered mills and manufacturers in China's textile and apparel industry to learn about a wide variety of topics on U.S. cotton. The exit survey indicated most attendees planned to purchase more U.S. cotton. Export sales numbers support this sales uptick.
- Japanese retailers and trading companies toured the U.S. Cotton Belt to learn about the benefits of U.S. cotton fiber in finished apparel during the COTTON USA Fiber Education Tour.
- The COTTON USA Special Trade Mission from Bangladesh and Pakistan brought a delegation to meet key industry officials across the U.S. Cotton Belt.

U.S.-Made Textile Promotions

At the next step in the supply chain, CCI promotes U.S. cotton yarns and textiles through its COTTON USA Sourcing Program. That Program develops business relationships throughout the cotton textile and apparel chain with the objective of increasing exports to the Western Hemisphere. Eleven U.S. mills participated in the Sourcing Program in 2010. Among highlights:

- The COTTON USA Western Hemisphere Trade Fair in Mexico increased business for U.S. cotton yarn and fabric exports. More than 700 individual meetings were arranged between buyers and sellers in the U.S.-Central America-Andean textile and apparel supply chain.

- Eight U.S. cotton producers joined a COTTON USA delegation to Latin America to reinforce the U.S. cotton industry's commitment to supplying this region with quality cotton fiber and value added products.
- A Sourcing Program delegation visited Korea to enhance relationships between U.S. mills and Korean garment manufacturers with operations in Central America.
- At trade shows including Colombiatex, Colombiamoda and Peru Moda, CCI highlighted the benefits of U.S. cotton and cotton products and featured product samples from U.S. mills.
- Nine U.S. textile mills were showcased as part of the Apparel Sourcing Show in Guatemala City. CCI also conducted an event with Korean textile and garment makers in an effort to strengthen the relationships between U.S. mills and the Korean business community in Central America.
- Textile/garment manufacturers from Mexico, the United States, Colombia and Peru exhibited their woven/knit fabrics and garments to domestic buyers at the Cotton Forum in Mexico City.

Supply Chain Marketing

The COTTON USA Supply Chain Marketing (SCM) program works forward from the spinner/weaver to facilitate business relationships and information exchange between the U.S. cotton-rich textile industry and garment manufacturing companies worldwide. The SCM Program sponsors a variety of activities to increase awareness of COTTON USA suppliers and build closer relationships between the textile and apparel businesses. Among examples in 2010 were:



At trade shows, including this Colombiatex event in Colombia, South America, CCI highlighted the benefits of U.S. cotton and cotton products.

- The fifth COTTON USA Buyers Tour to China enabled brands and retailers to conveniently explore the advantages of sourcing U.S. cotton-rich garments from the strong textile economies across China and greater Asia.
- International buyers traveled to Bangladesh to meet COTTON USA leading Bangladeshi suppliers of U.S. cotton-rich garments. Participating brands and retailers met with 17 COTTON USA licensees and visited six factories.
- COTTON USA promoted U.S. cotton at trade shows across Europe, including Heimtextil, Texworld, Premiere Vision and EVTEKS.

- A diverse crowd of companies visited CCI's booth at the Intertextile Shanghai home and apparel shows to inquire about the COTTON USA licensing program.
- At the COTTON USA Yarn Buyers Tour to Thailand, 14 of that country's leading spinning companies that are key customers of U.S. cotton welcomed yarn buyers from across Asia to Thailand in a networking event aimed at creating new markets for U.S. cotton-rich yarns.

Cotton USA Mark Licensing and Promotion

At the crucial endpoint of the supply chain, consumer demand helps pull more U.S. cotton through the system. CCI's COTTON USA Mark licensing and promotion program favorably positions U.S. cotton with consumers and counts 510 companies as licensees. Some key COTTON USA promotional events during 2010 were:



CCI President Wally Darneille spoke at CCI-sponsored Cotton Day celebrations in Northeast Asia and Thailand that highlighted the benefits of the world's favorite fiber.

- CCI China & Hong Kong's "Naturally in Love" campaign promoted fashionable, natural U.S. cotton and engaged consumers, COTTON USA licensee brands and the media
- CCI sponsored Cotton Day celebrations across Northeast Asia as well as Thailand. The consumer and trade events highlighted the benefits of the world's favorite fiber through COTTON USA Mark branded consumer events and executive interviews.
- COTTON USA garnered attention from the sponsorship of two popular fashion designers during London Fashion Week: Richard Nicoll and Louise Gray.
- The COTTON USA Design Challenge in Thailand created awareness among young designers that 100 percent cotton fabrics can be used as a raw material for fashion apparel. The winning dresses were to be featured on the cover and in a 20-page fashion spread of *Praew* magazine.
- A COTTON USA promotion in Colombia with Amacenes Exito led to sales of U.S. cotton children's wear representing 7,300 bales of U.S. cotton.
- CCI Japan showcased the benefits of the COTTON USA Mark and U.S. cotton in a variety of media and had 250 million consumer impressions.
- CCI Taiwan sponsored the 21st Golden Melody Awards in Taipei. Consumers received tickets to the show by purchasing COTTON USA products.

Generic Cotton Promotion

In addition to COTTON USA-branded promotions, CCI conducted several generic promotions of cotton to instill a preference in consumers:

- Season 2 of the televised “Let’s Design” fashion competition in India was part of CCI’s “Cool with Cotton,” a campaign that generates awareness about cotton/uses benefits in India.
- The Cotton-Beyond Your Imagination campaign in China included “A Cool Life with Cotton” cotton field exhibition in Guangzhou and a cotton diary contest to encourage consumer interaction with cotton.
- A generic promotion in Seoul strengthened awareness of high quality U.S. cotton by encouraging Korean consumers to find the COTTON USA Mark in advertising, retail, point-of-purchase displays and licensed products.

The variety of promotions, events and advertising that CCI carries out on an ongoing basis calls attention to the positive qualities of U.S. cotton. Building demand and increasing exports of U.S. cotton and cotton products mandate a continuation of these targeted promotion efforts.

CCI continued to receive support from: the National Cotton Council; Cotton Incorporated; the American Cotton Shippers Association; the American Cotton Marketing Cooperatives; the Committee for Cotton Research; the Cotton Foundation; the National Cottonseed Products Association; ICE Futures U.S.; Plains Cotton Growers, Inc.; San Joaquin Valley Quality Cotton Growers Association; Southern Cotton Growers, Inc.; Supima; USDA; U.S. cotton yarn and textile manufacturers; and COTTON USA Mark licensees around the world.

The Cotton Foundation

Major activities carried out during 2010.

The Foundation continued its important role in industry members’ quest for profitability by assisting in ongoing research and education efforts. The Foundation’s agribusiness members contributed dues of \$278,800 in support of 20 general research and education projects in the Foundation’s 2010-11 year. These projects include studies related to herbicide resistance, pest management, ginning, fiber quality, agronomic practices, plant breeding, education and pink bollworm eradication.

U.S. cotton is enjoying a healthy return on investment from these efforts. National Cotton Council staff calculates that taking into account cash and in-kind services, the Foundation’s general projects enjoy a return of about \$3 for every dollar devoted to these projects.



Foundation general projects support projects ranging from herbicide resistance to this gin emission research.

Video Staff Report

<http://www.cotton.org/about/report/2011/foundation.cfm>