Testimony of Lee Cromley
Crop Insurance
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Introduction

Good morning, I am Lee Cromley, from Brooklet, GA. I am a sixth generation farmer along with my brother Charlie, and we farm 2,500 acres of cotton and peanuts.

I am also actively involved with the National Cotton Council, a Georgia State Chairman of the American Cotton Producers, Second Vice-President of Cotton Council International, former President and Chairman of Southern Cotton Growers, and Vice-Chairman of the Georgia Cotton Commission.

The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandizers, merchants, cooperatives, warehousers, and textile manufacturers. 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 averaging 12 to 20 million 480-lb bales annually. The downstream manufacturers 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 115,000 workers and produce direct business revenue of more than $22 billion. Annual cotton production is valued at more than $5.5 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.

Crop Insurance Overview

Grower access to a strong and fully accessible suite of crop insurance products that producers can purchase to tailor their risk management to their specific needs to address yield and price volatility within the growing season is a critical component to manage yield and revenue risks on the farm. A key component of crop insurance is the public-private partnership between the government and the private companies that offer the products, as well as the agents who service the policies.

Crop insurance is an absolute necessity for cotton producers. Improving the risk management options for producers has been a top priority for the cotton industry for many years. The Council has long supported methods that would make higher levels of insurance coverage more affordable. There is no worse place for a producer to find themselves than having invested in a crop all year only to realize their overall yield or revenue has fallen to a point at or near their insurance guarantee. In the current economic climate of higher input costs, access to the essential tools to counteract these challenges is a must for any cotton grower. Over the years, with the help of Congress and USDA's Risk Management Agency (RMA), crop insurance participation has grown substantially. In 2021, 10.8 million acres of upland cotton were protected by some form of crop insurance. This represents more than 97% of all upland acres.

Stacked Income Protection Plan (STAX)

Area and county wide policies are also giving producers additional options to manage production risks. One of our industry's great achievements was the creation of the Stacked Income Protection Plan (STAX) for upland cotton. STAX is a crop insurance product for upland cotton that provides coverage for a portion of the expected revenue in a grower's production area, most often your county. STAX may be purchased as a stand-alone policy, or in conjunction with another policy referred to as a "companion policy." Companion policies may include Yield Protection, Revenue Protection, Revenue Protection with the Harvest Price Exclusion, and any of the Area Risk Protection Insurance policies.

STAX remains a critical tool since cotton's reestablishment as a covered commodity through Area Revenue Coverage (ARC) and Price Loss Coverage (PLC) with the formation of the seed cotton program in the 2018 Bipartisan Budget Act. With the passage of the 2018 Farm Bill, cotton producers, beginning with the 2019 crop, were prohibited from enrolling seed cotton base acres in ARC or PLC if STAX was purchased. This option created a choice with most producers choosing to enroll their seed cotton base acres in PLC instead of purchasing STAX. However, there are many growers across the Cotton Belt who do not have historic seed cotton base acres to enroll in PLC and STAX is an effective and affordable option for these producers.

In 2022, with the recent uptick of commodity prices, including cotton lint and cottonseed, many growers with seed cotton base acres declined to enroll in ARC or PLC and purchased STAX. On my farm in Georgia, I have bought STAX every year on farms where there is no seed cotton base. This year, I purchased STAX on all my farms. STAX is an essential risk management tool for many producers and shallow loss programs like STAX should be protected as the upcoming farm bill is developed.

Quality Loss

In the fall of 2016, South Carolina, North Carolina, Virginia, and parts of Georgia, including my farm, received tremendous rainfall just prior to harvest due to Hurricane Matthew. For many of these producers, yields were in line with their annual production history (APH), but the harvested cotton had severe quality issues, resulting in severe market discounts. At the time, cotton's base policy included a quality loss adjustment, but the provision included a 15% deductible and with quality losses in excess of 15% incorporated into the production to count, thus lowering a producer's yield for insurance purposes. Many growers in the Southeast were not familiar with the specific calculations of the quality loss adjustment ed since it was rarely used. Many producers in this region experienced substantial quality discounts for lint and seed, yet due to the quality deductible and relatively shallow quantity losses, received no benefit from the quality loss adjustment. We are grateful that in 2018 RMA aligned cotton quality loss calculations with other commodities by changing the deductible to a trigger set at 10%, thus allowing growers to fully capture the amount of quality loss.

In addition, in the 2018 Farm Bill, Congress directed RMA to enhance the quality loss provisions. This option became available for the 2021 crop year and allows pre-quality production amounts to be used to establish the APH instead of post-quality production amounts.

In 2020, excessive rainfall and extended periods of overcast skies caused the splitting of the cottonseed inside the fiber leading to major quality discounts for Georgia growers. The Quality Loss Adjustment (QLA) created by USDA Farm Service Agency (FSA) from 2018-2019 was bureaucratic with numerous implementation challenges that placed the responsibility on reporting quality losses on merchandizers and gins. Moreover, restrictive quality loss thresholds as well as prohibitions on producers who had a WHIP+ claim and a crop insurance indemnity from participating made QLA ineffective for many producers. It is vital that when Phase 2 of the Emergency Relief Program (ERP) for quality losses is developed, producers like me and others who suffered quality losses due to seed coat fragments are eligible for assistance.

Hurricane Insurance Protection-Wind Index (HIP-WI)
According to the University of Georgia College of Agriculture and Environmental Sciences, Georgia's cotton growers lost $1.1 billion due to the devastating impacts from Hurricanes Matthew, Irma, and Michael. These producers saw record crops wiped away in an instant due to the powerful forces of Mother Nature.

After these storms, RMA created HIP-WI that covers a portion of the deductible of the underlying crop insurance policy when a county, or adjacent county, is within the area of sustained hurricane-force winds. The coverage provided by HIP-WI can be combined with the Supplemental Coverage Option (SCO) and the Stacked Income Protection Plan (STAX) when acreage is also insured by a companion policy.

HIP-WI provided coverage for 70 different crops including cotton and is available in counties in the vicinity of the Gulf of Mexico and the Atlantic, as well as Hawaii. This product is an affordable risk management option for many growers who are at risk yearly due to their proximity to the coast.

While we are grateful to RMA for the creation of HIP-WI, additional improvements are needed to make it more effective. Growers that suffered losses from tropical storms and/or depressions are ineligible for HIP-WI since the product is exclusive to hurricanes. Tropical storms or other events can have damaging winds while also leaving devastating amounts of rainfall causing flooding that will decimate a cotton crop especially near harvest.

RMA should also create a multi-peril crop insurance product that gives growers credit for the crop that is in the field instead of only crediting growers for their annual production history (APH). In 2018, growers in Georgia as well as the Wiregrass region of Alabama and the Florida Panhandle were expecting record to near-record cotton yields until Hurricane Michael, one of the most powerful hurricanes ever to hit the United States. Instead of receiving indemnities on crops that were yielding 1,000 to 1,500 pounds an acre, growers were only compensated on APH information well below the actual yields on the farm. Growers should have an option to purchase a product that will insure their expected crop value.

APH looks back at a grower's history over a 10-year production window to determine the insurable value of the crop. However, producers continue to see annual improvements in their crop yields due to constant improvements in crop technologies and more efficient production practices, many of which contribute to soil health. These improvements often cause the yield data in a grower's APH to lag or underestimate the farm's current yield potential. These continual improvements should be captured in today's crop insurance products.

Oppose Arbitrary Means Testing or Limitations

In the past, there have been proposals that would impose arbitrary means tests to crop insurance or limit the amount of premium discount a producer can receive. I strongly urge you to oppose any attempt to implement any proposal along these lines. While we believe these limits should not apply to any farm program benefits, crop insurance is categorically different. Limiting access to these products would cause some producers to completely exit the crop insurance market. Their exodus from the program would in turn impact all remaining producers who purchase crop insurance by altering the risk pool and potentially increasing the premium rates across the board.

Conclusion

In closing, the NCC is grateful for the role Congress and RMA have played in making crop insurance a functioning and affordable option for the vast majority of U.S. cotton producers. When disasters have arisen or areas for improvement in crop insurance have surfaced, the Agriculture Committees as well as USDA have responded to ensure crop insurance continues to be a critical part of the portfolio for cotton growers for years to come.

We are grateful for the opportunity to testify, and we look forward to working with the Committee to address the necessary improvements discussed in today's hearing. I will be happy to answer any your questions.