# Testimony of David Dunlow
# Financial Conditions in Farm Country
# House Committee on Agriculture
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## *Introduction*

My name is David Dunlow, and I am a farmer from Gaston, North Carolina. I currently serve as a Producer Director with the National Cotton Council (NCC) and as Chairman of the American Cotton Producers (ACP). I also previously chaired the ACP's Farm Policy Task Force, working closely with Congress on the creation and implementation of the seed cotton program for U.S. producers.

I am the grandson of a sharecropper, and I worked under my father on his farm operation throughout my younger years. I obtained my first farm loan in 1985 and farmed alongside my father until his death in a farming accident in 1992. Today, my wife, Debra, and I have three children. My son William and I farm 3,800 acres of cotton, peanuts, soybeans, and wheat, mostly on rented land.

The NCC is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandisers, merchants, cooperatives, warehousers, and textile manufactures. A majority of the industry is concentrated in 17 cotton-producing states stretching from California to Virginia. U.S. cotton producers cultivate between 10 and 14 million acres of cotton, with production ranging from 12 to 20 million 480-lb bales annually. The downstream manufactures of cotton apparel and home furnishings are in virtually every state. Farms and businesses directly involved in the production, distribution, and processing of cotton employ more than 87,000 workers and produce direct business revenue of more than $23 billion. Annual cotton production is valued at more than $6.0 billion at the farm gate, the point at which the producer markets the crop. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 265,000 workers with economic activity of almost $75 billion. In addition to the cotton fiber, cottonseed products are used for livestock feed and cottonseed oil is used as an ingredient in food products as well as being a premium cooking oil.

## *Economic Conditions on the Farm*

The U.S. cotton industry continues to be burdened by increased production costs, sluggish consumer demand, and supply chain challenges. Since passage of the 2018 Farm Bill, market conditions for cotton producers have dramatically changed. World cotton mill use is more than 2 million bales lower than in 2018, and U.S. cotton's export share has fallen by 7 percentage points, while Chinese polyester production has increased by over 35 million bales. Combined Brazilian and Australian cotton production has nearly doubled over this same period, as a more favorable regulatory environment, efficiency improvements, and new investments in infrastructure have allowed these nations to expand their industries and supplant U.S cotton export share. This foreign competition, along with an increasingly difficult regulatory environment in the U.S., has made it hard for me to stay in business.

This issue is not unique to cotton. Where I farm in North Carolina, production costs as it relates corn, peanuts, and soybeans are all well short of market prices. There is not a single commodity that I producer that will cash flow. I attended a meeting with Southeastern producers last week, and the sentiments are the same. Growers are hanging on by a thread. I have heard from lenders across the country who have seen producer equity erode and without federal assistance this year will no longer be able to finance their growers moving forward.

On a personal level, standpoint, I am facing a second consecutive year in which market prices are well below production costs. This is simply not sustainable. In previous years, when market prices were below costs of production, growers could benefit from the Farm Bill's commodity title payments, such as those provided by the Price Loss Coverage (PLC) program, to offset losses. However, that is no longer the case. The PLC program's reference price, established back in 2018 – long before the disruptions of COVID – has not kept pace with inflation, rendering it ineffective today. The net result for me personally has been several years of losses on our farm, severely eroding our equity.

I have never known a worse time in my 40 years of farming, and the stress has led to personal health issues as I wonder how our operation will survive. Inputs such as labor, supplies, equipment, parts, fuel, land rent, fertilizer, and seed have skyrocketed. Some of these expenses have nearly doubled, and my margins have narrowed over the last several years. Things have gotten so bad that these days a bumper crop is required *just to break even.*

Over my career, I have been able to purchase several small farms, totaling roughly 600 acres. Now I have been forced to refinance all these farms to pay farm operating debt. However, because of our deteriorating financial condition, I have not found any traditional lending institutions willing to fund our operations. Instead, we have had to rely on an operating line of credit from a private equity-funded institution at a higher-than-market interest rate.

We have also been unable to upgrade farm equipment, leading to higher repair bills that increase our overall production costs. New equipment, which would help me to remain competitive, is cost-prohibitive. In 1990, the cost of a new cotton picker was around $40,000, and the price of cotton was 74 cents. Today, a new cotton picker is $1.1 million, and cotton on the December 2024 futures market is still trading in the low 70s *nearly 35 years later.*

It is the dream of my son William to one day take over my farm and oversee the operation on his own. However, William is forced to diversify his income to support his family. William's two sons Hank and Clyde love being on the farm with their "Pap" and father. I hope my farm can continue to sustain itself so that one day Hank and Clyde can have the option to take over the farm. However, that dream of mine and William will never be a reality if economic conditions do not improve and assistance is not provided.

I also gave my future son-in-law Peyton, who has an agriculture degree from North Carolina State University, an opportunity to work on the farm. However, after discussions with my daughter he has decided to seek employment elsewhere due to the lack of profit provided by our operation.

The bottom line is we need a new Farm Bill this year. While I understand that political realities may prevent a new Farm Bill from being sent to the President's desk, members of Congress must understand that another straight extension of the current Farm Bill is unacceptable. An extension without additional financial support to producers only extends the misery, and many farmers like me and others across the country will not be farming next year without some sort of assistance.

## *2024 Farm Bill*

I want to commend this Committee for passing the Farm, Food, and National Security Act on a bipartisan basis.

The legislation contains many of the NCC's Farm Bill priorities, including an increase in the ARC/PLC reference price and improved access to area-wide crop insurance products, such as the Supplemental Coverage Option (SCO) and the Enhanced Coverage Option (ECO), which function similar to the Stacked Income Protection (STAX) program. The bill also, modernizes USDA's marketing assistance loan (MAL) program and strengthens support to the U.S. textile industry and Pima cotton producers.

Since 2018, cotton costs of production have increased by 24%. When converted to a seed cotton basis, the reference price of 36.7 cents falls well short of current costs. The House Agriculture Committee provisions to increase the reference price to $0.42 will provide a PLC safety net more in line with costs of production and extend a vital financial lifeline to producers who are currently unable to make ends meet. Like almost all farmers, I am diversified and all crops need an enhanced safety-net. Though the PLC increases in the House bill vary by commodity, when I pencil it out on my farm, they all seem consistent relative to cost of production for each commodity.

Most importantly, increasing the reference price will also give lenders confidence to continue to finance producers across the Belt. Cotton producers have overwhelmingly selected the PLC program, with more than 90% of seed cotton base acres enrolled under this option. The reference price increase in the Committee-passed Farm Bill provides support at a level that will reassure lenders.

In addition, growers enrolled in the ARC/PLC programs are currently limited in their access to crop insurance due to a prohibition on the purchase of STAX on their enrolled farms. STAX is a crop insurance product for upland cotton that provides coverage for a portion of a producer's revenue based on the county, or area-wide, experience. While the Farm, Food, and National Security Act maintains the prohibition on simultaneous enrollment in STAX and PLC, it makes SCO function more like STAX while maintaining a grower's ability to enroll in PLC. This change will allow growers to tailor their risk management options according to their needs while also decreasing their reliance on ad hoc programs, putting producers in charge of their own production risks.

The upland cotton non-recourse MAL program is a cornerstone of the U.S. cotton industry, ensuring the efficient movement and orderly marketing of cotton. We are grateful the House Agriculture Committee saw fit to raise the loan rate to $0.55, which would put growers very close to triggering a marketing loan gain or a loan deficiency payment (LDP) due to the rapid decline in the cotton market.

The Farm, Food, and National Security Act also makes a number of important modernizing reforms to the MAL program by allowing storage credits to better reflect actual storage charges; determining a globally competitive Adjusted World Price (AWP) based on three international prices and establishing a 30-day window for finalizing the AWP. If these reforms were in place today, growers would have already triggered much-needed marketing loan gain or LDP payments.

Extra-long staple (ELS), or Pima, producers, like upland growers, have also experienced sharp increases in production costs in recent years, with current costs exceeding the safety net provided by the loan program. The NCC is grateful that the House Agriculture Committee has addressed deficiencies in the ELS safety net by increasing the ELS loan rate to $1.05 and adding "marketing loan" functionality to the ELS loan.

In my home state of North Carolina and other parts of the Southeast, the textile industry is a vital part of our rural economies, thanks in large part to the Economic Adjustment Assistance for Textile Mills (EAATM) program, originally authorized in the 2008 Farm Bill Receipts must agree to invest EAATM proceeds in equipment and manufacturing plants, including construction of new facilities as well as modernization and expansion of existing facilities.

EAATM funds have allowed investments in new equipment and technology, thereby reducing costs, increasing efficiency, and allowing domestic mills to be more competitive with foreign mills. This was shown to be prophetic during the COVID-19 pandemic as the U.S. textile industry was able to quickly shift their manufacturing facilities to the production of personal protection equipment (PPE). In addition, the industry continues to be a critical supporter of products to our defense industry. Make no mistake, maintaining the production and growing consumption of cotton here in the United States is a vital part of our national security.

We are grateful to the Committee for increasing the EAATM rate to $0.05 per pound on every pound of upland cotton consumed. This will provide essential support at a critical time for an industry that continues to withstand apparel imports below cost of production and the devastating impacts of the de minimis loophole in Section 321 of the Tariff Act of 1930.

I also want to thank the Committee for increasing the commodity title payment limits and indexing them to inflation. Current payment limit policies do not reflect the scale of production agriculture necessary to be competitive and viable in today's global market. Artificially limiting benefits only punishes a producer like me and others who are in vital need of support to be able to continue farming. It also provides a disincentive to make further investments in my operation and undermines a U.S. producer's ability to compete in a global market.

## *Conclusion*

In closing, I want to commend the Committee for advancing a bipartisan Farm Bill that provides long-term stability and addresses the significant challenges all growers are facing across the country.

We now need to get this bill or similar legislation signed into law as soon as possible, so farmers like me receive some relief before the end of this year. Without support in 2024, I may not be able to speak with you a year from now as an active producer. Other growers in my region and across the country are in the same situation, and many of these successful producers run family farms that have been in operation for multiple generations.

The NCC looks forward to working with the Committee and all commodity and farm organizations and other stakeholders to get the Farm, Food, and National Security Act across the finish line.

Thank you for the opportunity to testify, and I would be pleased to respond to any questions.