S. Hrg. 115–594

COMMODITIES, CREDIT, AND CROP INSURANCE: PERSPECTIVES ON RISK MANAGEMENT TOOLS AND TRENDS FOR THE 2018 FARM BILL

HEARING

[BEFORE THE]

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

JULY 25, 2017

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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Available via the World Wide Web: http://www.govinfo.gov/

U.S. GOVERNMENT PUBLISHING OFFICE
29–640 PDF WASHINGTON : 2019

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COMMODITIES, CREDIT, AND CROP INSURANCE: PERSPECTIVES ON RISK MANAGEMENT TOOLS AND TRENDS FOR THE 2018 FARM BILL

Tuesday, July 25, 2017

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC

The committee met, pursuant to notice, at 8:31 a.m., in room 106, Dirksen Senate Office Building, Hon. Pat Roberts, Chairman of the committee, presiding.

Present or submitting a statement: Senators Roberts, McConnell, Boozman, Hoeven, Ernst, Grassley, Thune, Daines, Stabenow, Brown, Klobuchar, Bennet, Gillibrand, Donnelly, Heitkamp, Casey, and Van Hollen.

STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS, CHAIRMAN, U.S. COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman ROBERTS. Good morning. I call this meeting of the Senate Committee on Agriculture, Nutrition, and Forestry to order.

I want to thank all the witnesses for coming. There is dead silence in the audience. Whispering is permitted but not for very long.

I have repeatedly said we must listen to our farmers and ranchers first before writing any kind of a farm bill, and that is exactly what this Committee is continuing to do as of today. Whether Stabenow and I were wearing purple or green at the farm bill hearings in our home states, we have been listening to key stakeholders, including producers and those who make their livelihoods and live in our rural communities.

By the end of this morning this Committee will have held hearings on eight of the farm bill titles. I know that several Senators, both on and off Committee, have also been gathering input and ideas from their states for the farm bill.

So far this year I have joined agriculture roundtables and farm visits with Senator Daines in Montana—about 700 folks with cowboy hats—and Senator Strange in Alabama. The conversations at these visits have demonstrated that all of agriculture is struggling with low prices, not just one or two commodities or regions.

This morning we are focusing our attention on risk management tools and the needs of producers from all across the country.

Welcome, John. It is a good thing you showed up, because Grassley has an Iowa-Kansas plan. We were going to ram that through first.

[Laughter.]

Senator BOOZMAN. I am here in force.

Chairman ROBERTS. First, our two panels of men and women have participated in the Department programs administered by the Farm Service Agency and Risk Management agency. These producers have given up valuable time to provide real examples of why the farm bill is important to their operations and to so many others. They will provide updates from their perspective on what is working with the current farm bill and what can be improved in the commodity, credit, and crop insurance programs at the Department. Our third panel includes general farm organizations, crop insurance professionals, and the lending community who work to provide producers with the tools necessary to finance their agriculture operations.

I know I speak for all members of this Committee by saying a heart-felt thank-you for being here today and your continued commitment on behalf of our farmers, our ranchers, and our growers. These are the folks who are feeding a troubled and hungry world. I am truly humbled by the work you do for our country and for our rural communities.

While they work very hard every day to feed and to clothe us, America's farmers and ranchers are at the mercy of Mother Nature, when it comes to the weather on their farms. The High Plains are in the middle of a very damaging drought, while areas in the South are still drying out from flooding and tropical storms. When producers put their seeds in the ground, they do not expect a hailstorm to hit right as they are ready to harvest their crops. They would much rather reap the benefits of their hard work in the marketplace rather than receive an indemnity.

The last farm bill made significant changes, and unlike previous policies, today's commodity programs, like crop insurance, are triggered only when there is a loss. Now given the current state of the farm economy and credit challenges facing many producers, especially young and beginning farmers, it is essential we also examine the FSA direct and guaranteed loan programs to determine if improvements can be made.

As we review the risk management and credit programs and consider changes, the reality is we face budget constraints and limited resources for the farm bill. While much of our focus has been on the economic conditions in rural America and reduced farm income, we cannot ignore the cost side of our producers' balance sheets, and we should look for ways to ease those burdens.

But during these tough economic times, I would remind my colleagues that we can promote stability and economic growth in our rural states through a farm bill. Adequate risk management tools and regulatory reform provide much-needed certainty to our producers.

So the Committee must do our work in a timely and transparent manner, and today is an important step in that process. We need to continue working together to get a farm bill done. Our farmers, ranchers, growers, rural communities, and others that enjoy safe and affordable food are depending on us.

Our witnesses have traveled from their farms and businesses as far away as Montana and the state of Washington. They represent a broad cross-section of production agriculture. I look forward to hearing from our witnesses and I now recognize the distinguished member from Michigan for any remarks she may have.

STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator STABENOW. Well, thank you very much, Mr. Chairman and welcome to all of you. This is a very important hearing and, as you said, we have been moving through the titles on the farm bill, and it is my pleasure to work with you and I am confident we are going to be able to come together and be able to do what our farmers and ranchers and families need, which is to pass another farm bill.

I have always said that agriculture is the riskiest business there is. From floods to droughts, a sudden turn in the weather can change everything for a farmer. Even on perfect sunny days in Michigan, commodity prices can drop unexpectedly due to global events, and bring sudden uncertainty to a farmer's bottom line.

Despite the risks they face day to day, our producers persevere, through all odds, to grow food for our families, and drive our economy forward. Still, farmers sometimes need a leg up on the unknown to help them recover from losses outside of their control. The old subsidy program did not meet the needs of our farmers and either paid too much or too little, regardless of actual losses. That is why, in the 2014 Farm Bill, we came together and made historic reforms to end direct payments and create new tools for our farmers to better manage their risk and protect their farms and families from devastating losses.

By transitioning to common-sense risk management, we now provide support for those who need it most, when they need it. Over 90 percent of Michigan farmers selected the Agricultural Risk Coverage program that has protected against both price and yield declines.

By and large—and we are certainly open to suggestions on improvements—but this approach seems to be working. However, the one big exception has been the dairy safety net. I have heard from dairy farmers throughout Michigan and other states who have paid into the Margin Protection Program and received nothing in return during their time of need.

Last week, I am happy to say that we took the first step towards closing the gap in the dairy safety net, through the Appropriations Committee, and I want to thank our colleague, Senator Cochran, Senator Leahy, both on this Committee, both leaders who led the Appropriations Committee, for their work on the appropriations bill which includes help both for dairy and cotton farmers. Not only does this give dairy farmers an interim improvement to their safety net but it also sets the stage for the next farm bill.

Looking ahead, we need to make sure the farm safety net is responsive to the needs of all farmers, without creating the old system of indefensible subsidies that paid farmers even when times were good. When it is available, crop insurance is one of, if not the most important risk management tools for our producers, but historically it has not been available to some of the farmers who need it most. That is why I am so pleased, and fought so hard to expand and strengthen crop insurance for all farmers from expanding coverage to specialty crop growers, organic producers, and beginning farmers, to providing a whole farm option for diversified farms.

I am committed, working with the Chairman, to continuing to build on this progress. I am committed to working with the USDA to expand and improve the insurance options as well for our dairy farms. Along with tools to help farmers manage risk, it is also critical we create opportunities to help farmers start and expand their operations. The farm bill provides many resources like access to credit, microloans, conservation programs, and training to help new farmers get their start in agriculture, and we need them. We need to ensure the USDA has producer-facing technology that opens the door for young and beginning farmers to carry on the legacy of American agriculture.

There are also many returning veterans who are looking for post-service careers on the farm, and I am very excited about what I have heard in Michigan, and the people I have talked to at our farm field hearing in Michigan. We heard from an Army veteran who shared how outreach programs in the 2014 Farm Bill have helped veterans access loans to kickstart their farms.

The farm bill is all about expanding opportunities. The farm bill policy we craft together should ensure that every farmer can start, expand, and protect their farm and livelihood.

Thank you, Mr. Chairman, and I do want to apologize in advance. In a little bit I have to step out for about 30 minutes and come back, because I am trying to be in two places at once, and until we get beam-me-up-Scotty technology I am going to have to run back and forth, so I do apologize for that. But I am so pleased we are doing this hearing. This is very, very important. Thank you.

Chairman ROBERTS. Well, I thank the distinguished Senator for her remarks and we have arranged for a hologram to be right here——

Senator STABENOW. Good.

Chairman ROBERTS. —to listen to all of the testimony.

Senator STABENOW. That is good.

Chairman ROBERTS. Now I would like to welcome our first panel of witnesses before the Committee, and Bruce, you not only have one but you have two outstanding Senators to introduce you, Senator Ernst and Senator Grassley. I do not know who would like to go first, but I have——

Senator ERNST. I will go first.

Senator GRASSLEY. She is going to do it all by herself.

Chairman ROBERTS. You won the debate, or the coin toss.

Senator ERNST. I won the coin toss.

Chairman ROBERTS. Senator Ernst.

Senator ERNST. Thank you. This morning I have the privilege of introducing Bruce Rohwer, who raises corn and soybeans near Paullina, Iowa, with his son and daughter. Additionally, he owns a drainage tiling business and runs a sow farrow-to-finish operation with his neighbor.

Rohwer is a board member of the National Corn Growers Association, a farmer-led trade association with offices in St. Louis and Washington. Founded in 1957, this organization represents more than 40,000 dues-paying corn growers and the interests of more than 300,000 farmers. The NCGA and its 48 affiliated state associations work together to help protect and advance corn growers' interests. Rohwer has also served as Past President and Chair of the Iowa Corn Growers Association.

Thanks, Bruce, for being here this morning, and we look forward to your testimony. I think, Chuck, you wanted to say good morning.

Senator GRASSLEY. Good morning.

Senator ERNST. There you go. Thank you very much for being here today, Bruce. Thank you, Mr. Chairman.

Chairman ROBERTS. That sets a record for the distinguished Senator from Iowa, Senator Grassley. Only two words. It is rather amazing.

I now turn to Senator Thune, who is not here, to introduce our next witness. John is busy with leadership on another entire matter, and is meeting Grace Kelly down by the train station at high noon. That is an inside joke. I compare him to Gary Cooper, but then both of us realize that most of you out there do not know who Gary Cooper is.

[Laughter.]

Chairman ROBERTS. From Valley Springs, South Dakota, I want to welcome Mr. Kevin Scott. Mr. Scott and his wife operate a soybean and corn farm that was originally settled in 1885. Mr. Scott is a member of the Board of Directors and Governing Committee of the American Soybean Association. So, Kevin, thank you so much for coming today.

Mr. David Schemm, joining us from Sharon Springs, Kansas, is Mr. David Schemm. You will recall that farmers know that mother nature may be doing something for them and to them, but you certainly do not expect that right in the middle of harvest. He has experienced that wonderful chance, or kind of operation, with regards to his wheat crop. They did one half in one field, did not do the rest, decided they would wait until the next day. The weather forecast in Sharon Springs, Kansas, America, was clear, and in the middle of the night they had a hailstorm. So David, I am sorry about that but, as he said to me, "Well, that is just what you do when you are a farmer. You hope you have a better crop next year."

Mr. Schemm and his wife live and work on their farm where they raise wheat, corn, and grain sorghum. He is the President of the National Association of Wheat Growers and is an active member of his local community. David, welcome. I look forward to your testimony.

Luther Strange was going to introduce our next witness but I do not see him here. So Nick McMichen—I have got it--a fifth-generation cotton producer, joins us today from Centre, Alabama. He is the Alabama State Chairman for the American Cotton Producers and a delegate to the National Cotton Council. It is good to see you again, Nick. Thank you.

Senator Boozman to introduce our final witness.

Senator BOOZMAN. Thank you, Mr. Chairman. It is a real honor to introduce to you this morning Mrs. Jennifer James, a fourth-generation rice and soybean farmer from Newport, Arkansas. Jennifer farms with her father and brother on their recognized Arkansas Century Farm. The family takes great pride in their operation's commitment to providing over-winter habitat for water fowl and instituting practices to conserve water.

Over the course of her career, Jennifer has held many roles as an active member of the rice industry at both the state and national levels. Jennifer is currently serving as the Chair of the USA Rice Sustainability Committee, a member of the USA Rice Farmers Board of Directors, Vice Chairman of the Arkansas Rice Farmers Board of Directors, member of the Arkansas Agriculture Board, and many other positions. The list goes on and on.

Jennifer and her husband, Greg, have one 16-year-old son, Dylan, who hopes to follow in the footsteps of his parents and grandfather to work on the family farm.

I yield back, Mr. Chairman.

Chairman ROBERTS. Thank you, Senator. We will now turn to the witnesses for their testimony.

Mr. Bruce Rohwer. Bruce?

STATEMENT OF BRUCE ROHWER, FARMER, ROHWER FARMS, PAULLINA, IOWA

Mr. ROHWER. Thank you, Chairman Roberts, Ranking Member Stabenow, and members of the Committee. Thank you for the opportunity to share National Corn Growers Association views on today's risk management tools. My name is Bruce Rohwer. I farm near Paullina, Iowa. We raise corn, soybeans, and have a farrow-to-finish hog operation.

With ending stocks exceeding 2.4 billion bushels, it is more important than ever to build demand for U.S. corn. We need a robust livestock industry, more exports, and a strong and growing renewable fuels industry to make farming profitable.

From 2006 to 2013, corn prices averaged $4.70 per bushel. Since then, prices have fallen below $4.00 and are projected to average $3.35 this marketing year. If prices remain below $4.00, incomes will be very low or negative. Input expenses have started to decline but not fast enough to make up for falling revenues.

One key factor driving input expenses is a substantial increase in cost to register crop protection products, due largely to a rise in environmental safety data required by regulatory bodies. This is a serious concern given the importance of crop protection to risk management and profitability.

According to USDA, corn production costs reached a high of $690 per acre in 2014. Revenues fell $190 per acre from 2012 to 2015, but production costs have only decreased about $15. You can understand the serious drain on working capital and equity farmers are experiencing. In neighboring Illinois, the Farm Business Farm Management estimates net farm income declining to an average of $500 in 2015, the lowest amount since the service began keeping records. Without the ARC program, 2015 incomes on these farms would have been more than $30,000 less.

ARC-County has performed well, but NCGA asks you to consider several administrative concerns and changes in the market to ensure it remains an effective management tool. First, to ensure equitable payments we need the most accurate and consistent data sources. Second, program parameters at these lower prices will differ from when prices were falling from high levels.

NCGA is evaluating many changes including yields to address county anomalies, longer production history for appropriate guarantees, reducing deductible to 10 percent, a floor price adjustment to better reflect the average cost of production.

Commodity programs are essential but corn farmers' most important risk management tool is the Federal Crop Insurance program. Corn farmers predominantly insure with federal Revenue Protection, RP. More than 90 percent of the acres in the heart of the corn belt are insured at the 80-to-85 percent level. Coverage levels tend to fall in areas where risk yield increases and premiums rise. In January of 2016, in our risk management survey of farmers, the top concern was the potential cuts to premium discounts, coverage levels, and revenue policies price component.

To sum up, crop insurance provides well-targeted within-year protection against yield loss and declining prices while ARC and PLC protect against multiple years of depressed markets. As the farm economy deteriorates, access to credit remains a critical part of farm safety net. The NCGA has joined other groups to support additional funding for FSA direct and guaranteed loans.

NCGA appreciates the immense effort required to craft a new farm bill, and we look forward to working with you and your staff.

[The prepared statement of Mr. Rohwer can be found on page 179 in the appendix.]

Chairman ROBERTS. Thank you for your statement.

Kevin, you are next. Thank you very much, sir.

STATEMENT OF KEVIN SCOTT, OWNER/OPERATOR, EVERGREEN STOCK FARM, VALLEY SPRINGS, SOUTH DAKOTA

Mr. SCOTT. Good morning, Chairman Roberts, Ranking Member Stabenow, and members of the Committee. I am Kevin Scott, a soybean and corn farmer from Valley Springs, South Dakota, and a member of the Board of Directors of the Governing Committee of the American Soybean Association. ASA represents U.S. soybean producers on domestic and international policies. We commend you for holding this hearing on ag risk management programs in advancement of development of the 2018 Farm Bill.

ASA's policies on current Title 1 programs and crop insurance are approved by our voting delegates at Commodity Classic in February, and presented by the presidents of the Kansas and Michigan Associations at the listening sessions your Committee held earlier this year. I would like to briefly summarize those positions, and look forward to any questions you may have.

ASA believes Title 1 programs have worked as intended, and supports reauthorizing ARC and PLC as choices on a farm-by-farm and crop-by-crop basis. We also support offering an option to reallocate crop acreage bases or to update bases to reflect recent planting history, and to update program payment yields if funding is available to do so. Payments under these programs should continue to be based on average planting of covered commodities in recent years, rather than on current-year plantings. Decoupling encourages farmers to follow market signals rather than prospects for receiving government payments.

With regard to the county ARC program, yield data from RMA should be used, where available, rather than the current policy of using NASS data. For counties that lack RMA data, RMA yields from similar or adjacent counties should be used or averages to reduce discrepancies in yields and payments in neighboring counties.

Du to the steep decline in farm prices since 2013, the revenue protection provided under the ARC program has also declined. While 4 percent of soybean producers signed up for county ARC under the 2014 Farm Bill, CBO projects that only 25 to 30 percent will choose ARC if it is reauthorized in its current form next year.

ASA believes the Committee should look at ways to strengthen county ARC in order to make it a more attractive program option, without increasing the combined cost of ARC and PLC. Adjusting the ARC benchmark revenue guarantee or lengthening the year span for the Olympic average price could improve the choice given producers between the two programs.

Regarding crop insurance, ASA strongly supports the current program as an essential tool for managing risk. Crop insurance is now widely acknowledge as the most valuable part of the farm safety net. However, farmers in some regions choose not to purchase policies, showing us all that there is still work to be done.

The cost of crop insurance is paramount for Congress. It is also top of mind for farmers. For most of us, the cost of crop insurance is among the top expenses in growing a crop, along with land, seed, and fertilizer. The idea of capping insurance subsidies is perennial.

I want to draw your attention to recent work by Kansas State University, showing that in Kansas last year farms would have hit the $40,000 payment limit at just 1,166 acres. If such a payment limit were imposed, farmers would pay 100 percent of the premium for any covered acres above that level. It is important for the Committee to recognize the high cost of crop insurance premiums to farmers, and that many family farm operations would easily hit such payment limits.

That concludes my statement, Mr. Chairman. I will be pleased to respond to any questions you or the members of the Committee may have. Thank you.

[The prepared statement of Mr. Scott can be found on page 221 in the appendix.]

Chairman ROBERTS. Kevin, I was just reading a report that came across my desk this morning that farmers in South and North Dakota say the drought is the worst they have ever seen. Would you say that is the case?

Mr. SCOTT. It is serious. I live on the eastern edge of the state and my situation is not as serious, but the central parts of both states are in critical shape right now.

Chairman ROBERTS. Thank you. David, please proceed.

STATEMENT OF DAVID SCHEMM, FARMER, ARROW FARMS, SHARON SPRINGS, KANSAS

Mr. SCHEMM. Chairman Roberts, Ranking Member Stabenow, and members of the Committee, thank you for the opportunity to testify today.

The past couple of years have been challenging for wheat farmers across the country, particularly because of historically low prices. Producers of hard red winter wheat even became eligible for market assistance loans and loan deficiency payments for the first time in several years because prices dropped below loan rates. We have also been hit with big weather and disease events. I have personally experienced freeze, blizzard, wheat streak mosaic virus, and hail in my area, and now a devastating drought is gripping the Upper Great Plains wheat region. It is events like these which have such a widespread impact that make farm bill program so important.

The low prices have led to farmers needing to take out new loans to continue operating. As such, producers' debt-to-asset ratios have grown rapidly. I have included a chart in my written testimony with data from USDA's Economic Research Service, showing that over 8 percent of wheat producers are considered to be highly leveraged and 16 percent are extremely leveraged, showing the extent of economic stress.

Additionally, the recent dip in planted wheat acres reflects the economic conditions in wheat country. Planting for this crop year is down 9 percent from the previous year and is the lowest planted acres since records began in 1919.

The farm bill's Title 1 programs like ARC and PLC have served as key safety net programs that kick in for losses not covered by crop insurance. ARC has worked well but there are some tweaks that can be made, given the low-price environment, to improve it. We urge Congress to ensure that a mechanism is in place to maintain an appropriate benchmark revenue guarantee to help farmers through these difficult times.

Included in my written statement are several options for both price and yield components of the ARC formula. We believe one of the tweaks is utilizing a reference price in the ARC formula that remains consistent with whatever the final PLC reference price, in order to set a floor for the benchmark guarantee. We also recommend prioritizing RMA yield data, where available.

With regards to PLC, the current reference price for wheat of $5.50 per bushel is far below what it costs to produce the crop. We urge you to increase the wheat reference price so it more closely reflects the modern cost of producing the crop. It should be set at a level that is closer to $7.00 a bushel to try to truly enable PLC to function as a safety net for farmers when times are tough, like they are today.

We think loan rates for Marketing Assistance Loans and LDPs should be increased as well.

Ultimately, the next farm bill should maintain a choice between ARC and PLC so farmers can use the program that best fits their needs.

The federal crop insurance program has been, and continues to be, farmers' most important risk management tool. A farmer might go many years paying premiums for a policy and rarely get an indemnity, and they would much rather get a return from the market than become eligible for an indemnity. Crop insurance is critically important to enable a producer to farm another year when events outside of their control impact them. The federal crop insurance program has also performed incredibly well, with an improper payment rate of just 2.2 percent, which is about half of the government-wide average of 4.39 percent.

We also believe we need to continue a voluntary, incentive-based conservation program in the next farm bill. Our farmers have prioritized working lands conservation programs in our policies. We believe these policies should work with farmers to integrate conservation practices and techniques into the farming operations and should recognize the different needs in different parts of the country for different crop rotations.

Wheat farmers across the nation are experiencing the toughest economic conditions they have faced since the 1980s. This next farm bill will be critically important to farmers. The political and policy dynamics facing Congress this year are much different than the process to write the last farm bill.

A strong safety net and risk management system is needed now more than ever. Each year farmers face unpredictable risks when they plant crops in the ground and they rely on an effective risk management system and safety net to offset the inevitable weather disaster or price drop. Crop insurance and Title 1 programs have proven to be effective and good policy in general.

With that I will happily answer any questions.

[The prepared statement of Mr. Schemm can be found on page 194 in the appendix.]

Chairman ROBERTS. David, right on time.

Mr. McMichen, please, sir.

STATEMENT OF NICK McMICHEN, OWNER/OPERATOR, McMICHEN FARMS, CENTRE, ALABAMA

Mr. MCMICHEN. Good morning, Chairman Roberts, Ranking Member Stabenow, and members of the Committee. My family and I operate a fifth-generation farm in Centre, Alabama, and we are partners in a cotton gin. Our crop mix consists of cotton, corn, peanuts, soybeans, and wheat.

The passage of the current farm bill coincided with significant changes in the global cotton market. Shortly after the bill was approved, cotton prices began a significant decline, the result of a build-up of global cotton stocks, decreased demand, and reduced exports. I highlight these issues because of the strong influence of international markets and man-made fiber on the financial conditions of U.S. cotton farmers. In 2015, this led to the lowest U.S. cotton acreage in more than 30 years. Since 2014, market returns from cotton and cotton seed have fallen short of the total cost of production, and based on current market conditions, financial pressures will continue through 2018.

Cotton is the only program crop that does not have long-term price protection in the farm bill. This situation is a result of policy changes forced by the WTO trade challenge by Brazil. As a result, Congress provided the STAX insurance policy for cotton. Unfortunately, given the changes in market conditions, STAX has proven inadequate.

Our industry will continue to pursue the best policy to provide growers with adequate protection that is consistent with the needs of our industry, while taking into account the full value of the cotton crop from both fiber and seed.

We are continuing our policy development work with the goal of providing agricultural committees with policy recommendations by early fall. Our industry can attest an effective safety net for producers must consist of two key components: a commodity policy that provides price or revenue protection to address prolonged periods of low prices, and a suite of crop insurance products producers can tailor to their risk management needs to address yield and price volatility within the growing season.

Crop insurance remains a critical component of the overall safety net for cotton. Nearly all cotton acres are covered by some level of individual crop insurance. Our industry relies heavily on a properly functioning marketing loan program that helps ensure orderly marketing and the flow of cotton to the market. Maintaining the marketing loan policy, with some minor adjustments, is a priority.

We are strongly opposed to any further tightening of payment limits and eligibility requirements. These policies are already too restrictive, given the scale of farming necessary to be competitive. The current definition of "family member" that is used for actively engaged should be broadened to ensure extended family members are not forced out of the farm simply because they do not fit the overly restrictive definition.

The recent years of stability in the textile industry can be attributed to the benefits of the Economic Adjustment Assistance program. The program supports a manufacturing base that creates jobs in the U.S. We strongly support the continuation of this program.

U.S. cotton is also heavily reliant on exports so it is essential to have well-funded programs to help leverage private sector resources to expand export markets and grow demand. A central part of this effort is the USDA MAP and FMD programs.

In summary, for the past three years cotton producers have struggled with low prices, high production costs, and the resulting financial hardships. While cotton futures increased for a brief period earlier this year, markets have now retreated, meaning most cotton producers continue to face economic pressures and declining credit conditions. It is imperative that the next farm bill include cotton in the Title 1 programs to access the same complement of risk management tools as other crops.

The National Cotton Council looks forward to working with the Committee and other agricultural organizations to pass a new farm bill that effectively addresses the needs of all commodities and all producers.

Thank you, and I would be pleased to answer any questions you might have.

[The prepared statement of Mr. McMichen can be found on page 141 in the appendix.]

Chairman ROBERTS. Thank you, Nick.

Mrs. James, please.

STATEMENT JENNIFER JAMES, OWNER/OPERATOR, H&J LAND COMPANY, NEWPORT, ARKANSAS

Mrs. JAMES. Chairman Roberts, Ranking Member Stabenow, and members of the Committee, thank you for holding this important hearing.

My name is Jennifer James. I am a fourth-generation rice farmer from Arkansas, and I am honored to offer this testimony on behalf of the USA Rice Federation.

Rice is grown on three to four million acres across eight states. Arkansas counts for half of the annual production. The industry provides jobs and income for more than 128,000 people, so while a small commodity by acreage, we pack a punch, contributing $34 billion annually to the economy.

Rice farms are economic drivers, generating, on average, $1 million per farm each year in our local economies. Unfortunately, rice growers have been forced to operate at or below their cost of production for the last three years. For young farmers, there has been little opportunity to build equity. The USDA's most recent price forecast for 2017 shows a 36 percent decline since the 2014 Farm Bill passed.

U.S. rice farmers rely heavily on exports, with 50 percent of our production being sold to over 120 countries around the world. We account for 8 percent of global rice trade. This creates a volatile market which is compounded by the fact that the U.S. is the highest-cost producer globally. Many of our competitors are from developing countries with governments that heavily subsidize rice production, in many cases at levels well beyond their WTO commitments.

The 2018 crop year is forecast to have some of the highest rice production costs on record, nearly $1,000 per acre. Because of specialized infrastructure, field equipment, soil types, and weather needed for rice, our operating costs exceed every other crop covered by the commodity title. Due to these factors, rice farming is a long-term commitment. We intend to ride out the storm but we could not do so without the safety net that the Price Loss Coverage program provides.

One of the reasons I am still in business, along with the majority of rice farming families, is because of the 2014 Farm Bill's safety net, specifically PLC. Ninety-nine percent of long-grain rice farms and 94 percent of medium-grain farms selected PLC, and it has provided critical counter-cyclical assistance.

While PLC has generally worked well, we believe it needs to be updated to reflect rising production costs and inflation. In my written testimony, I have laid out preliminary recommendations to make Title 1 assistance more effective for rice farmers, like moving up the timing of

payments. We look forward to working with this Committee on these important details.

The current actively engaged rules are problematic. The strict definitions impact farms not solely comprised of lineal family members and impose an arbitrary cap of three managers per operation. USDA's final rule also does not protect entities from maintaining family farm status following the death of a lineal family member. I urge this Committee to provide an exemption to protect farm families against unforeseen linkage breaks in operating structure, and while also protecting independent farm enterprises.

USA Rice also supports the repeal of AGI tests. The farm bill should not punish growers for farming larger tracts or being profitable by disqualifying their operations from farm safety net programs.

Finally, a $125,000 payment limit seemed like a far-fetched problem when prices were high in 2013–2014. Unfortunately, many rice farmers are hitting that pay limit today. It seems counter-intuitive to maintain policy that provides full assistance to producers when they experience some losses, but only partial assistance to those that are hit the hardest. If farm policy is meant to stand by the farmer when needed most, this problem should be addressed.

My written statement contains some facts relative to crop insurance. In short, we need to make it work better for rice. I am also personally very committed to the conservation programs that do, in fact, mitigate risk for many rice farmers while providing benefits for our water, soil, and wildlife.

There is so much more I could say but let me end with this. Farm families take an incredible risk each year in the face of often-distorted global markets, unpredictable weather, disease, and any other number of factors. We do this because we love it, and because a hungry world needs our product. But there are times when we need your help.

I am here to ask that this Committee not only maintain our commodity title programs but also strengthen them, using our recommendation. USA Rice stands ready to work with you in your efforts to reauthorize this important legislation, and I look forward to your questions.

[The prepared statement of Mrs. James can be found on page 110 in the appendix.]

Chairman ROBERTS. Thank you, Mrs. James. We have 17 witnesses to provide testimony. I want to thank this panel very much. All of you mentioned crop insurance. I have a particular and keen interest in that program. We have all heard about the hail, the droughts, the floods, other risks that you have to face.

Are there particular risks—and this is for the entire panel—are there particular risks that are not currently addressed under this program, and if you could, what improvements should we consider in the crop insurance title in the farm bill? We will start with Mr. Rohwer.

Mr. ROHWER. For corn, I would say that the crop insurance program is situated well. The largest concern is that we not fix something that is not broken.

Chairman ROBERTS. Thank you with that, Mr. Rohwer. Mr. Scott.

Mr. SCOTT. For soybeans, also, the program fits fairly well on the crop insurance side. There are some specific areas that the program does not work as well, and so producers oftentimes will—sometimes choose not to participate in the program, based on it just does not fit their situation, and some of those things can be discussed later but they are kind of particular to certain regions of the country that the crop insurance is not quite as equitable as it could be in those areas.

Chairman ROBERTS. In those areas, do those producers have any trouble getting a loan from their lender, since they do not have crop insurance?

Mr. SCOTT. Well, I would say that some of the acres are insured and some are not. The farmer that I am particularly aware of——

Chairman ROBERTS. So there is one.

Mr. SCOTT. Well, he is on our board and so we visit quite a little, and he just said that for a certain part of his acres the crop insurance does not work. It has to do with flood plain and other things that I do not deal with in South Dakota, and so I am not as familiar.

Chairman ROBERTS. So it is a regulatory problem.

Mr. SCOTT. Yes.

Chairman ROBERTS. Okay.

Mr. SCOTT. I would get back to you on some of the specifics of that later, if you want more information.

Chairman ROBERTS. Okay. Thank you. David?

Mr. SCHEMM. Thank you, Mr. Chairman. As you have mentioned, and I have heard repeatedly, crop insurance is a number one priority for our producers, in order for them to be able to farm the next year. It has functioned well. The one area that we are discovering where we believe there could be room for improvement is in regards to quality, in particular when we get into our northern states when they have a quality issue called falling numbers affect them on their crop insurance side of it, where producers are actually losing value to their crop from a quality standpoint, but RMA is actually utilizing that against their yield component.

So there are tweaks that need to be made in that area, when it comes to the quality side of it, but overall the program is functioning well, and throughout the country I hear from our producers that it is vitally important that we protect it and maintain it where it is at.

Chairman ROBERTS. Thank you, David. Nick?

Mr. MCMICHEN. Thank you, Chairman Roberts. Crop insurance in the cotton industry is a vital tool in our toolbox, and although everyone chooses to use crop insurance in some form or another it is much more of a regional product. From California to Virginia, the needs of cotton producers are much different than they are, say, in the high plains of Texas than they are to my friends in the Carolinas and Virginia that have suffered from quality losses.

Although we need crop insurance, it identifies a much broader need of needing cotton back in Title 1. As that being in the toolbox crop insurance is for year-to-year losses in yield and revenue, and that would work and coincide with cotton being back in Title 1, I think would best improve our needs.

Chairman ROBERTS. Mrs. James?

Mrs. JAMES. Thank you, Chairman Roberts. Thank you. For rice, as I mentioned, crop insurance does not work quite as well as the other crops. Because of our controlled environment, our yields are normally fairly stable, although we can have disasters from weather and disease at times. So we need to protect against revenue. The Chicago Board of Trade, for rough rice futures, is very thinly traded, and actually, in 2015, there were not even enough trades to even set the expected price in the spring, so we did not have a revenue policy that year.

It is actually not as affordable for rice, and so we need to work on trying to make coverage more affordable for rice as well.

Chairman ROBERTS. Real quickly, everybody has mentioned regulatory reform in one sense or another, and I can remember someone from Sharon Springs telling me—it was not you, David, but it was somebody a little senior to you—who talked to me some time ago, said, "Pat, I have just about given up. I feel ruled, not governed," and, unfortunately, that has been a feeling in farm country for some time.

If you had any regulation that has been bothering you, which one would you recommend that we take on? Let us go down the panel again. Mr. Rohwer?

Mr. ROHWER. Specific regulation? I would guess that the——

Chairman ROBERTS. I know you want to use your shotgun, but use a rifle right now.

Mr. ROHWER. Yes, sir. I would guess that it would have to do with the increased data that has to be done in the risk protection, or crop protection registration process. That extra that is being required to get these in is problematic because we need new crop protection approved by EPA.

Chairman ROBERTS. Mr. Scott?

Mr. SCOTT. Well, in South Dakota and North Dakota, we live in kind of the prairie pothole region, which is a code word for wetlands, basically, and we have incredible wetland determination problems in our area because of the backlog that has been created there. Farmers would like to drain and farm areas that they have that may be wet in the spring and dry out in mid summer, and become not a wetland anymore. It is just a spot in the field that has weeds. We would like to be able to drain those things.

Our NRCS regulations are pretty interesting and not very compliant with other states. We have issues where our regulations seem to differ, and they it would be nice if they were all—you knew what you were getting into when you wanted a wetlands determination. But in South Dakota we have an issue there that we are not always sure that those things get done the way they should be done.

Chairman ROBERTS. Okay. Move quickly, people. Mr. Schemm, please. David.

Mr. SCHEMM. Thank you, Mr. Chairman. Well, you have been to Sharon Springs and you know that we do not have a lot of navigable waters out our way, and so that is obviously a big concern that I have heard many times from our farmers out there. But it also, as Mr. Rohwer mentioned as well, is pesticide regulations, access to effective chemicals and crop protection products that have them very concerned as well.

Chairman ROBERTS. So you are talking about WOTUS. I think the President has something to say about that.

Mr. McMichen?

Mr. MCMICHEN. Thank you, Chairman Roberts. The Waters of the U.S. rule is a major concern to cotton farmers as well as Endangered Species Act, and having to consult with U.S. Fish and Wildlife as far as bringing products to the producer. The task that is coming forth, the consultation is far too cumbersome and takes too long to get products back to the farmers. So we would like to see that streamlined and think that process could be improved much upon, as well as repealing the Waters of the U.S. rule.

Chairman ROBERTS. Thank you, sir. Mrs. James.

Mrs. JAMES. Conservation programs are extremely important to the rice industry and the registration for the SAMs and DUNS number to be eligible for those programs is extremely complex and cumbersome, so exempting us from those registrations would be quite helpful.

Chairman ROBERTS. Thank you for that. Senator Gillibrand.

Senator GILLIBRAND. Thank you, Mr. Chairman. Would this be the appropriate time to introduce my witness for the third panel, or should I submit it for the record?

Chairman ROBERTS. Well, you could hopefully come back to introduce that person or I could introduce that person on your behalf, or you could submit it for the record now.

Senator GILLIBRAND. That would be fine. Then I would submit my introduction for Lindsey Shute, who will be on the third panel.

Chairman ROBERTS. Without objection.

Senator GILLIBRAND. Thank you.

[The following information can be found on page 72 in the appendix.]

Senator GILLIBRAND. Thank you. For this panel I do have some questions. On crop insurance, for Mr. Rohwer, on the end, in 2015, the corn growers in 51 of the 55 New York counties for corn that received an ARC payment. Given the extraordinary drought in western New York in 2016, and projected prices it is likely that many farmers will again receive payments, even as the average reference price slips. However, I suspect that a few counties will be left out because of how yields are calculated.

I know that you have concerns about the data USDA has used in some counties to calculate yields. Can you expand on how the quality of this data could be improved and made more consistent?

Mr. ROHWER. The corn growers feel that we could move to RMA data for better coverage throughout the country as a whole, and we are very supportive of Senator Hoeven's amendment to the Senate Ag Appropriations bill that would require, on a pilot basis, that state FSA offices and committees be able to determine ARC payments in counties that do not have a NASS published yield. But it is most important that whatever system is used within a county be the system that is used throughout the entire period of the program, we are not switching back between one year NASS, one year RMA. That is apples to orange.

Senator GILLIBRAND. Right. Has the reluctance of some growers to participate in NASS surveys affected ARC payments in Iowa?

Mr. ROHWER. Iowa has pretty good coverage of NASS surveys. There are areas where it comes close to not making the statistical minimum number of responses, but for the most part Iowa is pretty well covered with the NASS survey.

Senator GILLIBRAND. Thank you. For other witnesses, several of you have cautioned the Committee against changing how USDA determines whether an individual is actively engaged in agriculture and therefore eligible for payments. The current definition seems fairly expansive.

Did any of your farming operations have a major change in structure or the number of actively engaged individuals after the passage of the 2014 Farm Bill, or in 2016, with the change in who is eligible to be a farm manager? Anybody who has an answer. Mrs. James?

Mrs. JAMES. I did not have that instance actually occur but a concern of mine in my operation—I farm with my father and my husband—and my son, he is only 16, but he would like to—he dreams of coming back to the farm one day. So for the actively engaged rule, if I, myself, were to pass away, the direct lineage from grandfather to grandson has been broken and that could change the payment limits in the actively engaged rule for our family farm.

Senator GILLIBRAND. So do you think that needs a legislative fix?

Mrs. JAMES. I think it definitely needs to be broadened.

Senator GILLIBRAND. Yes. Without a doubt.

Mr. MCMICHEN. Senator Gillibrand, I would echo Mrs. James' statements. I have a daughter and a future son-in-law that are involved in the farm and I have a son that plans to come back to the farm also, and in the future, should one of those decide to step away and they had children in that operation, a first cousin would be ineligible to do that. So he would not be of lineal descent and that is something that needs to be addressed because they are family, as first cousins, so that needs to be addressed, I think, legislatively, because, frankly, that is incorrect and we think that should be looked at.

Senator GILLIBRAND. Anyone else?

[No audible response.]

Senator GILLIBRAND. Thank you, Mr. Chairman.

Chairman ROBERTS. I thank the Senator. Senator Ernst.

Senator ERNST. It is Senator Grassley.

Chairman ROBERTS. Oh, it is Senator Grassley. I am sorry.

Senator GRASSLEY. Mr. Rohwer, I have one question for you but before that I think I ought to thank the Chairman for having this hearing, particularly on these most important parts of the farm bill, the safety net for farmers, because I hope it means that we are speeding along to get a bill brought up so we get one passed before we get into the new year.

In your testimony, you discussed the ARC–County program and mentioned that the corn growers is reviewing a few ways to improve the program without undermining its market orientation. I would like to have you expand on your point that it is important to have market-oriented farm programs, and I would guess that your statement comes a little bit because it is connected to our trade policies, and to make sure that we are not doing something that violates our ability to trade.

Mr. ROHWER. Thank you, Senator. We, as NCGA, have had our voting delegate body reaffirm that the preference in government program be revenue-based, that it is market oriented so that, whenever possible, the market is what is rewarding farmers and not the government. We feel that this is important to have it decoupled, as it has been, and that we are able to avoid complications that could arise from a program that might be crossways of WTO rules. This is where we feel that the current program is fitting well.

Senator GRASSLEY. Yes. Well, I happen to agree with you because I think markets provide clarity for when to plant more or less of a particular crop, before more market-oriented—being more market oriented is also critical from this trade perspective that I referred to. We do not want another WTO cotton case that ends up with the taxpayers giving Brazil nearly $1 billion so that we can keep subsidies flowing to our cotton farmers instead of making changes.

Mr. Chairman, I am going to take the rest of my time, and I do not think I will go into the 2 minutes and 35 seconds. You went over your time but I would like to finish a statement on another issue.

I would like to address some comments that I have seen about payment limits and eligibility for farm programs. First, to groups that are complaining about the definition of family members related to program eligibility, I agree. That was wrong to include, at the last minute of the farm bill conference. My original payment limit language was far superior and much simpler. In fact, this family member gobbledygook was include solely as an end around my payment limit amendment, which was passed with bipartisan support on the floors of both bodies of the Congress in exactly the same form, and should not have been touched by conferees. The organizations who are now complaining were part of the effort to thwart my common-sense bipartisan payment limit reforms.

For those who do not remember my payment limit amendment from the last farm bill, it was actually really quite simple. Everyone who really farms maintains eligibility, and an operation had the potential to name one additional manager. Admittedly, a few people who do not farm yet were listed as managers, for the sole purpose of getting subsidies, would have been kicked off the farm program, like that was a—but that was a very intent of my amendment, which I am sure everybody understands.

Perhaps the most important thing that I can do is explain why this issue is so important. Giving non-farmers subsidies is completely indefensible, especially when we have a $20 trillion debt. If bigger farmers are as efficient as they claim, they should not need unlimited subsidies to make their business model work. All they are doing is shifting risks to the taxpayers.

The true impact of unlimited subsidies to the largest farmers is that it keeps young farmers out. Mr. Schemm stated, in his testimony, that the average age of U.S. farmers is 58. That is not surprising considering the only ways to really get into farming is to be born or marry into a farming operation. Our rural communities have consolidated enough, when the largest farmers continue to take land that reduces the customer base in rural towns for restaurants and stores and small businesses, generally, and decreases the number of children in schools.

So, Mr. Chairman, for the life of me I do not understand how $125,000 a year, which is usually $250,000 if the farmer is married, and double those limits again, if they grow peanuts, is not enough to get farmers through a year. I do not envy the budget challenges that Chairman Roberts faces with the farm bill one bit, but why do we leave loopholes in place that open us up for ridicule? What is the harm of supporting a policy that helps young and beginning farmers give us credibility against our critics and save our money for the taxpayers?

So, Mr. Chairman, I am just trying to help you get by a very tight budget situation as we try to help those farmers that really are on the land, doing the work, and managing from the standpoint of participating.

I yield the floor.

Chairman ROBERTS. Well, thank you, Senator, for that very strong message. You are only over time by 1 minute and 45 seconds.

[Laughter.]

Senator GRASSLEY. I reserve the rest of the 1 minute and 15 seconds.

Chairman ROBERTS. I see. Well, I was about at that time so I think it is a fair shot. Message received.

Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman. Mrs. James, last week I was encouraged that we might finally be able to export rice to China with the completion of the phytosanitary agreement. As the world's largest consumer of rice, that represents a tremendous market and certainly we have to open new markets for all of our commodities as we go forward. That truly is key. We are working hard to try and open the market with Cuba. They import 80 percent of their food and so that would, again, be a tremendous market for all of us.

We operate on an international market. However, many actions by foreign governments distort world markets, as we have talked about, and again, this is a clear example of why we need to have a safety net for our farmers at home.

Could you describe, in more detail, how Title 1 programs have helped your farm as well as the local economy and surrounding rural communities during this challenging economic time for farming? Could you also describe the importance in Title 1 programs of managing the risk from multi-year sustained low prices?

Mrs. JAMES. Yes. Thank you, Senator, and I look forward to hopefully exporting some rice to China as well.

The Title 1 programs for rice have been lifesavers, actually, business savers. They have kept us in business, specifically the PLC program. Our main risk in rice production is price volatility, and so this has helped us tremendously. We are entirely irrigated and our yields do not fluctuate as much, but just like you said, we are at the mercy of the marketplace.

I do not have many of the same risks as other row crops, or especially dry land crops, so irrigation is my insurance policy most years. PLC provides protection in multi-year price declines and it is not a complex program, and I do have a floor which is steady from year to year.

Agriculture is very important to my community as well as other ag communities across this country. It is the driver of all the economics, and we can certainly see a difference in my community when agriculture is down and when it is up. So it hurts our schools, it hurts our hospitals, it hurts many other areas in our local economies when we have bad ag years.

Senator BOOZMAN. Very good. I hear a lot of concerns from producers about how further ratcheting down payment limitations could impact family farmers. Can you briefly describe what would happen to your family's farm if a payment limit of $50,000 was adopted in this farm bill?

Mrs. JAMES. If a payment limit of $50,000 were to be adopted it would most likely put my family farm out of business, and many others like mine. Just to give you a little example, $50,000 in the current price situation would cover around 250 acres of rice. With the cost of the tillage equipment, the planting equipment, a combine, a grain cart, semi trucks to haul that rice to market, it would not be economically feasible to plant 250 acres of rice. So that payment limit just is not economically feasible.

Senator BOOZMAN. Very good. I want to ask the panel, and quickly because we are running out of time and I do not want the Chairman getting on to me, about farm credit. Can you start, and perhaps talk a little bit about how the Title 1 programs and crop insurance, when you go to your banker to secure a loan, how important they are. Then, also, if we are having trouble with credit otherwise.

Mr. ROHWER. The crop insurance program, specifically, is very important for securing loans, especially with young farmers as well as established farmers. You need to have access to credit, and this—by having a good, solid risk protection program like federal crop insurance, it ensures the banker that he will be able to have the loan serviced, so it is crucial.

Senator BOOZMAN. In your experience, do the bankers understand the farm programs? Do they understand the safety nets that are out there? Is credit more difficult to obtain?

Mr. ROHWER. I use a small-town family banker and he is also a farmer, so he understands.

Mr. SCOTT. If our bankers do not understand it, then you better make sure they do, because if they have questions then it is not a very good lending situation, and the crop insurance does give them some security. We have such huge input costs in farming right now that if you do not have some backing on that, then the credit is pretty difficult to obtain.

Senator BOOZMAN. Okay. Anybody else?

Mr. SCHEMM. Thank you, Senator. Bankers understand crop insurance and it is a vital component that they are utilizing there. I think the challenge on the ARC side is an inconsistency in payments across counties, and so sometimes it becomes difficult for them to factor that in and then the delayed payments make it difficult, especially, again, for those beginning young farmers trying to establish credit.

Senator BOOZMAN. Very good.

Mr. MCMICHEN. Thank you, Senator Boozman. Crop insurance is a critical tool for us and with our bankers, in the cotton industry, we are under a very serious credit crunch, and with cotton not being a Title 1 commodity, bankers understand that but are reluctant to give loans out because there is no safety net. Crop insurance is just a tool for a temporary thing. So that further exemplifies the need for cotton to be in Title 1, because credit for cotton farmers is getting to be harder and harder to get, and for a young person, with the cost of a new John Deere harvester at $750,000, and he must farm 2,000 acres of cotton to justify one, it is virtually impossible to get that credit. So we need cotton back in Title 1 and we need that to help our credit also.

Senator BOOZMAN. Okay. Mrs. James?

Mrs. JAMES. I would say that the crop insurance for rice essentially is—it does not work quite as well, so bankers do understand about the PLC program and Title 1, how important it is for rice lending.

Senator BOOZMAN. Good. Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Ernst.

Senator ERNST. Thank you, Mr. Chair, and this has been a great conversation today, and I want to go back. One of my questions did deal with ARC and the payment discrepancies between counties. I think a number of you have already touched upon that. I am glad to hear that. That is something that we can work on in the next farm bill, so I appreciate that.

But through the discussion we have also touched upon some other things that are really important, all building off of crop insurance. We have talked about loans. We have talked about young farmers and how they can engage in farming activities. We have also talked about trade.

Bruce, I am going to go back to you and let us talk a little bit about where we are as a country in leading the world. In your testimony you touched on the incredible yields that we have been able to experience through improvements made by corn farmers here in the United States, because those farmers are embracing technology and conservation practices. Our production capabilities really are the envy of the world. I hear that from a number of different organizations in other countries. We enjoy low food prices as a result of that, a definite benefit for us.

But what, in your opinion, are the things that the Federal Government should be doing or should not be doing to ensure that we are maintaining our leadership role in agriculture?

Mr. ROHWER. We need to keep our agriculture community strong and to do that we are going to need to figure out how to increase demand for our products. We have a three-legged stool of demand for corn, between livestock, exports, and the ethanol industry, and we need to make sure that demand is ever-increasing. The exports are the one area that has the most room to increase, and so it is absolutely crucial that we have a good trade climate worldwide so that we can find a home for this great bounty that we are able to produce.

Senator ERNST. Thank you. I agree wholeheartedly, and we have to work on that export situation, and I am glad that we have Secretary Perdue pushing that as an initiative as well.

I would like to touch a little bit upon our young farmers as well. Several of you have mentioned that you are engaged in farming with other family members, you are getting your children involved in that discussion as well. So from the entire panel, just very briefly, I would like to know, what were the biggest challenges that you faced when you entered into farming, and what challenges do you think our young farmers are facing now, as you are trying to bring them into the farming operation as well? We hear this from constituents all across the state of Iowa about how challenging it is, but maybe the differences between when you engaged in farming and maybe what you might see your children facing. Mr. Rohwer, if we could start with you, Bruce.

Mr. ROHWER. I started in the late '70s, so I was ahead of the farm crisis of the '80s, so those were the challenges I faced as I started, and I hope that my children will not face the similar economic downturn that we faced back at that time. I think that is the quickest way to put it.

Senator ERNST. Great. Thank you.

Mr. SCOTT. I started in the '80s, and did not have anything and did not know any better, and that was a good place to start. Our kids nowadays, the hard part of that is we currently have had pretty good farm economy in the past few years and so our equipment and things are beautiful and wonderful, and we have got our infrastructure in pretty good shape. I am afraid that my son will not really know what hardship is, and this downturn has not all been bad. We could do pretty much what we wanted to in the past, for infrastructure and things, and not being able to do that is not a bad thing for the young people.

So having them to go through that, I think, will improve their ability to perform in the future.

Senator ERNST. Right. Very good. Thank you.

Mr. SCHEMM. Thank you, Senator. I returned to the farm in the early '90s, and after having spent three months trying to purchase a small piece of land back then, trying to utilize USDA and beginning farmer loans, my banker threw his hands up in the air and said, "I will just loan you the money for it because I know you and I know your family." So I hope, as my son here plans on returning to the farm after he graduates out of college, that he can have easier access to the programs, without having situations like that occur to him in the future.

Senator ERNST. I hear that frequently. Thank you.

Mr. MCMICHEN. Thank you, Senator Ernst. When I started farming in the early 1990s, we are a fifth-generation farm growing cotton, at the time we had a vibrant cotton industry as well as a domestic textile industry. In return, that has reversed, and now we export 75 percent of our raw cotton to foreign countries.

As we look forward to moving our farm forward with the sixth generation, and possibly forward after that, without an effective safety net for cotton our future is uncertain. Cotton is what has paid for our farms. It is what has done everything for us. We are the best, we the most efficient farmers in the world at what we do, and U.S. cotton is the envy of the rest of the world. We look forward to working with Congress and everyone else to make sure that we have excellent trade for our cotton and that we can expand markets and that we have a place for our cotton to go, and hope that our farm can continue. It started in 1842, and we could continue well on into the next century.

Senator ERNST. Yes. Congratulations. Thank you.

Mrs. JAMES. I came back to the farm in the mid '90s, and actually walked our rice fields and did a lot of the agronomy at that time. So I think, moving forward to the financial area was much more difficult to conquer. So I think as my son enters into the operation, new farmers—the agronomy will come easy. We are great at producing food in this country, and actually, that may actually be the easy part. I think understanding the financial, the governmental, the crop insurance, the regulatory areas of farming in the future are going to be very important to new farmers.

Senator ERNST. Yes. Great. Thank you very much. Thank you, Mr. Chair.

Chairman ROBERTS. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman. All incredibly important and optimistic. I always tell people the single most important job for a North Dakota Senator is a farm bill that works as an effective safety net, but also helping to build other kinds of tools, like trade, like increased economic opportunity, like value-added, what can we do to actually produce fiber from the cotton that you grow. We look at all this, and the other side of the coin, beyond a safety net, is a good market.

I just would like your reaction to some of the concerns, or no concerns that you have, in terms of U.S. trade policy and how we can move forward to advanced increased market, and maybe if you want to add a discussion about value-added agriculture and where the opportunities are in value-added agriculture that we are missing today.

So we will start with the corn growers.

Mr. ROHWER. Thank you, Senator. I think that as we see the continued improvements in our ability to grow crops, and have such prolific plants, that do so well under weather adversity the need for free trade agreements and the ability to sell, whether it is the corn, the livestock as meat, or the ethanol or DDGs as value-added, all of these things are why we have to find more and more markets, because we have the ability to produce so much more.

Mr. SCOTT. Thank you, Senator. For soybean crop we export 60 percent of what we grow from the United States, and in South Dakota and North Dakota it is probably a much higher percent than that. As far as value-added, we would love to put it on a hoof and expert it that way. So continuing expanding our livestock industries in our states is critical.

Also, the FMD and MAP funding, we have had, in the U.S., a pretty stagnant funding of that. It has been the same for many years. It is a very effective program, a high rate of return, and soybeans would love to have that expanded and utilized.

Senator HEITKAMP. Thank you.

Mr. SCHEMM. Thank you, Senator. Yes, trade is vitally important to wheat. Fifty percent of our crop is exported every year nationwide. I think there are two components here. One is enforcement of trade agreements we have now. We have some countries out there now subsidizing their wheat farmers to the point of almost $10 per bushel. So we need to enforce those trade agreements that we do have.

The other component of that, though, is we do need those trade agreements out there, and so that is vitally important. With those trade agreements coming out there, as Mr. Scott mentioned, we do need MAP and FMD funding increased. The return is around 35-

to-1 on our dollars, and according to a recent Informa Economics study it has increased net farm income by almost 15 percent in being able to have that MAP and FMD funding out there to help establish those trade agreements and those relationships with those other countries.

Senator HEITKAMP. Thank you. Mr. McMichen?

Mr. MCMICHEN. Thank you, Senator. I would echo the statements of Mr. Schemm and Mr. Scott. The MAP and FMD funding is critical, and as cotton, as I stated earlier, about 75 percent of our cotton, raw cotton, is exported and another 15 to 20 percent is exported that is cotton textile products. The main export markets are China, Vietnam, Mexico, Turkey, and Indonesia, and we also would like to explore other options, as well as opening up the U.S. and China trade dialog to get additional U.S. cotton exported over there.

We are also focused on working with Congress and the administration to ensure that NAFTA renegotiation does not harm the existing market for U.S. cotton and cotton textile products. So we look forward to working with all of you on that.

Senator HEITKAMP. Thank you.

Mrs. JAMES. First of all, I would like to thank you for your work on Senate Bill 275 with Senator Boozman in helping to open up some rice in Cuba, so we appreciate your work on that. Fifty percent of the rice crop is also exported, although we are only 8 percent of global trade. So we are privy to world market prices, and like some of the other panelists said, high subsidies in other countries. We have to compete against them. Also the FMD and MAP funds are very important to the rice industry as well.

Senator HEITKAMP. I think when we look at this, we look at component pieces of the farm bill and the safety net, but the best safety net is a free enterprise system where we can sell our products, and no one is more sophisticated in any industry on trade than agriculture, and we really appreciate all your support. Let us continue the dialog and let us make sure farmers are not left behind as we renegotiate and as we look at trade agreements.

Chairman ROBERTS. Thank you, Senator. Senator Hoeven.

Senator HOEVEN. Thank you, Mr. Chairman. Thanks to all of our witnesses for being here.

Starting with you, Mr. Rohwer, talk to me about the importance of the FSA loan program, but also the guarantee limit and the direct loan limit and the funding level. What do we need to do?

Mr. ROHWER. The FSA program is one of the loan programs, one of the best ways for farmers to facilitate their working capital. It is—the competitive interest rates there for young farmers is very, very helpful for them to be getting established, and these programs need to be continued and their funding fully supported, and be increased, if at all possible.

Senator HOEVEN. Right. So I have got legislation, on a bipartisan basis, that would increase the loan limit to about $2.5 million—excuse me—the guarantee, the FSA guarantee to about $2.5 million, and the direct loan to about $600,000. So, specifically, I want comment on that because I am trying to pass that legislation—unless you are not particularly enthusiastic, then if you want to pass that is fine.

Mr. ROHWER. We need to make sure that the loan limits are high enough to be able to cover these infrastructure costs, because the costs of grain bins and related facilities like that are expensive, and it takes money.

Senator HOEVEN. Absolutely. I mean, look at the price of a tractor or a combine or any kind of tillage equipment, the price of land, your cost of inputs, right? I mean, is it not just common sense that we have got to increase both the guarantee limit and the loan limit, and actually the underlying funding amount, particularly as our farmers go through this challenging time with drought and with low prices.

Mr. ROHWER. Farming has always been capital intensive, and as prices inflate on everything it only becomes more so.

Senator HOEVEN. Okay. Let us go right down the line, and I would love to have you express your enthusiasm, but if someone has a concern I want to hear that too.

Mr. SCOTT. Increasing the amounts, of course, is just a reflection of what we are dealing with today, in today's markets. It is not impossible, or even improbable, that $1 million would be borrowed just for operating capital before you harvest the crop, and so a $600,000 operating note is very little for most family farms. Two-and-a-half million dollars, if you are going towards buying real estate, yeah, that is right in there. You can buy some real estate, and depending on where you live, of course, but in certain areas that does not last very long either.

Senator HOEVEN. Right.

Mr. SCHEMM. So I am enthusiastic.

Senator HOEVEN. Good.

Mr. SCHEMM. Yes, Senator. I would echo previous comments that with the additional costs, input costs that we deal with now, it is vitally important. It is unique, kind of, in my area, in the aspect that I grow both winter wheat as well as summer crops too, and so by utilizing those FSA loans what it allows me to do is not be forced into selling that wheat crop during the summer at a historically low period of time during harvest time, but to delay that to market that grain at a better time, so that I can help to pay input costs in my summer crops there. So because of the timing of different harvests in my area, the loan programs are vitally important.

Senator HOEVEN. That is—I mean, we are seeing that right now, for a farmer who was able to carry over some grain, and not sell it when prices were real low over the last year. But now with drought and so forth, you are seeing some of these prices improve, right, and a lot of them are not going to have a crop in our area this year. They would have that crop now to sell and get some money and maybe a little bit better price. So, I mean, you make a very important point there.

Mr. SCHEMM. It has been very key in our area, particularly for the hard red winter wheat in quality, because quality is in demand this year. However, elevators are not willing to pay for that quality at harvest time. So it allows those producers to store that crop, to capture anywhere from a 20 cent to almost a dollar premium per bushel, so they are critically important to our producers.

Senator HOEVEN. Exactly.

Mr. MCMICHEN. Thank you, Senator. The cotton industry is heavily dependent on the loan also, because we are an export market most of the way there, so the marketing loan allows us to have our cotton and we can search for those markets to get the full benefit of our crops. As far as the loans that we do for beginning farmers, they are very important. I started out with a guaranteed loan from Farmers Home Administration, and I am a product of that, and it is very important.

But the expanded limits, I think, are very important. Cotton is a unique crop because it requires specialized harvest equipment, and a new John Deere harvester is $750,000. So as a farmer begins, he has to have 2,000 acres of crop to justify that cotton picker, and at $750,000, you can tie up a lot of capital in a hurry. So the loans are very, very important to the cotton industry, and we appreciate that, and we push for expanded limits on that, and for a modified loan program for the cotton industry.

Senator HOEVEN. What is an average-sized farm for farmers that raise cotton? I am not as familiar with cotton since it is so incredible. What would be an average-sized farm down there?

Mr. MCMICHEN. In the last five years, cotton farms have consolidated a good bit, and a lot of it is due to the harvesting equipment. They no longer make basket pickers, which were less expensive. So now if you justify a new cotton picker, which rolls round rolls of cotton, they are about $750,000. So it would be in excess of 1,000, probably more like 1,500 to 2,000, and, in the process, a lot of farms can only justify growing so much cotton on their farms because of the expense of harvesting equipment. So if you make the jump from 2,000 acres to 3,000 to 4,000, you have got that added cost to think in there. So it is a very expensive cost and it is something that you only use two months out of the year, so it really ties up a lot of our capital.

Senator HOEVEN. Right. Mrs. James?

Mrs. JAMES. I do not personally use the FSA loans but USA Rice is certainly behind your legislation and supports it.

Senator HOEVEN. Thank you so much. I appreciate again all of you being here. Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Klobuchar.

Senator KLOBUCHAR. Thank you. I want to thank Senator Stabenow for letting me go ahead.

I first wanted to recognize back there, under the lights, Mr. Rynning, Robert Rynning. He is going to be on the next panel and I am headed to a judiciary hearing, and in case I miss him, I wanted to welcome him. He serves as the President of the U.S. Canola Association, and alongside his brother, nephew, and his wife, Darlene, he raises, canola, barley, wheat, and soybeans on his fifth-generation farm in Kennedy, Minnesota. I want to thank him for being here today.

We are very proud of that crop, as well as so many others that we have in Minnesota, and that is one of the reasons that I am concerned about the proposed cuts to the crop insurance program that are in the current proposed budget from the administration. They put in place a cap on premium subsidies and eliminate the harvest price option. The crop insurance program is working for producers. We can always improve it. But I believe that it should be strengthened and not made more difficult.

Could one of you talk about, or a few of you talk about the impact that these cuts would have on your operation, specifically in a time of lower crop prices? Anyone?

Mr. ROHWER. Well, thank you, Senator. Every single farmer who purchases crop insurance would be impacted with these cuts because most of those types of proposals that you are talking about are the type of thing that would discourage people from participating in the crop insurance program, which means that you would be shrinking the risk pool, and a shrunken risk pool in insurance is not good for anybody. That would make crop insurance less effective, which then would likewise make access to credit more difficult, which would affect large, small farmers, established, and even young farmers beginning.

Senator KLOBUCHAR. Thank you. Mr. Rohwer, just a follow-up because I know you also are interested in the renewable fuel standard and how important this is to our policy. It is very important in my state. Earlier this summer the EPA released its proposed volume requirements for 2018 and 2019. What are your thoughts on the proposed rule?

Mr. ROHWER. I am afraid you caught me off-guard there. Could you just summarize it?

Senator KLOBUCHAR. Well, the rule actually—there were some good things about it, but in terms of consistency with past policy a bunch of us up here fought really hard to get it stronger after a different version of it a few years ago.

Mr. ROHWER. Oh, okay. Thank you.

Senator KLOBUCHAR. Remember that?

Mr. ROHWER. Yes.

Senator KLOBUCHAR. Now it has come back again but there are still some concerns on some of the biodiesel issues and other things with the rule.

Mr. ROHWER. We, as corn growers, do not follow real closely the biodiesel portion of the renewable fuels.

Senator KLOBUCHAR. Really?

Mr. ROHWER. But we feel that it needs to be a strong and consistent requirement there, so that there is not a question in the market, is the level going to be here one year, there another year. It needs to follow the statute for all portions there, because that will strengthen the market and the demand for the grain inputs.

Senator KLOBUCHAR. Good. Mr. Scott, could you look at it from the perspective of soybean biodiesel producers, that we do not went the blend target reduced for advanced biofuels?

Mr. SCOTT. Yes, absolutely, and, of course, about 50 percent of the fuel biodiesel produced is used—soybean oil is used in that production, so it is critical for our industry. But we were somewhat disappointed with the levels that were proposed and came out. We are producing above that level currently, and have the capability of doing even more. We need the security of knowing year-to-year what is going to be the volumes, so that infrastructure can be built. People who are interested in putting money into that industry can know that it will be there in the future for them. The dollar-a-gallon biodiesel tax credit would be also very important to us.

Senator KLOBUCHAR. All right. Thank you. One last question, Mr. Schemm. If producers did not have access—I am back on the crop insurance now—to the harvest price option, do you think it would impact program participation?

Mr. SCHEMM. I definitely think it would. You had mentioned earlier the proposed budget as well. In my area, that would hit a cap of 1,800 acres of wheat in our area there, and our average farm size in my area is 3,200 acres. So, obviously, when it starts affecting that it starts then affecting the whole pool that is there, and then it affects the premium rates for the other producers that would remain in it.

As far as harvest price option, currently 70 percent of our producers sign up for the harvest price option, and they pay a premium for the harvest price option, and what that allows them is the ability have a replacement value for their crop if it is lost, and it especially aids us when we talk about marketing that crop. If we do not have the bushels to fulfill contracts that we forward contracted, we then have to go out and purchase bushels to replace that forward contract, and without that HPO it is much more expensive to do that.

Senator KLOBUCHAR. Appreciate it. Thank you all.

Chairman ROBERTS. Senator Thune, and Senator Thune, before you start your comments, I would like to point out, with regard to the President's budget that has been mentioned, and crop insurance, that I met with the President about three weeks ago, along with a telephone conversation, rather short, with Mr. Mulvaney, who is in charge of the budget, the Office of Management and Budget. The upshot is we are not going to cut crop insurance, period. The House budget reflects that. We have yet to determine a budget here, but that would be the Chairman's choice, and I am sure the distinguished Ranking Member as well.

Senator Thune.

Senator THUNE. Thank you, Mr. Chairman, and I want to thank you and Senator Stabenow for holding the hearing today and for a great panel, and multiple panels today, on a very important subject, which is the next farm bill. I especially want to thank Kevin Scott for being here, representing the American Soybean Association, a multi-generation South Dakota farmer going back to 1885. I think the family operation has roots and he always provides great counsel and insight and advice to me and my staff, and to all of South Dakota when it comes to the issues that are important to agriculture, and to our country, I might add. So welcome. It is good to have you here, Kevin.

Let me just ask a question that has to do with the commodity title of the next farm bill, and the first question has to do with something that the National Corn Grower said in their testimony today. I think Mr. Rohwer indicated there should be clear statutory language requiring financial assistance to be determined by physical location of a farm.

So the question is—and I agree with that statement completely and would point out that I have got a bill, a Commodity Title Improvement Act bill, introduced earlier this year, that does include specific language that requires physical location of the farm to be used to calculate payments. Does everyone here on the panel agree that the commodity title payment should be calculated using a farm's physical location instead of according to administrative county?

Mr. ROHWER. Yes, sir, we do.

Senator THUNE. Does anybody disagree with that? Okay.

I have also introduced a bill that would create a short-term, three-to five-year easement program, which I have named the Soil Health and Income Protection Program, or SHIPP, and the question is, do you think that in today's short-term—or I should say in today's price environment that there is a need for such a short-term easement program with very flexible hay and grazing provisions that provide a reasonable alternative to cropping and placing expensive inputs on the poorest land on a farm?

Mr. ROHWER. Conservation is always very, very important, and with the weather patterns that are becoming more and more variable some flexibility probably has its place.

Senator THUNE. Mr. Scott.

Mr. SCOTT. The current CRP, of course, is a 10-year contract and that, for some people, is daunting. For me I may not farm for 10 years. I may, but a short-term, short-year span would probably fit in more situations than a long-term one.

Mr. SCHEMM. Thank you, Senator. Our board has very much targeted working lands conservation as a priority with us, to try to work with those types of programs there, but then also targeted to areas with longer-term possibilities in those areas, to try to put sensitive lands, highly erodible lands into conservation programs. That is where we stand.

Mr. MCMICHEN. Thank you, Senator. Conservation is always one of the highest priorities and I think the short-term help that you are talking about would be very helpful to take sensitive land and less-productive land and allow it for better use.

Senator THUNE. Thanks.

Mrs. JAMES. In relation to the rice industry, I believe that we are only producing rice on the most highly productive land for rice, but in the other areas that you speak of it sounds like very important legislation.

Senator THUNE. I also, as part of a recently introduced bill, I included a provision that would require mandatory base updates using the planted and considered or prevented planted acres during the years 2014 to 2017. The bill also eliminates generic base acres that were created in the 2014 Farm Bill but leaves STAX in place. According to CBO, the mandatory base update saves $466 million, and the elimination of generic base acres saves $2.454 billion over 10 years. That, again, according to CBO.

Although I believe that calculating any future farm bill commodity title payments that use base acres in the calculation should use a mandatory base update, I do not expect the commodity organizations to support this. But I do want to ask all of you the question about whether or not you think a change like that would make sense. I mean, do you believe that eliminating commodity title payments on land with base acres, that has not been planted to a commodity crop in the years 2014 to 2017, would be good policy and should be pursued in the next farm bill?

Mr. ROHWER. Corn growers heard about this proposal of yours, sir, as our delegates were meeting here in Washington last week, and having it as a new idea we had not looked at all ramifications and this type thing, and so it was referred to our risk management action team to be looked into, to study just exactly how it would affect corn growers. We will be working through so as to decide where our position should be.

Senator THUNE. Okay. Thanks.

Mr. SCOTT. Senator, you are also ahead of us on the soybean side. We have not also looked at the ramifications as closely as we could. I know you are thinking about things and trying to improve the program and we appreciate the effort. Keep it up. Keep bringing new ideas.

Senator THUNE. Okay. Well, we will take that for now until you get to yes.

[Laughter.]

Mr. SCHEMM. Thank you, Senator. You know, it is something that initially our board has come out for a voluntary update, but the concern that we would have is obviously, being very export sensitive as possible, implications it could have with our export markets and what kind of litigation could be possibly brought against us.

Senator THUNE. Thank you.

Mr. MCMICHEN. Thank you, Senator. In regard to generic base acres, which is very sensitive to the cotton industry, they were established in the current farm bill because cotton was no longer a covered commodity, due to the Brazil WTO case. Cotton base acres would have been of no value to producers and land owners unless cotton base was reallocated to allow for support on covered commodities on these planted acres. Generic base was never intended to be a long-term policy and it should be dealt with in the next farm bill, if not before.

There are various ways to convert generic base back to cotton, or cottonseed base, and possibly other covered commodity bases, and the cotton industry is evaluating these options to help develop industry recommendations. We all agree, though, that the crop bases should be decoupled in the next farm bill.

Senator THUNE. Thanks.

Mrs. JAMES. Over the years that you speak of, the price of rice declined, and so we should not be—farmers should not be punished for following market signals and maybe not planting as many acres of their base during that particular time.

Senator THUNE. Thank you. Thank you, Mr. Chairman. I just think that base acres ought to reflect more recent planting history and that we should not be—we should not have base acres that have not been farmed for years that still have bases and receiving payments, and I think there are some examples where that happens. I think this would be a real dollar saver, it would be more efficient, and I think it would be a better farm policy.

So I hope your organizations will take a look at it and give us some feedback. Thank you.

Chairman ROBERTS. Thank you, Senator Thune. Senator Thune is the foreman of our legislative efforts to do more with less, and thank you for your suggestions on all three pieces of legislation that you have introduced.

Senator Stabenow.

Senator STABENOW. Well, thank you, Mr. Chairman, and thank you again to each of you.

Just an FYI. There is a broader discussion that Senator Thune raised that is an important discussion, but as we look at what was done in Appropriations for cotton and dairy, the generic base essentially is being used to offset that, and so that piece of it essentially will no longer be relevant, assuming that appropriations bill goes through on generic base. So we will have to talk about that more, but that is part of the proposal to help cotton and to help dairy.

So I would like to start with just a general comment from each of you on the budget. This spring we had over 500 groups, including every major commodity group, that came together to say—to write a letter to us opposing any cuts to funding in the farm bill. We know the administration proposed major cuts that would have made it impossible to write a farm bill. Fortunately, that is not going to embrace my either Appropriations Committee—although there is a small cut in the House, as I understand it—but in the Senate we did the opposite. The Appropriations Committee actually added $1 billion to the farm bill commodity programs to help cotton and dairy.

So just for the record, I would like each of you just to say yes or no if you continue to hold the position that there should not be cuts in the farm bill funding. Mr. Rohwer?

Mr. ROHWER. We do not feel there should be cuts to the farm bill funding.

Senator STABENOW. Thank you. Mr. Scott?

Mr. SCOTT. Yes. We also feel the same.

Senator STABENOW. Okay.

Mr. SCOTT. Thank you.

Senator STABENOW. Mr. Schemm?

Mr. SCHEMM. I would concur. We support not cutting any.

Senator STABENOW. Thank you. Mr. McMichen?

Mr. MCMICHEN. The cotton industry is in the same position.

Senator STABENOW. Thank you.

Mrs. JAMES. USA Rice supports not cutting any funding.

Senator STABENOW. Thank you very much. Well, it is going to be important that we continue to all work together to make sure that we have the resources that we need for agriculture, so thank you.

A little bit more on crop insurance, and Bruce Rohwer, let me ask you, and then anyone else from the panel as well. Again, when we are debating and we know we will see, I am sure, amendments on the floor as well, as we do every year, as we go through this process on the farm bill, but in addition to the administration proposing a $29 billion cut for crop insurance, I am concerned that there are people, both in the Office of Management and Budget—when I met with the Director and then the Deputy Director nominee that supporting cuts to crop insurance. But we now have also a nominee that will come before us for a position at USDA who has actually questioned the constitutionality of crop insurance, and on a separate occasion suggested the entire crop insurance system be eliminated since 9 out of 10 farmers in Iowa do not want it.

Well, we have a farmer from Iowa here, if you would like to speak, Mr. Rohwer, and respond to that kind of comment regarding crop insurance or any proposed cuts. I wonder what you would like to say on behalf of Iowa farmers.

Mr. ROHWER. Based on the surveys that Iowa Corn Growers and National Corn Growers have done, crop insurance remains the number one risk management tool in the tools available to us. It is strongly supported by our membership and I am not sure where that statistic comes from but it is not reflected in any of the studies that we have conducted. We would look forward to the strong support that we have here on the Hill from the House and Senate to crop insurance, because it is absolutely crucial to the future of farming and for bringing in the next generation.

Senator STABENOW. Thank you very much. Does anyone else want to respond as well, in terms of crop insurance and why it is critical that we continue it and not see cuts? Does anyone want to respond to the constitutionality of crop insurance? We might have a debate here with any attorneys.

Chairman ROBERTS. I would like to respond, if I might.

Senator STABENOW. Yes. Excuse me, Mr. Chairman, you are on the panel.

Chairman ROBERTS. I understand your concern with regards to crop insurance. Everybody here has asked a question about crop insurance. If there is some nominee coming before this Committee who says crop insurance is constitutional——

Senator STABENOW. Unconstitutional.

Chairman ROBERTS. —they might as well not even show up.

Senator STABENOW. Okay. Well, I am with you, Mr. Chairman.

Chairman ROBERTS. All right.

Senator STABENOW. I am with you, actually.

Chairman ROBERTS. I mean, the President has assured me, personally, that crop insurance will not be cut, and so I take him at that word, as far as that budget is concerned. Obviously, if the House budget is different then we do not know what our budget will be until later. But that dog is not going to hunt.

Senator THUNE. Mr. Chairman——

Senator STABENOW. I am with you as well.

Senator THUNE. —were you not here when they wrote the Constitution?

Chairman ROBERTS. Pardon me?

Senator THUNE. Were you not here when they wrote the Constitution?

Chairman ROBERTS. Of course.

[Laughter.]

Senator STABENOW. He has given me blow by blow of the debate that occurred at the time, and so—but I do think—and I wanted to just ask one other question—I do think it is important, though, to raise this in the context of comments that have been made, because my fear is that those comments will be pulled out by those not supporting crop insurance, and we will hear those again. So I think it is important that we continue to hear your voices about the importance of this risk management tool.

One other just real quick, on the ARC program. I know you have suggested some changes, Mr. Rohwer, Mr. Scott, Mr. Schemm, as it relates to getting the right yield data and so on. Assuming we can provide the tweaks and so on, does the ARC program deserve to continue?

Mr. ROHWER. The surveys of our members have shown that the preference in Title 1 programs is for a revenue-based program. Any improvements that can be made will be greatly appreciated and will merely make it a more effective program.

Senator STABENOW. Thank you. Mr. Scott?

Mr. SCOTT. Our members would reflect the same as Bruce has said. We like ARC. Currently, with our low commodity prices, it has not benefitted us on the soybean side in the last few years, and it probably will not benefit us as much as it had in the past. So we would like some tweaks there, but otherwise very effective program.

Senator STABENOW. Thank you.

Mr. SCHEMM. Ranking Member, yeah, we have heard very clearly from our members, with wheat grown in 42 states in very diverse growing regions, that they want that choice. They want an effective ARC program for the producers that are sensitive to that yield component, but there are areas where they are much more sensitive to the price component, and that works for the PLC. So we have heard very loud and clear that they want that choice in the future.

Senator STABENOW. Okay. Thank you. Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Thune, I think I have to correct the record. I did not work on the Constitution. I did do a lot of advice and counsel on the Bill of Rights——

[Laughter.]

Chairman ROBERTS. —which affects all of these people here, in terms of their testimony. Thank you.

Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. Mr. Schemm, I have noticed you have a very notable goatee, and I was wondering if our colleague from Kansas, if you could consult with him and possibly he may start to grow a goatee as well. Any help you could give in that effort we would really appreciate it around here.

Mr. SCHEMM. I will work on that.

Senator DONNELLY. Thank you.

Mrs. James, you testified about the importance of several conservation programs—the Regional Conservation Partnership Program, the Conservation Stewardship Program, and the Environmental Quality Incentives Program. You also mentioned how your farm has provided for four, and soon five generations. I think those two points are important together. You are an advocate for conservation because your farm has been handed down for generations. Your family has been there. Nobody wants to make sure that land is handled better, that water nearby is cleaner than your family who has been given the stewardship of that land for hundreds of years.

Can you talk about how USDA's conservation programs can help farmers like you, who want to make sure you can offer the next generation of your family a farm in even better shape than was given to you?

Mrs. JAMES. Thank you, Senator, and you are exactly right. Raising my son on that farm, and of course I want the environment to be clean and safe, the water that we drink safe, and the food that we provide to U.S. consumers and the rest of the word to be safe as well, and so it is extremely important, and conservation is extremely important to the rice industry. The programs that NRCS provides have allowed us to continue to improve in our water conservation efforts, and soil conservation efforts, and it has been a valuable tool to the rice farmer.

In fact, when you speak of the waterfowl, migratory birds, it is a very important habitat that the rice industry does provide in this country. In fact, if you were to have to pay to replace that habitat it would be about $3.5 billion, and to maintain it year to year would be about $73 million a year to maintain what we are already providing in that habitat. So they are very important programs.

Senator DONNELLY. Thank you, and this is just to the panel and to all of us to follow up on the crop insurance comments. Obviously, in Indiana, it is critically important. I just wanted to say, at my first hearing as a member of the Ag Committee, Angie Steinbarger, a Hoosier farmer, testified about the critical nature of crop insurance, and essential to maintaining her family farm through a devastating drought that we had in 2012, with no rain, with 100-degree-plus days, day after day. I was at the farm of a friend of mine in Columbus, Indiana. It was 106 degrees the day I was there, all of this extraordinarily abnormal for Indiana. We were sitting under the only shade, a big oak tree, and the fields we were looking at, the projected yield was going to be five bushels per acre for corn that year—five bushels. So we are now in a position, of course, with too much rain, and having to have replanted.

So I just want to say that regardless of the type of disaster, crop insurance is a critical backstop for family farms, and we will continue to fight to make sure that is included in any farm bill, moving forward.

Thank you, Mr. Chairman.

Chairman ROBERTS. It would appear that we have no further questions for the panel. Thank you so much for taking the time to come and presenting excellent testimony. Thank you very much. You are excused and the next panel is urged to quickly come forward.

[Pause.]

Chairman ROBERTS. I would now like to welcome the second panel of witnesses. First we have Mr. Dan Atkisson, a graduate of Kansas State University, home of the ever-optimistic and fighting Wildcats, hailing from Stockton, Kansas. He and his family grow grain and forage sorghum, wheat, and other forage crops. They also raise commercial and registered Angus cattle. He serves as Vice Chairman of the National Sorghum Producers and Chair of their Legislative Committee. Dan, thank you so much for coming today. I look forward to your testimony.

Senator Perdue was to introduce our next witness. I do not see Senator Perdue, so Ms. Meredith Rogers is with us this morning from Camilla, Georgia. Ms. Rogers farms in partnership with her husband, parents, and siblings—something Senator Grassley ought to take note of in his payment limitation lecture. They grow peanuts, wheat corn, cotton, and field corn. Their family also runs two peanut-buying points that handle around 30,000 tons of peanuts a year. Meredith, we look forward to your testimony.

Mr. Robert Rynning joins us today from Kennedy, Minnesota, where he resides with his wife and two sons, a fifth-generation farmer. He works with his brother and nephew to produce canola, barley, wheat, and soybeans. Mr. Rynning is President of the U.S. Canola Association. Robert, we are certainly glad that you are here today.

I now turn to Senator Daines to introduce our next witness.

Senator DAINES. Thank you, Mr. Chairman. It is my honor to take this opportunity to introduce a fellow

Montanan, and welcome to Washington, DC, Ervin Schlemmer, his wife, Julie, who is just behind him. Thanks for making the trip out here for this important hearing. Ervin is a third-generation farmer, partners with his son, Greg, to run his operation in Joliet, Montana. He produces sugar beets, malt barley, alfalfa, hay, and corn, as well as operates a 20,000-head cattle feed yard. That is a lot of cows.

Ervin has also been active within the American Sugar Beet Growers Association and the Southern Montana Sugar Beet Growers Association for decades, and I want to thank him for taking time out of his very busy schedule, at a very dry time of year in Montana, to come out to D.C., and I look forward to his testimony.

Chairman ROBERTS. Thank you, Senator. We now turn to Senator Stabenow to introduce Mr. Nobis.

Senator STABENOW. Well, thank you so much. I am very pleased to introduce my friend, Ken Nobis, who is President of the Michigan Milk Producers Association and a dairy farmer from St. Johns, Michigan. Mr. Nobis operates a 1,000-cow dairy farm with his brother in St. Johns, and farms 3,000 acres. Mr. Nobis has been an active leader in the dairy industry for many years, and serves as First Vice-Chairman of the National Milk Producers Federation. In 2015, his farm received an Outstanding Dairy Farm Sustainability Award, and earlier this year Ken became an honorary alumnus of Michigan State University's College of Agriculture for his dedication to Michigan Agriculture and his work with MSU researchers on his farm. Welcome.

Chairman ROBERTS. Dan, why don't you start this off.

STATEMENT OF DAN ATKISSON, OWNER/OPERATOR, ATKISSON LAND & CATTLE, STOCKTON, KANSAS

Mr. ATKISSON. Thank you, Chairman. Chairman Roberts, Ranking Member Stabenow, and members of the Committee, thank you for this opportunity to come before you and present the views of the National Sorghum Producers regarding Title 1 crop insurance in our next farm bill.

My name is Dan Atkisson and I farm near Stockton, Kansas. I am a true family farmer, working alongside my father, my wife, Amanda, and my four-year-old son, Eli. We grow wheat, sorghum, and forages to support our herds of Angus cattle. I am honored to serve as the Chairman of the National Sorghum Producers Legislative Committee.

Mr. Chairman, I would also like to say how honored I am to be here on a personal level. As a Kansas farmer, I was raised to admire and respect the tremendous work of our champion in our nation's capital, the Honorable Pat Roberts. We know that it is often difficult to relate the unique challenges that the farm and ranch communities face to more urban constituencies. I want to say how appreciative we are to all members of the Committee who work so hard to understand our issues and to do this difficult work where it matters most.

I give an overview of several positive trends within the sorghum industry in my written testimony, from increasing productivity to expanding markets within the food sector. These are exciting, big-picture developments for sorghum, but any positive developments for the long term are completely overshadowed by the current state of our ag economy. Since passage of the 2014 Farm Bill, prices for sorghum have plummeted from a benchmark of $5.10 to just $2.69 per bushel of for the 2016 crop, 53 percent of the benchmark.

Today in farming, it is not a question of how to make a profit but simply minimize our losses to survive. Virtually all commodity crops have faced similar decline in prices but unique to sorghum is an emerging pest, the sugarcane aphid, which is driving up cost of production and adding a burden of $430 million to the 2016 growing season alone.

The National Sorghum Producers believe in the need for a strong and reliable Title 1 safety net that is balanced and provides assistance when needed. One very real problem with the current policy is the timing of the payments and its impact on cash flow. The National Sorghum Producers asks, do you consider moving up farm bill timing assistance or even making marketing loan rates more relevant to help with these cash flows?

Regarding ARC and PLC, clearly, with the 20/20 vision that hindsight offers, PLC has been the better safety net for our sorghum farmers. PLC was very conservative up front when prices were still above $4.00 per bushel. In contrast, ARC assistance was a virtual certainty when farmer elections were being made. With a target county revenue generated at $5.10 per bushel, the logic was to take a bird in the hand and put it to use.

Unfortunately for farmers, markets have not rebounded as hoped. Going forward, we are open to the idea that the ARC model could be improved. We believe that PLC could also be improved and we generally favor this model, coupled with a strong crop insurance program. However, NSP pledges to work with you in a constructive manner to ensure that a proper balance is struck and an adequate safety net is crafted.

Before moving to crop insurance, I would like to urge caution in thinking about how policies affect plantings of commodities and urge more thoughtful approaches to CRP going forward.

Crop insurance is indispensable for sorghum farmers, but that does not mean it cannot also be improved. For sorghum, particularly, participation rates and coverage levels are low when compared to other crops. A full 19 percent of sorghum acres are left uninsured, and this lower participation rate owes primarily to the cost of sorghum insurance. Despite a 10-year loss ratio of 0.88, sorghum rates remain high and need to be lowered.

Another area of concern is the regularity at which new and innovative tools, which even EPA deems safe, are challenged in our courts. In recent years, it seems that each time a product is improved by the EPA under Federal Insecticide, Fungicide, and Rodencide Act, or FIFRA, it is challenged by the Endangered Species Act. Only the attorneys win in this situation while farmers face a smaller and smaller toolbox.

Mr. Chairman, in closing, I want to say again how much we as farmer members of the National Sorghum Producers appreciate the task that you have before you and for being such a champion for agriculture. We consider the farm bill to be critical, but tough economic times cause us to focus, and Title 1 and crop insurance rightly take center stage. NSP appreciate your attention to these important policies and we stand ready to work with you to make this policies work even better.

[The prepared statement of Mr. Atkisson can be found on page 73 in the appendix.]

Chairman ROBERTS. Dan, thank you so much for your very kind comments, and I only wish Senator Thune could have been here to hear them.

Ms. Rogers.

STATEMENT OF MEREDITH ROGERS, FARMER, FAMILY FARM PARTNERS, CAMILLA, GEORGIA

Ms. ROGERS. Good morning, Chairman Roberts, Ranking Member Stabenow, and members of the Committee. My name is Meredith McNair Rogers. I have been farming with my family in Southwest Georgia for over 20 years. This year we are farming peanuts, fresh sweet corn, cotton, and corn. I am the first woman to be included in the Peanut Leadership Academy, which is a program for young leaders involved in the peanut industry.

I am testifying today on behalf of the Southern Peanut Farmers Federation, the largest peanut grower organization in the United States. I want to be clear today that the peanut provisions of the 2014 Farm Bill have worked as a safety net for peanut producers. If the Price Loss Coverage, the PLC, program had not been in place, I am afraid many farms in the Southeast would no longer exist because of the downturn in the farm economy, which has plagued us for the past three years.

The Federation supports maintaining the current PLC program in the 2014 Farm Bill, including these key provisions: the current reference price for peanuts; a separate peanut payment limit, as established in the 2002 Farm Bill; and storage and handling provisions.

The PLC program has worked but peanuts are not sufficient to carry an entire farming operation. Corn and cotton prices have been depressed and with the lack of a cotton PLC program more pressure has been placed on growers to plant peanuts, by lenders and others.

Peanut growers know that crop rotation is critical for their cropping systems. However, during this period of a severely depressed farm economy, many farmers modified their crop rotations in order to survive. Although the increased peanut acreage has impacted yields and cost of production, peanut acreage during the life of the

2014 Farm Bill is not out of line. During the life of the 2014 Farm Bill, average planted acres were only 16 percent more than average acres planted during the 2002 to 2013 years.

What about the demand for peanuts? It is very important for this discussion to note that demand has kept pace with the supply of peanuts. Domestic demand and export demand have grown significantly in the past few years. The number of peanuts used for peanut butter has grown 64.4 percent since 2002, and 10 percent since 2014. When we take a closer look at USDA's Foreign Agricultural Services export data, comparing the average exports of peanuts and peanut butter during the 2008 Farm Bill relative to the 2014 Farm Bill, we see strong growth. Peanut exports increased approximately 71 percent.

What about the supply of peanuts in the U.S.? In the current market, demand exceeds supply. Given this economic situation, early contract prices for the 2017 crop have been reported in the $475 to $550 per ton range.

In addition, peanuts have not seen significant forfeitures at the USDA. From the evidence we see in the marketplace, there is not an oversupply of peanuts. According to the University of Georgia, the peanut program in the 2014 Farm Bill has not led to excessive peanut acreage.

In conclusion, the Federation supports the peanut provisions in the 2014 Farm Bill and appreciates the opportunity to work with you as we move forward with the next farm bill.

Thank you for allowing me to testify today.

[The prepared statement of Ms. Rogers can be found on page 170 in the appendix.]

Chairman ROBERTS. Thank you for your testimony. The distinguished Ranking Member has told me that she certainly enjoys peanut butter, and I join her in that respect. I also learned that exports to China seem to be on the move, and that is certainly a good indication for a lot of other crops as well.

Mr. Rynning, you have already been introduced by Senator Klobuchar, but why don't you go ahead, sir.

STATEMENT OF ROBERT RYNNING, OWNER/OPERATOR, ROBERT RYNNING FARMS, KENNEDY, MINNESOTA

Mr. RYNNING. All right. Thank you very much. On behalf of the U.S. Canola Association I want to thank Chairman Roberts, Ranking Member Stabenow, and the members of the Committee for inviting me to testify today.

I am Robert Rynning, President of the U.S. Canola Association, and I am also a Board Member for the National Barley Growers Association. While not a large crop acreage-wise, canola is grown in diverse regions of the country, and although the Northern Plans account for the major of the U.S. canola production, winter canola varieties have been successfully introduced in the Southern Great Plains, and it has the potential to become another major U.S. production area. Winter canola production can also be found in the mid-south states, with much of this acreage supporting double cropping of soybeans or other spring-seeded crops. A fourth production area is in the Pacific Northwest, which produces both winter and spring canola varieties. In 2016, the U.S. produced a record 3 billion pounds of canola seed, but for the coming year the U.S. will still need to import 68 percent of our expected canola oil consumption, and 75 percent of our expected canola meal consumption. For 2017, growers increased canola acreage in all regions, planting over two million acres, up from the previous five-year average of 1.7 million acres. However, the drought in western North Dakota and eastern Montana will keep actual production from expanding this.

Commodity title—for us, the canola growers, it is generally—we are generally pleased with the performance of Title 1. Although at 97 percent of the canola base acres were entered into the PLC program, USCA supports the continuation of both the PLC and the ARC–County programs as well as the ARC individual coverage option, allowing producers a one-time choice among the three options at the start of the next farm bill. Canola is grown as a rotational crop with other crops and many producers chose the ARC program for those other crops they produce on their farms.

With regards to the problems of wide-ranging ARC–County yields between adjoining counties, USCA suggests requiring the use of RMA yields as the first option in the cascade rather than the NASS yields. USCA also believes all support payments for PLC and ARC should be paid on historic bases rather than planted acres, to ensure the farmers' decision is based on their actual growing—crops that they are growing. USCA also supports providing an option to reallocate or update crop acreage bases as well as program yields, as was the case in the last farm bill.

When it comes to crop insurance, the USCA strongly supports the program as currently authorized. Without the risk management tool, many producers would have difficulty in obtaining operating loans. The proposed cuts in the administration's '18 budget would completely undermine the actual soundness of the program and would lead to its failure. While premium discounts producers receive are a major cost of the program, the net premiums paid by producers are still substantial. The proposed $40,000 limit would hit numerous family-sized farms across the country.

In the conservation title, USCA supports providing an incentive to include canola and/or sunflowers in a cropping rotation to provide habitat for honeybees and other pollinators. Honeybees support $15 billion of agricultural production in the U.S. through pollinator services, but a major decline in honeybee health in recent years has put these benefits at risk. This decline in bee health has been linked to a variety of factors, including the lack of suitable habitat due to increased agricultural monocultures and declining wild spaces. Canola and sunflowers provide an ideal habitat for honeybees. Canola fields bloom for a very long period of time, up to a month or even longer under perfect conditions. Maintaining the acreage of cropland planted annually to these two crops is essential.

Thank you very much for your time and attention. I would be happy to answer any questions the Committee may have.

[The prepared statement of Mr. Rynning can be found on page 191 in the appendix.]

Chairman ROBERTS. Thank you, sir.

Ervin, thank you so much for coming all the way from Big Sky Country, and you are invited to give your testimony, sir.

STATEMENT OF ERVIN SCHLEMMER, OWNER/OPERATOR, SCHLEMMER FARMS, JOLIET, MONTANA

Mr. SCHLEMMER. Thank you, Mr. Chairman.

American sugar farmers are facing a very difficult time. For the past five years, refined sugar prices have been depressed as a result of Mexico dumping subsidized sugar into the U.S. market. These unfair trade practices have cost our farmers more than $4 billion in lost revenues and cost taxpayers $259 million.

The U.S. government found Mexico guilty of subsidizing, dumping, and harming the American sugar industry. Rather than imposing huge duties, the U.S. and Mexican governments negotiated agreements to suspend the duties and allow continued duty-free sugar trade. But those agreements did not work and the industry continued to be harmed.

We thank Commerce Secretary Ross and Agricultural Secretary Perdue for negotiating recent amendments to the suspension agreements, and we thank members of this Committee who supported this difficult process. We are optimistic that the amended agreements will be effective, but only with strict monitoring and enforcement. We will work closely with the administration on implementation and we will keep this Committee informed of any problems.

Mexico's subsidies and dumping are not the anomaly in the world of sugar. They are the norm. Foreign governments around the world subsidize overproduction that drives world market prices well below average production costs. These distorted low prices threaten efficient U.S. producers. Senators from states that produce steel, aluminum, and lumber fully understand harm from predatory foreign dumping. We must respond to these damaging trade practices through our farm and trade policies or we will die.

American sugar farmers are among the most efficient in the world. We would gladly compete against foreign producers if their governments did not intervene in their markets. We can compete against foreign farmers but not against foreign treasuries. It is important to note that the U.S. is the world's third-largest sugar importer, providing duty-free access to 41 countries.

Sugar farmers derive all of our revenue from the marketplace. There is no government checks, no payments, or revenue insurance products to manage our risk. We must have full access to CCC loans on the sugar that we store for our customers throughout the year. Crop insurance, too, is essential for risk management. It must be both affordable and effective for farmers to meet the requirements of our bankers.

Sugar and sugarcane farmers are working with RMA to make program improvements. The multi-year nature of cane cropping cycles poses a particular challenge.

Research is the future of American agriculture. We implore this committee to make research funding a priority—I repeat, a priority—so that we can reduce costs and improve yields and do so in sustainable ways.

So, in conclusion, U.S. policy is a success. It enables our industry to survive in a world of sugar subsidies and predatory dumping. It defends 142,000 good American jobs in 22 states. It provides American food manufacturers and consumers with high-quality, responsibly produced sugar at prices among the lowest in the world, and

U.S. sugar prices achieve all of these goals at zero cost to American taxpayers.

We look forward to working with you on the 2018 Farm Bill. Thank you.

[The prepared statement of Mr. Schlemmer can be found on page 205 in the appendix.]

Senator STABENOW. [Presiding.] Thank you very much. The Chairman will return in just a moment.

We will go on to Mr. Nobis. Welcome.

STATEMENT OF KEN NOBIS, OWNER/OPERATOR, NOBIS DAIRY FARM, NOVI, MICHIGAN

Mr. NOBIS. Thank you, Ranking Member Stabenow. Members of the Committee, my name is Ken Nobis, as the Senator introduced me. In my role as the President of Michigan Milk Producers Association—it is an association that covers the states of Michigan, Indiana, Ohio, Wisconsin—we represent about 1,700 dairy farmers.

Over the last decade, the U.S. dairy industry has endured a tremendous amount of volatility in milk prices. National milk producers and other dairy leaders have spent years working with members of Congress to develop a program to ensure dairy farmers had a more stable safety net.

However, during the legislative process, Congress made changes to that proposed dairy program, fundamentally altering the version National Milk Producers Federation and other dairy leaders had spent years developing. As a direct result of these changes, the margin protection program, or MPP, safety net has failed to deliver the appropriate protection for dairy farmers like me.

Many dairy farmers, including MMPA members, originally supported the MPP because they felt it would finally give their farm a risk management tool to deal with the daily unpredictability of milk prices and feed costs. However, we have found the program simply has not done anything to help farms during the last two years of sub-par margins. The changes Congress made to the MPP as the 2014 Farm Bill was finalized rendered it ineffective when dairy farmers needed it most.

I still believe the MPP is the right program for the future of our industry, but changes must be made to prevent more dairy farms from shutting down entirely. Among the concerns we have with the program, the proposed feed formula, though deemed accurate, was cut by 10 percent to address other broader budget concerns. Based on the over $100 million government profit made from the program, concerns about the budget that led to the 10 percent cut were misplaced.

Also due to congressional mandated restrictions in the MPP, a producer had to decide, at the beginning of the farm bill, to cover their milk under either Livestock Gross Margin program or the MPP. Almost every other commodity can utilize both risk management agency and Title 1 programs without restrictions.

This leaves dairy farmers without the tools that other commodity producers have in their arsenal when it comes to federal support for their operations. I want to stress that dairy farmers are not asking for a program that guarantees a profit or incentivizes excess production. All we are asking for is a program that provides a meaningful safety net for dairy farmers when they need it most.

As you are aware, the Senate Appropriations Committee recently marked up a bill for fiscal year 2018 that included important changes to the MPP. We appreciate the leadership of Senators Cochran and Leahy, Chairman and Vice Chairman of the Appropriations Committee, to address some of the problems with the current safety net. We also greatly appreciate the efforts of Ranking Member Stabenow for urging all farmers to be considered when making significant changes to farm bill programs and ensuring interim improvements are made to strengthen the dairy safety net.

The changes made through the Appropriations Bill are a step in the right direction and we are open to other ways the MPP program can be improved. More work is needed and the only way to accomplish that is through a new farm bill. Making the MPP program more attractive for dairy farmers is vital to ensuring participation in the program and the safety of America's dairy industry.

In addition to the challenges we face with the MPP, we are greatly concerned over challenges to our export markets and a need for immigration reform. Child nutrition also is an important key issue for our industry. Reintroducing one percent flavored milk back into the schools will help ensure that children have access to the nine essential nutrients and vitamins that milk provides.

Milk also played a big role last year to help the residents of Flint, Michigan, during a crisis in which they were susceptible to lead poisoning from contaminated water. MMPA partnered with the Kroger Company to donate approximately 590,000 servings of milk to the Flint residents after we learned that calcium and iron found in dairy products can help mitigate health risks of lead contamination.

Mr. Chairman, Ranking Member Stabenow, and Committee members, the U.S. dairy industry looks forward to working with you to improve federal policies that impact those that produce our country's food. I appreciate the opportunity to speak with you today and I thank you for your support of agriculture. I would be happy to try to answer any questions you might have.

[The prepared statement of Mr. Nobis can be found on page 161 in the appendix.]

Senator STABENOW. Well, thank you to all of you, and Mr. Nobis, let me also reiterate thanks on behalf of the families of Flint, because Michigan Milk Producers stepped up right away to help, and it was terrific to see, and we have had other commodity groups and farmers in Michigan do the same, but Michigan Milk Producers really took the lead on that, so it was great.

Let me ask just a brief yes or no for each of you, just to get on the record again as I did with our first panel. We have had over 500 organizations go on the record saying they do not support cuts to the farm bill. I think it is important to just ask each of you again if you still hold that position, if your organization still holds the position of no cuts in the farm bill. Mr. Atkisson?

Mr. ATKISSON. The National Sorghum Producers does not support cuts to the farm bill.

Senator STABENOW. Thank you.

Ms. ROGERS. We do not support cuts to the farm bill.

Senator STABENOW. Thank you.

Mr. RYNNING. Yes. U.S. Canola Association very strongly feels that there should be no cuts.

Senator STABENOW. Thank you.

Mr. SCHLEMMER. No cuts.

Senator STABENOW. Thank you.

Mr. NOBIS. No cuts for dairy.

Senator STABENOW. Thank you. Well, and let me ask, Mr. Nobis, you have talked about the, of course, dairy farmers are interested in the handout. You are not interested in anything that causes oversupply, but you need an effective safety net. So I wondered the other witnesses we are hearing from can have both federal crop insurance and Farm Service Agency safety nets. Dairy farmers, as you said, cannot, which has put you at a real disadvantage, and I wondered if you might discuss the efforts to improve both parts of the safety net and the proposal that the Farm Bureau and National Farmers Union and National Milk have come forward with as it relates to having the opportunity to have crop insurance for milk producers.

Mr. NOBIS. Well, we think it is a great move forward. The Senate Appropriations bill, it is a step forward, definitely. But the inclusion of crop insurance type program for dairy is very important to us all. So it is something we do not have available to us today.

In my association, we are doing member meetings. We started doing that a year ago. We are in our third iteration right now. Because of the turmoil in the dairy economy today we find it important to meet with our members face to face, to help explain what is going on and for them to get their questions answered. At every one of those meetings, the safety net issue comes up, and we have been with our members and they have been asking about the possibility of a crop insurance type program. It would find a great deal of support in the countryside.

Senator STABENOW. Thank you. I would like to ask each of you about how we continue to support beginning farmers, which we know is so important, in each of our commodity areas and each region of the country. We know there are barriers, and particularly if someone wants to go into farming without a family history of farming, that is a particular challenge.

But I wondered if each of you would talk about the challenges for beginning farmers, or describe a challenge that faces producers in your industry, and ways that you and your organizations are working to support our beginning farmers. What should we be aware of?

Mr. Atkisson?

Mr. ATKISSON. In today's farm economy, it takes a tremendous amount of capital and a tremendous amount of overhead to operate and to have a farm of any scale, especially within the sorghum industry and in my part of Kansas. My own personal experience, through USDA loans, I have never taken one out. It had a bad reputation within our community, there were too many hoops to jump through, and there were too many red-tape items to follow through with to get that loan. So when I came out of college and moved home, I did not use those programs, just because there was so much red tape involved.

So I would like to see more young farmers take advantage of those. I think the low interest rates make them a very attractive option. However, when I moved home from college as a young farmer I did not access those.

Senator STABENOW. Thank you. Ms. Rogers.

Ms. ROGERS. I think it is very important to look at all—like you are doing, all the farm programs and keep the ones that work. The PLC program has worked for the peanut farmer, and we would like to maintain that. I think that helps give the lenders some security, a safety net, when it comes to young farmers and helps them feel more comfortable lending to them because they have that safety net. I think crop insurance does the same thing. It gives them a safety net so that they feel better loaning to the young farmer.

Senator STABENOW. Thank you.

Mr. RYNNING. Yes, I would reiterate much of what has just been said. I have a nephew that just started farming within this last year, with my brother and I, and in the same type of thing the USDA loan system is very good. It is highly used. But he decided not to go that route because of the complications and the red tape and the things involved.

But supporting him even more, I think, because of that, is the crop insurance system and the PLC and ARC. They become extremely important at that point.

Senator STABENOW. Thank you.

Mr. SCHLEMMER. Being a sugar farmer, we are a little more unique than probably some of the other commodities, even though we grow other commodities also. But we plant the sugar in the spring; we harvest in the fall. We get all that money into our crop, but it is a full year before we get our final payment on our sugar. In the meantime, we borrow money from the CCC, and that enables us to pay our bills as soon as we maybe harvest a grain crop. We start preparing our ground next year, the next year for beets, and we are already putting these dollars into it. So come fall, we cannot just sell our crop. We put it in a pile, it takes six months to process it, and then we have got to sell it throughout the year.

Our customers are not going to pay us for that sugar until it is delivered, so the CCC loans are just imperative to the sugar farmer and to a younger farmer. There is no way that they could ever get into it without. The bankers would just not loan that much money that far out.

Senator STABENOW. Thank you.

Mr. Nobis?

Mr. NOBIS. I just had conversations with two young couples this past week. One of them was a first-generation dairy farmer. The other one was taking over the family farm. Young couples. In both cases they had everything figured out except for the prolonged drought in dairy revenue, so the safety net was what was—repairing the safety net, making it more effective—was what they were most interested in having done.

Senator STABENOW. Thank you. Thank you, Mr. Chairman.

Chairman ROBERTS. [Presiding.] Thank you, Senator.

Let us see here. Dan, I heard a lot of concerns and frustrations from sorghum growers about a new pest, the sugarcane aphid. So from the prospective of the farm bill, and pest management in general, what can we do to help fight this pest that is already increasing cost and impacting so much, or how much sorghum is planted across the country?

Mr. ATKISSON. Well, as you may know, sorghum acres are down over 35 percent since the introduction of the aphid, and we have lost close to $430 million alone in the 2016 growing season. So with the size of our industry, it is a very sizeable pest and it has caused a very sizeable problem.

Specifically within the farm bill, I think that the research title is where we can find the most good in helping sorghum farmers combat the sugarcane aphid. If we can get research dollars within the farm bill, it would greatly help. We have already invested a great amount of producer dollars to combat the problem, but within the farm bill anything that we can get for research dollars is going to give us, as farmers, a great advantage.

Chairman ROBERTS. Are you aware of any specific research being conducted?

Mr. ATKISSON. There is research at all the different ARS stations——

Chairman ROBERTS. Right.

Mr. ATKISSON. —and there is also good research going on at great universities such as Kansas State University, that are going to greatly benefit us very soon, as farmers in the field.

Chairman ROBERTS. I appreciate that. Senator Hoeven.

Oh, I am sorry. Senator Heitkamp.

Senator HEITKAMP. Okay. I will go next. One of the things that we have been concerned about in the downturn in commodity prices and the additional challenge is access to credit. So far it has been—I serve on the Banking Committee and so I frequently have conversations with bankers in my state, and we are very concerned about regulators becoming unaware of what it is like to be in a cycle like we are in and whether, in fact, we are going to see real challenges, both in terms of repayment but also in terms of securing additional operating loans.

I want to hear from anyone or all of you in terms of what you see right now in trends in your state and whether you share that concern. Let us start with Mr. Atkisson.

Mr. ATKISSON. Access to capital is extremely important, no matter what commodity you raise or what sector of agriculture you are in. Whether those are private lending institutions or whether those are USDA loans, access to capital is just crucially important.

Within the sorghum industry, we are in a much more arid region and so generally when we have a downturn in, agriculture economy, we are hit very hard, very early. Luckily, we have had some very bumper crops in our area and we have not seen as much of those problems yet. If we do not see a turnaround in some of these commodity prices, we could see a very real crisis.

Senator HEITKAMP. So as of yet you have not heard from any of the producers that they are having trouble accessing credit.

Mr. ATKISSON. In our direct area, no, I have not.

Senator HEITKAMP. Okay.

Mr. ATKISSON. Within other areas, I have.

Senator HEITKAMP. Great.

Ms. ROGERS. Yes, it is quite a challenge in this industry, too. Most peanut producers are also cotton producers and corn producers as well, and those prices have been very depressed. It has made peanut producers—some lenders are requiring peanut producers to grow more peanuts and messing up our rotations to an extent, because that is the only crop with somewhat of a——

Senator HEITKAMP. So now we have bankers farming.

Ms. ROGERS. Right. Because it is very important the PLC, the safety net that the PLC provides, as well as some of the marketing loan programs become very important with your relationship with your banker.

Senator HEITKAMP. I think the other point that we all want to make is that without a strong crop insurance program, without a strong Title 1, access to credit is going to be very, very difficult.

Ms. ROGERS. Almost impossible.

Senator HEITKAMP. Right. These are interlinked. Mr. Rynning?

Mr. RYNNING. Yes, I think in my region of the northwest Minnesota there certainly has been an issue with obtaining credit. Many farmers have gone on to a higher loan bracket, or interest bracket in their loans, in the private loans. The USDA money gets eaten up rather quickly. So there are big concerns. There has even been some declining of loans to certain farmers, with some terrible consequences, as bad as suicides, and a very critical situation, actually. That is under good crops. That is under good yields, but poor pricing. I cannot imagine what would happen if pricing got worse.

Senator HEITKAMP. Well, we are going to find out in North Dakota with bad crops this year.

Mr. RYNNING. Yes.

Senator HEITKAMP. Any other comments? Yes, go ahead.

Mr. SCHLEMMER. Sugar farming takes a lot of money. We get between $900 and $1,000 in a crop before it is harvested. Younger growers are having a tough time. I know three bankers personally, they are good friends of mine, and they are very concerned about their younger growers, and I guess I cannot reiterate enough of just about how important it is to keep this younger generation in farming. They are the future of agriculture.

Another thing, when you talk about credit, I mentioned before about the CCC loans. Without that it just complicates the problem, and we need to keep not only ourselves in business but these younger growers coming up.

Senator HEITKAMP. Mr. Nobis?

Mr. NOBIS. After two years of sub-par margins, it is starting to pinch seriously. Some people cannot get credit. I have a neighbor who is milking 1,000 cows and farming 5,000 acres. There are no cows left there. He went through bankruptcy because he could not get the credit. I am sure there are extenuating circumstances.

I have talked to other people who they have traditionally had a line of credit. They have maxed out their line of credit, and because of the prices they just have not been able to repay it so they have had to term out some loans. They were in a strong position before it hit, but the deeper we get into this, the more critical it becomes.

But the one thing we have noticed with the bank regulations the way they are today, the bankers are requiring a lot more information than they used to require. In our own case, they are requiring annual——

Senator HEITKAMP. Yes.

Mr. NOBIS. —in some farmers' cases, annual appraisals, which the farmer then has to pay, which is kind of double-edged sword.

Senator HEITKAMP. If you can find an appraiser.

I just wanted to make the point, Mr. Chairman, that we do not stand alone in securing credit and providing a safety net. We have got to work with the bankers and the bankers have to know that we have a strong safety net, in order to keep these producers in business during tough times.

Chairman ROBERTS. I appreciate that. Thank you, Senator, and Mr. Nobis, thank you for those comments, more especially with the regulatory reform that we need all throughout the banking community as well, and all lenders.

Senator Ernst.

Senator ERNST. Thank you, Mr. Chair. Mr. Atkisson, in your testimony you mentioned that by putting land out of production for extended periods, CRP can cause communities and infrastructure to suffer as a result of less economic activity. Many of the counties in Iowa, with the highest poverty rates, are also the counties with the most land enrolled in CRP. Decatur County, for instance, has a 22 percent poverty rate and has 26.6 percent of its cropland enrolled in CRP.

At a time in which rural population growth is stagnant and unemployment and poverty rates are higher in rural areas than urban areas, would it be better for us to focus more on targeted working lands conservation programs instead of land retirement programs like CRP?

Mr. ATKISSON. I think we can all agree, as farmers, that CRP does have a place and CRP is important to conservation. We are no different in western Kansas. We have areas where a lot of land went into CRP and much of what you said is very true. When you take land out of production, people do not spend as much money in town. They do not have to buy as much seed, as much fertilizer, or as many groceries because they do not have as many people working the land, so the community falls backwards.

The National Sorghum Producers does greatly support working lands programs. Programs such as EQIP and CSP have been highly adopted by sorghum farmers, and there is something—those programs we support a great deal to incentivize conservation instead of just taking land out of production.

Senator ERNST. Yes. I think that is really important. We hear that all the time from young farmers out there, as they are concerned that land availability is not there, and so those young farmers are not engaging in farmers. They are not raising their families. They are not sending them to school in our rural communities. So it is a problem that we do have to address.

Also, in your testimony, you mentioned how greater flexibility in CRP might help farming communities in times of economic hardship. Can you elaborate a little bit more on what we have been talking about as well as your stated concerns about, especially, about over-regulation from the Federal Government and how that is impacting farmers?

Mr. ATKISSON. Absolutely. To go ahead and then talk a little bit about the Endangered Species Act we feel that the Endangered Species Act has really hamstrung a lot of the tools that farmers can get into the field these days. Just like the sugarcane aphid, there are all kinds of different problems that pop up quickly for farmers, and whether that is insect problems, fungus problems, or whatever those problems may be, sometimes those pop up very quickly and it takes a long time to work through a registration process to get the tool to the farmers that they need desperately right now.

So a lot of times that Endangered Species Act can pop up. A lot of times that can really hamstring farmers in using the tools that even EPA has deemed safe. It will keep the farmer from using that tool and then hurt farmers at the farm gate.

Senator ERNST. Yes, too true. We need to work through some of that over-regulation and be a little bit more responsive for our farmers.

Mr. Nobis, just in the last minute and a half that I have here, I do appreciate you mentioning, in your testimony, the challenges the dairy industry has in finding enough employees to care for the cows every single day of the year. I regularly hear this from livestock producers across Iowa, as we are really suffering from those same decrease in numbers of the farm kids, and I am sure you are seeing that in Michigan as well.

What do you think we can do to help keep our young folks in our farming communities and attract newcomers into our rural areas?

Mr. NOBIS. We have been trying to do that for many, many years. Obviously, a viable dairy economy, a viable agricultural economy is going to keep more people at home. We have seen, in the last 10 years or so, in my state, anyway, an increase in the number of young people that we see on the farm.

Going through the troubling times we are right now, with the economy, they are starting to question why they came back to the farm. I think it is the volatility in agriculture. If we can remove more of the volatility, which means an adequate safety net, I think that is going to help keep people involved in agriculture. They love it. They come back because they like it, but if you cannot provide an adequate income lifestyle for your family, it does not last.

Senator ERNST. Certainly. I appreciate your input. Thanks to all the panelists. Thank you, Mr. Chair.

Chairman ROBERTS. Thank you, Senator. Senator Casey, if you could hold for a moment I am going to recognize the leader. Leader McConnell is going to introduce this panel's first witness, "this panel" meaning the next panel.

Senator, would you proceed please.

Senator MCCONNELL. Thank you, Mr. Chairman. I appreciate you taking me out of order here. One of my old and dearest friends will be testifying on your next panel, and it is my privilege to be here today to represent—to introduce the President of the Kentucky Farm Bureau Federation, Mark Haney, of Pulaski County, Kentucky. Mark is a proud Kentucky farmer. It runs in the family. He and his brother, Don, grow apples and peaches and raise cattle on their farm near Nancy.

First elected as President of the Kentucky Farm Bureau in 2008, Mark has proven—has a proven record of advocating on behalf of our farmers, farm families, on both state and national issues. As a member of the American Farm Bureau Federation Board of Directors, Mark is here today not only representing farmers from Kentucky but also as an advocate on behalf of millions of farm families across our country.

Representing nearly every part of the agricultural economy, the American Farm Bureau Federation can share important information with us as we continue our work on the 2018 Farm Bill.

I am thankful to have a fellow Kentuckian in a leadership role at AFBF, ensuring that Kentucky's priorities are always a part of the national agriculture conversation. Knowing Mark personally for many years, he has shown himself to be a strong leader in Kentucky's robust farming sector. Like most of the home states of members of this Committee, Kentucky has a vibrant farming community that deserves our support. We also are a state that produces a diverse array of agricultural commodities—horses, cattle, corn, soybeans, and tobacco, just to name a few. Kentucky has a long history of supporting family farmers who are impacted by an array of programs under the farm bill.

When I first entered the Senate, I knew I wanted to sit on this Committee, to be Kentucky's voice on our nation's agricultural policies, a position that I am honored to still hold today.

Through the years, Mark and the Kentucky Farm Bureau have provided valuable insight, to me, as a member of this Committee, and I want to thank Mark again for all of his support over the years. This morning he will continue to aid our work, highlighting the priorities for farmers in Kentucky and across the nation. His testimony will provide useful insights into the challenges facing American farm families and how Congress can help.

So thank you, Mr. Chairman. I appreciate the opportunity to introduce Mark this morning, and I look forward to working with all of us together as we move toward writing a new farm bill in 2018.

Thank you so much.

Chairman ROBERTS. Leader, if I might suggest '17 might be a better number. I know we are busy in the fall but as I have said to you before, I think this Committee and the last effort that Senator Stabenow and I had, we marked the bill up one morning and took only two days on the floor. If we can do that again and have an agreement, I will be knocking on your door.

Senator MCCONNELL. The sooner the better. Thanks a lot.

Chairman ROBERTS. Senator Casey.

Senator CASEY. Thank you, Mr. Chairman. I want to thank the panel for your testimony, your presence here. I am going to focus, I think, most of my questions to you, Mr. Nobis, just to focus on dairy for a couple of minutes.

I come from a state where, like a lot of states, it has been more difficult, and in some cases a lot worse, when it comes to dairy farming than bright days. So it has been a difficult number of years for these families, as you know.

I guess the first question I have is a concern about perception. In your testimony you said that your members are frustrated and have lost faith in the Margin Protection Program, and I hear that same sentiment expressed across Pennsylvania. So I guess the first question is that perception question. Because that is the perception, if not the reality, of the program, for those farmers and their families, do you think that perception is so poisoned that farmers may be reluctant to embrace the program in any fashion, even with improvements?

Mr. NOBIS. No, I do not think so. It is a hurdle, there is no question about it, but if we can work together and present something that will work, I think the producers will see that and they will accept it. I do not think it is unfixable. I think we can do it, we can work together.

Senator CASEY. Yes. You also talk, in your testimony, about the—both feed costs and feed formula calculations included in the Margin Protection Program, and as we look to that set of improvements that you are referring to, do you think feed formula is where we ought to focus in the work that we do, in terms of attention and funding, as opposed to reducing premiums?

Mr. NOBIS. I know there is always a money issue, but we spent a lot of time, and I was on the committee at National Milk that worked on that program prior to the 2014 Farm Bill, and there was a lot of effort went into coming up with the right formula to gauge the feed cost on the farm, because it is one thing that producers see through. So if we do not fix that, I am not sure but what we are going to have problems down the road with perception again.

Senator CASEY. Yes.

Mr. NOBIS. I mean, you can do it either way. I get that. But producers look at that feed cost and if it is not accurate they are going to say, "Well, that is not my feed cost," and they are maybe not going to trust the program.

Senator CASEY. I know that you and your members have been working at this for a good while, and I just want to ask about, in terms of your own discussions. Have you discussed any type of either farmer-led or industry led inventory management program?

Mr. NOBIS. Ad nauseam, to be honest. But you know farmers very well, and I think you know what the answer is. We are so independent that we do not want to do anything like that, and that is what we always end up with.

I have thought about it an awful lot. Maybe from the pricing angle we send the wrong signals. We do not send the right signal quick enough when we have got more milk than what we need. But we look at it—in my co-op we look at just what Michigan Milk could do, and we could do an inventory management program. There is no question about it.

But within the state borders of Michigan, we produce—market about 43 percent of the milk. Even if we do something within our own co-op, it is not going to have an effect on milk prices, and we go through a chart and explain it to our members. The only thing that is going to change here is maybe the out-of-state transportation cost. The price of milk is still going to be basically the same.

So even if you do it on the state level, the state of Michigan, for example, produces 5 percent of the nation's milk supply. So even that is not going to have an effect, and besides which we cannot get together as co-ops and have a combined supply management program because that would be collusion—we cannot do that.

It is really an international issue. I mean, we have gotten so good in agriculture, everything we do, and it is not isolated to one area of the globe. The information is there. It can be used wherever weather conditions, the geography allows it. So it is a bigger problem than what we can solve within the United States. As far as supply management, it is an international issue, but even then we have to deal with the weather. So we do something and set a supply management program and then one area of the globe has a huge weather impact issue and now we are under the gun because we shorted the food supply. If it were simple we would do it, I guess.

Senator CASEY. Thanks very much. I appreciate your testimony.

Chairman ROBERTS. I want to thank all the panel. You are excused and we welcome the next panel to come forward. Thank you so much.

[Pause.]

Chairman ROBERTS. We welcome the final panel.

Mr. Haney, you have already been introduced by the Majority Leader of the United States Senate. I cannot top that, but we welcome you to the panel.

Mr. Roger Johnson has served as the President of the National Farmers Union since 2009. He is a third-generation family farmer from Turtle Lake, North Dakota. Previously, he served as the North Dakota Agricultural Commissioner and the President of the National Association of State Departments of Agriculture. Roger, thank you so much for joining us today.

I now turn to Senator Stabenow to introduce our next witness.

Senator STABENOW. Well, thank you so much. I know that Senator Gillibrand had hoped to be here. We are all, unfortunately, trying to juggle many committees this morning, so she may be able to join us. But I am very pleased to introduce Ms. Lindsey Shute, the Executive Director and Co-Founder of the National Young Farmers Coalition. Originally from Ohio, Mrs. Shute and her husband, Ben, own and operate Hearty Roots Community Farm, a 900-member CSA in the Hudson Valley of New York. As her role as Executive Director, Ms. Shute has grown the coalition from a few volunteer farmers to a grassroots base of over 120,000 members from 26 different states. Very impressive.

In 2014, Ms. Shute was recognized by President Obama as a champion of change in agriculture. Ms. Shute is a graduate of New York University and Bard College, where she recently delivered the Distinguished Alumni Lecture. Welcome.

Chairman ROBERTS. Senator Cochran wanted to introduce you, Mr. Cole, and so I am going to stand in for him in that he has other duties that he has to perform at the present time.

Mr. William Cole, from Batesville, Mississippi, is a life-long resident of the Delta. Mr. Cole has been serving farmers as a crop insurance agent for 22 years. Thank you for that. He also raises cattle and quarter horses with his family. He is the current President of the Crop Insurance Professional Association. Thank you for your dedication to crop insurance and to producers. I look forward to your remarks.

Senator Ernst and Senator Grassley were going to introduce our next witness. Ron Rutledge, from West Des Moines, Iowa, where he currently serves as President and CEO of Farmers Mutual Hail Insurance Company. Mr. Rutledge also serves on the Board of Directors for the National Crop Insurance Services and is Chairman of the Board of the Crop Insurance Research Bureau. Thank you, sir, for your continued work to improve and defend crop insurance. We look forward to your testimony.

I now turn to Senator Stabenow to introduce our next witness.

Senator STABENOW. Thank you so much. With us today is Ms. Mandy Minick, the Washington State President for Northwest Farm Credit Services. Ms. Minick grew up in Snohomish, Washington, on a small farm, and attended Cal Poly Pomona, where she studied agricultural business management. In her 24 years with Northwest Farm Credit she has served as a credit officer and a branch manager with a portfolio of mainly dairy and wine grapes. Ms. Minick now oversees the lending and insurance services team in Washington State as President, so thank you for being here.

Chairman ROBERTS. Our next witness, wrapping up what obviously is an excellent panel. Mrs. Brenda Kluesner is from outside of Bloomington, Wisconsin. Mrs. Kluesner is a loan officer and crop insurance manager with Royal Bank, a locally owned and operated community bank serving central and southwestern Wisconsin. She has over 20 years of experience working with farm service agency programs, both as a lender and also as the owner of a cow-calf operation along with her husband.

Mrs. Kluesner, thank you so much for joining us today, especially from your perspective as a producer and as a loan officer. We have had a lot of talk about this and you can add to this, I am sure.

Mr. Haney, please proceed.

STATEMENT OF MARK HANEY, PRESIDENT, KENTUCKY FARM BUREAU FEDERATION, LOUISVILLE, KENTUCKY

Mr. HANEY. Thank you, sir, and thank you, Mr. Chairman, and Ranking Member Stabenow, and members of the Committee. Thank you for allowing us to be here.

I represent a fifth generation on our family farm in Nancy, Kentucky. My brother and I produce apples, peaches, and beef cattle. We also have a Farm Bureau roadside farm market, where we sell produce from our farm, as well as cider, jelly, jams, all other baked products at the farm level.

The farm bill is one of the most important pieces of legislation related to agriculture, and what is most important to our farm families is the ability to stay on the farms in Kentucky and across the country. But in doing so, we must face down challenges, such as financing for our young farmers and farm families, who want to continue the legacy of rural America; regulations that threaten to make certain ag sectors extinct; and conservation issues, such as adequate water resources for agricultural uses.

I want to draw your attention to the two charts included in my testimony, as they do highlight the realities of the situation farmers and ranchers are facing in today's agriculture economy. The farm sector debt-to-income ratio is at a concerning level, and depending on what happens with the crops this year it could be even higher as we begin 2018.

The second chart shows how quickly working capital has fallen over the last five years, but if low prices persist, for many commodities, farmers will have gone through their working capital pretty soon.

I draw your attention to these two charts because they provide a good visual of the need for a strong safety net in the upcoming farm bill. The American Farm Bureau Board of Directors met two weeks ago to discuss our recommendations for the farm bill. Our recommendations are not set in stone. Rather, they are designed to provide the necessary flexibility to ensure that Farm Bureau is prepared to work with you in achieving the best possible farm bill that meets our key farm policy objectives while assisting you in meeting the challenges this important legislature will endure.

Farm Bureau recommends the following provisions, in particular, for your consideration.

Our farmers strongly support continuation of the Price Loss Coverage program and the Agriculture Risk Coverage program. They want a choice of which risk management program works best for their operation. They want both programs to work so that the decision is truly a choice. Our farmers support the opportunity for all farmers to re-elect and/or re-enroll in Title 1 programs and believe that all Title 1 payments should be made on historic rather than planted acres.

We have all heard about the discrepancy in ARC payments across county lines, and we believe that this can be remedied by allowing farmers to select the higher of the five-year Olympic Average or 10-year yield for the 10-year average yield. In addition, the reference price used as the floor for the ARC–County programs should be increased 5 percent for corn, soybeans, wheat, sorghum, and other minor crops.

We support a cotton lint program and/or designated cotton seed as another "another oilseed" to make cotton eligible for Title 1 commodity support payments.

The Dairy Margin Protection Program must be improved and we have a suggested package of reforms that continues a two-tiered approach to providing a safety net for dairy, and that increases the feed ration formula by 10 percent. The increase in costs to do with this are offset by adjusting the premium rates and by increasing the administrative fee for cap coverage.

We want to increase the $20 million annual cap on livestock insurance products to $75 million annually. This will allow dairy, beef, swine, and sheep producers to have more opportunity to insure their risk.

The Conservation Reserve Program has been a huge topic within our membership. It is critical that USDA be required to update rental rate data for the Conservation Reserve Program every year rather than every other year. It is also important that the pollinator rental rate be capped at the lower of $300 per acre or 90 percent of the average county cash rent for the type of land that is entered into the pollinator program. We will likely have more recommendations on rental rates in a few weeks.

Suffice it to say, we have had many members express concerns about CRP rental rates exceeding land rental rates and making it exceeding difficult, especially for beginning farmers, to be able to rent land. We do not support increasing the cap on CRP above the current 24 million acre cap. We would also like to make parcels of land that been enrolled in the general CRP for two contracts being eligible for re-enrollment.

I want to thank you for allowing me to participate this morning. I would be happy to respond to questions later. Thank you very much.

[The prepared statement of Mr. Haney can be found on page 97 in the appendix.]

Chairman ROBERTS. Thank you, Mr. Haney. Roger, you are up to bat.

STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. JOHNSON. Thank you, Chairman Roberts and members of the Committee. Thanks for the opportunity to testify today and the work this Committee is doing to understand the challenges that face agriculture.

I serve as the President of the National Farmers Union. We represent about 200,000 family farmers, ranchers, and rural members, and we work to improve the well-being and quality of life for these folks by advocating for grassroots-driven policy adopted annually by our membership.

Commodity programs, access to credit and crop insurance will be key components of the 2017 farm bill, if it is possible. This rings especially true as we continue to witness pressure in the countryside as commodity prices remain low and farmers and ranchers struggle to adjust.

We are three years into this downturn. Forecasts by USDA point to a prolonged period of depressed prices. Given this scenario, Farmers Union believes that the farm bill safety net should provide meaningful assistance in two fundamental circumstances—when disaster strikes and when prices are low and remain below the cost of production for extended periods of time. These two scenarios have separate solutions. The first is crop insurance and the second is commodity programs.

Our current environment has negative implications for producers' access to credit. During fiscal year 6, FSA set a new record across its loan portfolio. Obligations of direct and guaranteed operating and farm ownership loans reached $6.3 billion, highest in FSA's history. At the same time, servicing metrics associated with the programs got worse, as delinquencies rose and debt restructuring increased among private sector lending. Confidence is down and stress on portfolios are up, according to both public and private reports. Nearly 90 percent of agricultural lenders report an overall decline in farm profitability in the last 12 months.

To combat periods of prolonged low prices, our members believe a strong safety net is required. Much discussion and debate has centered on programs that fit the budget. Using the budget as a starting and ending point for the nation's agriculture safety net is problematic from our perspective. Feeding the nation is a national security priority and should be treated as such. As recently as April, the President reaffirmed this belief—we must maintain farm programs that help offset low prices until favorable prices return.

To that end, we urge this Committee to raise reference prices under the PLC, improve operability of ARC, return cotton as a covered commodity, and rework the dairy safety net. It is important to note that last week the Senate Appropriations Committee took important steps related to cotton and dairy, but I would urge you to use this as a starting point, not a final solution.

We must ensure that the next farm bill provides a meaningful backstop for dairy and cotton operations. While we encourage alterations to ARC, PLC, and MPP programs, our members are concerned that the costs of improvements to one program will come at the expense of another. NFU urges this Committee to add money where needed in order to improve these programs.

The assistance that Title 1 programs are providing is complemented by the role of crop insurance, which provides an essential risk management tool to farmers. Crop insurance changes contained in the 2014 Farm Bill pertaining to policies such as NAP and the Whole-Farm Revenue Protection program have proven an important springboard for farmers, especially beginning farmers, into crop insurance.

While both NAP and WFRP have a long way to go in the eyes of these populations, they are an important introduction. Farmers Union urges this Committee to look further at these programs, specifically expanding beginning farmer discounts from 5 to 10 years, reducing the record-keeping burdens that have created a barrier to use, removing livestock operations from being counted towards the livestock insurance cap, and reworking the $1 million livestock liability limit on this program.

Diversity on the farm leads to less risk. We should encourage farmers to seek that additional diversity. Farmers Union believes there are minor changes that can be made within the federal crop insurance program that incentive rather than punish producers seeking additional conservation benefits.

There are many challenges facing agriculture today. This Committee faces a challenging task ahead as it begins to grapple with these problems. Farm bill safety net needs to be improved, crop insurance needs to be protected, and access to credit needs to be increased, all for the benefit of family farmers. Our collective is to continue working to provide help when and where needed, and encourage the continued growth and success of our most vital industry—agriculture.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Johnson can be found on page 125 in the appendix.]

Chairman ROBERTS. We thank you for your testimony. We turn now to Ms. Shute.

STATEMENT OF LINDSEY LUSHER SHUTE, HEARTY ROOTS COMMUNITY FARM AND CO–FOUNDER AND EXECUTIVE DIRECTOR, NATIONAL YOUNG FARMERS COALITION, HUDSON, NEW YORK

Ms. SHUTE. Chairman Roberts, Ranking Member Stabenow—thank you for the introduction—members of Committee, my name is Lindsey Lusher Shute and it is a distinct honor to be here with you today.

Our country needs farmers. The generation of men and women who have stewarded our land, who have grown food for the nation are aging, and there are simply not enough young people ready to step up and take their place. Between 2007 and 2012, our nation lost 90,000 principal operators. Farmers over the age of 65 now outnumber farmers under the age of 35 by a margin of 6-to-1. Two-thirds of farmland is managed by someone aged 55 or older. Then in the next five years, the span of the next farm bill, we expect that 100 million acres of U.S. farmland will need a new farmer.

The only way to bring young people back to agriculture is to prove to them that it is a career worth pursuing. We must prove to them that you can still start farming in your 20s, when you have a good back, good knees, lots of energy. We must prove to them that farming can support you through all stages of life—through having children, through retirement, through hardship. The only way that we are going to be able to prove all of these things is to ensure that people who are young and who are farming today, we have to make sure that they make it, and that is why I am here.

Young Americans are farming, and many more are getting trained. In the last Census of Agriculture, in fact, we saw the first increase in the number of young people farming under 35 years old, the second time we have seen this in the last century, so that is significant. If these farmers make it, I believe more will follow. These millennials, multi-generational farmers, first-generation farmers, veterans, former farm workers, they are entrepreneurial and tough, but far too many are finding that is just not enough.

Young farmers and ranchers struggle with finding farmland, managing student debt, affording health care, as well as deep biases that disadvantage women and people of color who are farming. Land access is dire. Over the past 15 years, farmland real estate prices have gone up by 150 percent, and as farmland prices rise faster than farm incomes, farmland ownership, that foundation of a successful family farm, grows further out of reach.

Serving young farmers will require new ways of doing things and working together to protect opportunity for all growers. There are certainly changes that young farmers need in the next farm bill and from USDA, but I want you to know that actions by this Committee and USDA are making a difference, and we need to build on this progress in the next farm bill.

FSA's microloans are essential. FSA's new beginning farmer regional coordinators, and its cooperative agreements with organizations like ours, are bringing these programs to more farmers.

We urge FSA and USDA to finally modernize its services and put them online. To address farmland prices, we need to address the direct farm ownership loan limit up and pre-approve farmers for loans so they can actually compete on the real estate market with an FSA loan. Farmland conservation funding must also be increased to keep prices in check and, of course, to protect our land.

Farm safety net programs are critical and new products like Whole-Farm Revenue Protection, NAP discounts for beginners, and NAP buy-up are covering more growers and they should be fully supported. But business models that young farmers are turning to, like community-supported agriculture, CSA, like my farm, they still do not fit these programs and many of them have no insurance whatsoever.

We urge you to further strengthen the safety net and help farmers to save for tough time through tax-deferred or tax-free farmer savings accounts. These savings accounts could also help young growers save for future farm needs.

We also encourage this Committee to address student debt. Chairman Roberts, we are grateful for your efforts to expand GI Bill benefits for veterans pursuing careers in agriculture. That is tremendous. This is the right direction. We encourage the Committee to explore ways that all young farmers pursuing farm careers could manage student debt, because it is, frankly, interfering with their ability to secure additional credit.

Farming is a career that is easy to love, but to recruit the next generation of farmers it must also provide a decent living. We look forward to working with the Committee to make that possible.

On behalf of the National Young Farmers Coalition's 36 farmer-led chapters, thank you for this opportunity.

[The prepared statement of Ms. Shute can be found on page 224 in the appendix.]

Chairman ROBERTS. Ms. Shute, thank you so much for that very excellent testimony regarding when and where the next generation of farmers can come aboard.

Mr. Cole.

STATEMENT OF WILLIAM COLE, STONE CORNER FARMS AND CHAIRMAN, CROP INSURANCE PROFESSIONALS ASSOCIATION, BATESVILLE, MISSISSIPPI

Mr. COLE. Chairman Roberts, Ranking Member Stabenow, thank you for the privilege to testify today. My name is William Cole and I am a crop insurance agent from Batesville, Mississippi.

Speaking before this Committee is a little surreal. After all, Chairman Roberts and many members of this Committee have been the driving forces behind legislation that built the framework for crop insurance to become what it is. Today, farmers willingly pay $4 billion out of pocket each year and insure more than 130 different crops on 90 percent of all U.S. acres, 290 million acres in all, covering some $100 billion worth of liability. Thank you, Mr. Chairman, and all the members of this Committee for all you have done to ensure American farmers and ranchers have something as basic as insurance.

I am the Chairman of the Crop Insurance Professional Association. CIPA agents sell in insurance just about every state, serving the risk management needs of our producer customers, so I greatly appreciate that mitigating risks is the focus of today's hearing. Crop insurance helps farmers secure credit, invest in better equipment and technology, and better market their crops. It also stabilize the economies of our rural communities, especially in natural disasters.

But it was not always this way. In my written testimony, I spent considerable time on the 80-year history of crop insurance, and especially the watershed laws of 1980, 1994, and 2000, that moved us to private delivery and laid the firm foundation for the meteoric rise in both participation and coverage levels over the last 20 years.

It is this growth that finally put an end to costly unbudgeted, ad hoc crop loss disaster programs, and crop insurance has served taxpayers and farmers well in other ways too, consistently coming in under budget. Since the 2008 Farm Bill, crop insurance has yielded some $17 billion in savings. According to the June 2017 CBO update, we are now on target to save taxpayers another $6.7 billion over the next 10 years.

Despite these great advances, there is still much room for improvement. We believe it should be the goal of all crops and regions to have access to high-quality, affordable options. Certain changes made in the 2014 Farm Bill have helped. The yield exclusion, expansion of enterprise units, whole-farm insurance, and beginning farmer provisions have been very successful.

But there are a few provisions that have not performed as well. Linkage of conservation compliance to crop insurance is an example of where we have gained little in exchange for a lot of effort, and some tragic stories of lost coverage in the wake.

Area plans of insurance, including SCO and STAX for cotton, have also underperformed, we believe due to producer weariness toward paying money for coverage that is not tailored to the risk on their farm.

Looking forward to the 2018 Farm Bill, we believe that Congress should consider the three following principles: that the current farm bill is, in fact, below budget; that crop insurance is critical and gives taxpayers a big bang for the buck; and that farmers need a strong Title 1 for times of depressed markets like these, and based on this, Congress should proceed to enact a strong new farm bill.

We have to acknowledge that while crop insurance is working, the critics have set it up as their big target. Legislation backed by the Heritage Foundation and EWG would do irreparable harm to farmers and ranchers. Dr. Art Barnaby of Kansas State University sums it up this way: “If all these crop insurance changes were to pass, it would kill crop insurance, and if just one of them were to pass, it would upset the equilibrium and start the death spiral.”

What are they proposing and what would it impact? Well, arbitrary limits on coverage and on premium discounts and an AGI means test would damage the risk pool. Further cuts to A&O and company rate of return would kill the private delivery, and the publication of insurance contracts would be used to distort information against farmers. At bottom, these proposals would unravel the work Chairman Roberts did 17 years ago, and the work of Senator Leahy 23 years ago, and return us to an annual need for unbudgeted, ad hoc crop loss disaster programs. We would strongly urge you to reject these proposals that are not designed to reform but destroy.

Finally, I want to say a word about program integrity, the reason CIPA was created 20 years ago. While any form of insurance has its bad actors, the universe in crop insurance is small. In most years, the farmer writes a check rather than the insurance company. In 2016, only 19 percent of all policies received an indemnity. Moreover, the improper payment rate was just 2.02 percent, roughly half of the government-wide average.

So this is a good story but we can do even better, just as working together we can enact a strong new farm bill, on time, that fully protects federal crop insurance. CIPA stands ready to help.

Thank you once again for the privilege of testifying today.

[The prepared statement of Mr. Cole can be found on page 85 in the appendix.]

Chairman ROBERTS. Mr. Cole, thank you for an excellent statement.

Mr. Rutledge.

STATEMENT OF RON RUTLEDGE, PRESIDENT AND CEO, FARMERS MUTUAL HAIL INSURANCE COMPANY OF IOWA, WEST DES MOINES, IOWA

Mr. RUTLEDGE. Good morning, Chairman Roberts, Ranking Member Stabenow, and distinguished members of the Senate Ag Committee. I would like to thank you for having me here today to testify about crop insurance and the vital role it plays in providing risk management to farmers across the country. I would also like to thank this Committee for all of the support for crop insurance.

My name is Ron Rutledge and I am President and CEO of Farmers Mutual Hail Insurance Company of Iowa, one of the 16 Approved Insurance Providers that sells crop insurance policies to farmers and ranchers across the country. Farmers Mutual Hail was founded by my great-grandfather in Iowa in 1893, and we have been providing crop insurance to farmers for 125 years.

I am also Chairman of the Crop Insurance and Reinsurance Bureau, and I am a Board member on the National Crop Insurance Services.

As an Approved Insurance Provider, we underwrite crop insurance policies, which means we share in bearing the risk of policies so a taxpayer is not entirely on the hook for any loss. We hire agents to sell policies and adjusters to assess and confirm losses. We invest in technology, training, and services to ensure the highest integrity of the program.

As an industry, we are proud to sell crop insurance in all 50 states and to all types of farmers. Our industry covers farms of all sizes and covers more than 100 different commodities, including a significant number of specialty crops. For those crops without specific coverage, whole-farm revenue insurance is available. Crop insurance is continuously evolving and recent advances have included improvements in organic policies and additional benefits for beginning ranchers and farmers.

I cannot stress enough the breadth and depth of the protection that is provided by crop insurance. Crop insurance protects farmers and ranchers in every single state represented in this room today. Crop insurance was purchased on almost 280 million acres of farmland in 2016, well over 90 percent of the 300 million acres available in the United States. Crop insurance policies protected $95 billion worth of liabilities in 2016. Crop insurance protected more than $18 billion in liabilities for specialty crops alone, a number that has increased significantly in recent years.

As you all know, crop insurance policies must be purchased by farmers and only pay an indemnity when producers face a verifiable loss above and beyond their deductible. Last year, losses from drought were concentrated in the Northeast, with New Hampshire and New York and Rhode Island all having losses that exceeded the premiums for the year. Arkansas, Louisiana, and North

Carolina also had difficult years, with loss ratios well over 100 percent.

This year, crop insurance will come to the assistance of farmers in the Dakotas and Montana that are facing a devastating drought; farmers in Alabama for losses from Tropical Storm Cindy; farmers in Michigan for losses from the double-whammy of a late spring freeze and flooding; and farmers in Kansas who endured both prairie fires and late-season snowstorms, and that is just so far. There is a lot of growing season left.

Yet despite the critical role crop insurance plays in providing fiscally responsible protection to farmers, we know crop insurance will face attacks during the 2018 Farm Bill process. I believe many of these attacks are fueled by misinformation, which is covered in my written testimony but we simply do not have time to cover it today.

I would like to point out, however, that on average, over the last five years, 54 percent of Farmers Mutual Hail customers paid premiums out of their own pockets and received zero indemnity payments. That is not an investment looking to earn a return; that is how insurance is supposed to work.

Today I would like to ask this Committee to continue your support for the private sector delivery of crop insurance, as well as for affordable and effective crop insurance for producers of all sizes, crops, and regions. I ask that you oppose efforts to harm crop insurance during the 2018 Farm Bill, and specifically, I urge you to oppose the policies put forward in the AFFIRM Act, or S. 1025. This bill includes harmful policies such as cuts to the private sector delivery of crop insurance, cuts to the premium discounts provided to America's farmers and ranchers who purchase crop insurance, and multiple forms of means testing.

Again, I thank you for having me here today and for your continued support. I look forward to answering any questions you have, and I am happy to be a continuous resource for you during the farm bill process. Thank you.

[The prepared statement of Mr. Rutledge can be found on page 180 in the appendix.]

Chairman ROBERTS. Well, thank you, Mr. Rutledge. I am going to mark you and Mr. Cole down as being in favor of crop insurance.

[Laughter.]

Chairman ROBERTS. Mrs. Minick.

STATEMENT OF MANDY MINICK, WASHINGTON STATE PRESIDENT, NORTHWEST FARM CREDIT SERVICES, PASCO, WASHINGTON

Mrs. MINICK. Mr. Chairman, Ranking Member Stabenow, and members of the Committee, thank you for allowing me to testify today on behalf of the farm credit system.

My name is Mandy Minick and I am the Washington President of Northwest Farm Credit Services. We provide financing, crop insurance, and related services to farmers, ranchers, agribusinesses, commercial fisherman, timber producers, and rural homeowners in Washington, Oregon, Idaho, Montana, and Alaska. Northwest is part of the nationwide farm credit system. Farm Credit's mission is to support rural communities and agriculture with reliable, consistent credit and financial services.

We are here today to talk and advocate for a strong farm bill. Farm income has fallen, along with commodity prices, over the past several years. Similar to the producers we serve, Farm Credit built financial strength in anticipation of this challenging economic cycle.

Like most, we could not predict when this cycle would begin or end, but experience told us it was coming and our institutions prepared for it. We built capital, we loaned conservatively. Today, Farm Credit is financially stronger than it has ever been, and is prepared to use those strengths to support our customer-owners and continue to fulfill our mission.

Our philosophy on credit today is this: we know our customers well, understand, and respond to their needs, and work cooperatively with them to analyze and structure transactions to provide them with the best chance to succeed.

The current cycle in agriculture makes this Committee's work on the next farm bill crucial. We need a strong farm bill to provide a safety net against sustained market downturns. We strongly support maintaining and improving federal crop insurance programs, along with agriculture risk coverage and Price Loss Coverage programs. This is the heart of a strong farm bill.

Whole-Farm Revenue Protection has expanded options for specialty crop, organic, and diversified crop producers, allowing them to insure all their crops at once instead of one commodity at a time. A viable federal crop insurance program, including WFRP, is vital to the flow of credit to farmers and ranchers, particularly those that are young and beginning, who typically have less collateral and equity.

Without the risk protections provided by crop insurance, agricultural lenders would have to tighten underwriting standards, making it more difficult for farmers to plant crops and replace capital assets. Economic growth would slow and rural communities would suffer.

As the farm economy continues to soften, Farm Service Agency guaranteed and direct loans are even more important, particularly for young and beginning producers. We are grateful for the leadership of Senator Hoeven on this issue, as I understand he is working to enhance the current FSA guarantee limit. FSA guarantees provide Farm Credit institutions additional flexibility to help customers survive a potentially extended economic downturn.

Infrastructure that supports rural communities and links them to global markets has helped make the U.S. the unquestionable leader in agricultural production. However, our deteriorating infrastructure threatens this leadership position.

We hope that the Committee will urge the Farm Credit Administration to re-establish a program that facilities partnerships between Farm Credit, commercial banks, and USDA to build community facilities in rural areas.

The lack of a reliable, stable, and legal workforce threatens the economic health of our farmers. The labor shortage negatively impacts our economic competitiveness, local economies, and jobs. We need an appropriate reform to address the agricultural shortage.

Thank you again for allowing me to testify, and we look forward to working with the Committee to pass the farm bill.

[The prepared statement of Mrs. Minick can be found on page 151 in the appendix.]

Chairman ROBERTS. We thank you very much for your testimony.

Mrs. Kluesner.

STATEMENT OF BRENDA KLUESNER, LOAN OFFICER AND CROP INSURANCE MANAGER, ROYAL BANK, CASSVILLE, WISCONSIN.

Mrs. KLUESNER. Thank you, Mr. Chairman. I am Brenda Kluesner, Loan Officer and Crop Insurance Manager at Royal Bank, Cassville, Wisconsin, testifying on behalf of ICBA.

Royal Bank is a $400 million community bank, serving 19 Wisconsin locations, with over $90 million in ag loans, and providing crop insurance for over 20,000 acres. Our nation's 5,800 community banks are vital to agriculture. Passing the new farm bill next fall will be helpful, and a five-year time frame will provide certainty for farmers and their lenders making business planning decisions.

My testimony suggests five principles for the next farm bill: provide adequate funding to weather a potential farm income or farm credit crisis; consider any program changes that could help producers and the banks that serve them; require agencies to reduce regulatory burdens; ensure no regulations be adopted not based on specific statutes or which add regulatory burdens; require agencies to treat program participants equally; direct government loan programs should complement, not subtract, from private sector lending.

Community banks have been lending at historically low interest rates. After four years of declining farm income, USDA projects net farm income at one half of the levels of 2013. The decline in farm income has stressed the abilities of money borrowers to cash flow. Many farmers have strong equity but not enough working capital or positive cash flow. Demand for debt restructuring will increase. Bankers are concerned regulators may overreact, classifying loans with negative cash flows despite strong land equity.

Following are recommendations from ICBA ag bankers.

Provide adequate funding. USDA guaranteed loan programs run out of money in times like these. We need flexibility so USDA can transfer unused surplus funds between programs or from CCC. We suggest permanent legislative authority. Similar authority could be in place for direct loans and the business and industry loan program.

Raise loan volume caps. Loan limits on USDA farm loans are too low. Higher loan limits are warranted given dramatic increases in cost of inputs and farmland. The guaranteed ownership program is self-funding, and the operating program is very low cost, providing billions of dollars of credit to farmers unable to obtain credit.

Minimize origination fees, which discourage use. Minimize paperwork. Remove USDA's 12-to 24-month waiting period to refinance from FSA guaranteed loans when there has been any type of ground disturbance. Provide flexibility when financing loans across state lines, as USDA requirements often differ among states. Increase USDA staffing levels to quicken approval times and update USDA software. Allow banks to choose which USDA–FSA office to work with to ensure a timely loan approval process. Support Farmer Mac's technical changes.

Regulators classify farm loans if farmers miss an occasional payment, even if farmers have strong equity. With a 90 percent USDA guarantee, the loan amount of a classified loan is reduced 90 percent. A $1 million loan would only have $100,000 classified. This helps banks keep farmers in business without the bank being under regulator-imposed enforcement action.

We need a strong farm safety net with a strong farm bill and crop insurance program, both vital to producers and lenders. We also need a very robust USDA guarantee loan program which can help thousand of farmers farming in the potentially stressful times ahead.

We look forward to working with you.

[The prepared statement of Mrs. Kluesner can be found on page 131 in the appendix.]

Chairman ROBERTS. Thank you very much for your testimony.

For Mr. Cole and Mr. Rutledge, thank you for the work that you do to provide crop insurance to farmers and ranchers. We had a change back in the 2014 Farm Bill, which I deem as unneeded, costly, burdensome, and that was the addition of conservation compliance to crop insurance. As the Department implemented this additional requirement, what issues have producers, agents, and companies encountered with conservation compliance?

Mr. COLE. I will start, Mr. Chairman. As you well know, the intention was to bring more farmers into compliance and not go the other way, where they lose coverage. It is so punitive especially for our friends that have specialty crops in the Northwest where they might not have ever been in a program and they do not really know that they are out of compliance, and then they miss a date, and they receive harsh penalties. So if conservation compliance stays in place then we have got to simplify these rules without the punitive penalties where they lose coverage.

Chairman ROBERTS. Mr. Rutledge, anything?

Mr. RUTLEDGE. Certainly. We had our challenges too. Obviously it is a lot of work any time those kinds of changes are put in, in terms of updating IT, and getting the processes in place.

There were some data issues and some unintended consequences, I think, from it. I do have to acknowledge, if I may, the AIPs and agents like Mr. Cole, who all worked very hard together to get out and contact the producers who were not in compliance and get them in compliance before the compliance dates passed. There were some exceptions and hopefully we can avoid those in the future.

Chairman ROBERTS. Mrs. Minick, on page 7 of your testimony, paragraph 4, "Farm Credit helped organize Rebuild Rural, a coalition of more than 200 organizations representing ag producers, rural businesses, rural communities, rural families to advocate for aggressive efforts to meet the unique infrastructure needs of rural communities and agriculture." You have apparently asked the President to specifically address rural infrastructure needs as part of his administration's comprehensive infrastructure renewal efforts, and you have been encouraged, as you have indicated here.

Talk to us a little bit about Rebuild Rural.

Mrs. MINICK. Sure. So as we talked before, the rural communities need to be strong, for lots of reasons, to have a strong farm economy, to attract young folks back and want to join in on that. So a lot of that revolves around the services that are provided there—medical, personal health, Internet—all those kinds of things that attract folks that want—they want the same services that they have there in urban areas to be in rural areas. Very important for our young and beginning.

Also, that infrastructure is so important to make sure that we maintain our leadership role in the long run in the world markets, and being able to get products easily and efficiently from where they are produced, from the farm gate to the ports, is so important. So that is why we feel that we need to make sure that as we go forward building infrastructure that it is not only in the urban areas but in the rural areas as well.

Chairman ROBERTS. I appreciate that very much.

Mrs. Kluesner, I am looking through your entire statement here, but you were mentioning the role of the regulator, and obviously we have to have regulators. But I remember back in the 2008 days, where regulators were coming in, and instead of going mark to market they were going to mark to whatever they determined, and in my view made the situation much worse.

What do you see out there right now, given the situation we are in and the rough patch we are going through, on the part of the regulators, and how—I am not trying to have you single anybody out, but just where do you see this going right now?

Mrs. KLUESNER. Well, right now we are not as dire as what I believe it is going to be this fall, with commodity prices. You know, with utilizing the USDA guaranteed loan programs, any problem loans only count as 10 percent of the bank's capital if the loan is classified, so it is just going to help us by utilizing the USDA guaranteed loans. It will help satisfy regulator. But regulators need to work with the banks and not overreact.

Chairman ROBERTS. For anybody on the panel, if you can mention one thing that we need to do, on the Committee, and for that matter, with regards to our farm program policy, to see some price recovery, what would it be? I will give you a hint—I am aiming at exports. But, anyway, go ahead, Mr. Haney.

Mr. HANEY. Yes, sir. We are certainly a free trade organization and we understand exports is at the top of the list. Certainly labor is going to be a big issue for our industry as well, and how we deal with that labor issue.

Chairman ROBERTS. Roger?

Mr. JOHNSON. Well, sir, we agree that exports are very important. We are in a challenging environment right now with an administration that, while we agree with much of what he says, in terms of trade philosophy, I think most of us would disagree with some of the tactics. Words matter, and the ability to lose export markets, they are pretty fragile. When countries are offended they look elsewhere, and we are seeing some of that. So certainly with respect to exports, I think there are some different approaches we could take.

I do think it is really important that, to your base question, we have a safety net that really works, and in our view, you need a safety net really in two fundamental circumstances—when market prices are bad, below cost of production, and when disasters strike, and I talk about that quite a bit in my testimony. I guess that is what I would urge the Committee to really focus on. Thank you.

Chairman ROBERTS. Ms. Shute?

Ms. SHUTE. Our farmers are focused on the direct market, selling direct to consumer, typically domestically, and their foundation of profitability really depends on their land—how much they are paying in rent and mortgage payment, if applicable. So land access is the single most difficult issue for young and beginning farmers. So if I were to say if there was any issue you should focus on in the next farm bill it is figuring out how we can make sure that land is transferred from the existing generation of farmers to the next, in a way that is affordable and really supports a family-scale farm.

Within that, we need to improve FSA services. As I said, we need preapproval, we need to increase direct farm ownership loan limits. We also need to consider tax incentives that would actually encourage farmers, enable some farmers to pass their land down to the next generation and also encourage farmers to sell to the next generation of working farmers.

Chairman ROBERTS. We will mark you down on behalf of estate tax reform, and I hope we get to tax reform. I will just leave it at that.

Mr. Cole.

Mr. COLE. Yes, sir. At CIPA we are continuously working to improve crop insurance protection, not only on the yield side but we also keep working to expand it to other crops and also to provide more support when prices fall, where farmers are not just looking at PLC or ARC, but they also have crop insurance to step in and help fill the gap as well.

Chairman ROBERTS. Mr. Rutledge.

Mr. RUTLEDGE. I guess I would just say, do not throw the baby out with the bath water. The 2014 Farm Bill was a very solid bill—job well done—and a few tweaks to some of the programs now will serve us just fine.

Chairman ROBERTS. I think I can speak on behalf of Senator Stabenow and myself that this is no time for revolutionary ideas. Stability and predictability, I think, are the two key words.

Mrs. Minick.

Mrs. MINICK. Yes, on that stability as far as keeping families on the farms, being able to pass them on to the next generation, so keeping the programs that give that safety net a strong farm crop insurance program and then the ability for private institutions to work with FSA to help out even in some of these cycles are very important.

Chairman ROBERTS. Ms. Kluesner.

Mrs. KLUESNER. A five-year time frame will allow long-term business planning for farmers. A strong commodity safety net allows us to make the long-term price projections and work with the farmers. It is very important not only for today's farmers but it also helps us prepare the way for the next generation.

Chairman ROBERTS. I thank you all for your testimony. That will conclude our hearing today, with the exception of the comments by the distinguished Ranking Member. Almost forgot you.

Senator STABENOW. That is right. Thank you, Mr. Chairman, and thank you to all of you. I think, Mrs. Kluesner, at the end you were talking about, you mentioned five-year farm bill, and I think it is so important that we stress that we are not limping along year to year to year, that the fact that this is a five-year economic development strategy is very important. It should be at least five years. Actually, the stability the Chairman talked about was so very important when you are trying to plan, and our farmers are trying to do this. It is risky enough without having us add to it.

So I do want to start with one thing, Mr. Cole, because you were talking about conservation compliance, and I just want to follow up on that, because conservation compliance actually is not a new idea for the majority of farmers. It has been around for 30 years. The USDA testified in front of our Committee just last month that 99 percent of producers are meeting the new conservation compliance requirements established in the 2000 Farm Bill. For those who are new, the Department provides several exemptions to reduce the number of farmers who may lose premium insurance.

So I wondered—I am just a little confused and I want to clarify your statements, because—can you tell me if anyone that you serve or personally know has actually lost the federal premium support due to these provisions?

Mr. COLE. I do not personally, because most of our producers in the South have produced program crops for years. But now, the biggest problem is timing. We are not saying that conservation compliance is not a very good thing. Our producers need to be in compliance. But I think it is more of a regulatory issue, including the timing aspect of it, such as when farmers get the paperwork filed with their farm service agency, if they miss something, or if they change their operation, or have a death in the family. There needs to be some exemptions. We have had to work with our customers and help, through CIPA, to try and find a way that we can get them back into compliance.

So it is a good thing. We have just got to simplify it, where the producers do not have such a problem and possibly do miss out on these benefits.

Senator STABENOW. Okay. Well, that is important clarification. You are talking about specialty crops as well, which I represent——

Mr. COLE. Yes, ma'am.

Senator STABENOW. —a lot of in Michigan. I have not heard specific concerns at this point about that, when we did the hearing in Michigan.

Mr. Rutledge, the same question. Do you know of anyone in Iowa who has actually lost their federal premium support?

Mr. RUTLEDGE. We had one situation where a beginning producer missed the filing date, and it took some time to straighten out. I think it was, in the end. But that is the biggest problem we had, and is, I think, similar to some of the problems Mr. Cole ran into. If you did not hit the right date or had an entity change or land change past the date, there was no way to get in compliance for the current year. I do believe RMA has straightened that out with their latest bulletin.

Senator STABENOW. Okay. Good. Thank you. Mr. Johnson, Mr. Haney, the Farm Bureau, the Farmers Union, the National Milk Producers had proposed in the spring I think an innovative idea to improve dairy insurance options administratively, and I know that Mr. Nobis talked about that on the first panel, and it makes sense to me. I wonder if you could each briefly expand on that, and do you support expanding the benefits of crop insurance for dairy?

Mr. HANEY. Yes, ma'am. Thank you. We certainly—this gives me an opportunity to talk about the work that our staff has done at American Farm Bureau on working with industry and being able to really help produce another tool in the toolbox, I would say. Maybe not the answer to everything but certainly an insurance product that would allow a producer to have skin in the game and certainly purchase more coverage, we think, is probably the right way to go.

Senator STABENOW. Thank you. Mr. Johnson.

Mr. JOHNSON. Well, yes, thank you, Senator Stabenow, for the question. You know, fundamentally this is probably a question about the money, and I know that is an issue that you all struggle with mightily as you try to write a farm bill within the confines of a budget. One of the, I think the innovative ideas around this is if it can be funded through the risk management, crop insurance angle, then the budgetary implications are significantly different. So to the degree that you can figure out how to finesse that, that would be a very good thing.

The reason I think this idea emerged is because we had a dairy task force that was put together a year or more ago from among our membership, and reached out to others in the industry as well. There was, as you know, an enormous amount of concern about the economic problems facing the dairy sector, and there just is not enough budget authority to do justice to a dairy title, to try and fix this problem.

So one of the things that we learned in that process was there are a lot of folks that talked about the LGM program, which, of course, is this very restrictive limit on crop insurance, dairy program, and so the argument was made, if you can sort of define milk as something different than cattle then maybe you can do this through RMA, and we would encourage you to pursue that approach. It may be a way to get some more resources into an industry that direly needs some support.

Senator STABENOW. Thank you. Well, we did give authority to the Secretary to designate and to a crop insurance board to be able to expand crop insurance. That is how we did it——

Mr. JOHNSON. Yes. We appreciate that.

Senator STABENOW. —within the 2014 Farm Bill. So it is certainly something that can be done under existing authority.

Mr. JOHNSON. Yes.

Senator STABENOW. Just as a follow-up, Mr. Rutledge, Mr. Cole, from a crop insurance perspective, would you support and see benefits from expanding the crop insurance options available to dairy farmers?

Mr. RUTLEDGE. Certainly we would and we would like to see a policy similar to what is in place now that is actuarially sound. I am sure we could deliver one.

Senator STABENOW. Mr. Cole.

Mr. COLE. Milk and dairy are not my areas of expertise but I do know that milk does not need to be classified as livestock and should be taken out from under the cap so dairy farmers can actually get a crop insurance policy.

Senator STABENOW. Thank you. Thank you very much, Mr. Chairman.

Chairman ROBERTS. Senator Van Hollen, I am delighted to recognize you now, sir. You have been waiting a long time. You were first in the Committee room, so I am delighted to recognize you.

Senator VAN HOLLEN. Thank you, Mr. Chairman, and I am sorry I was not able to make the entire hearing in and out, but I understand that you have covered some of the questions I intended to ask, so I will try and keep this brief.

But I did have a question, Mrs. Minick, especially with respect to using farm credit to help expand and develop infrastructure in rural areas, including energy infrastructure but also specifically broadband. Is there a role for farm credit in bringing greater access to broadband, and exactly what have we done so far?

Mrs. MINICK. I will speak to that a little bit and then our banking partners, which are CoBank and AgriBank, they are charted differently than some of the farm credit associations, and so they have the ability to do some of that infrastructure that the associations themselves do not.

Senator VAN HOLLEN. Okay.

Mrs. MINICK. So to answer your question, yes, we have a very vested interest in making sure that rural infrastructure is there, for lots of different reasons—for a strong farm economy, for vital rural communities, for attracting folks and making them want to live there, and to be able to have a viable businesses. So all of those infrastructure points are very important to us.

Senator VAN HOLLEN. Anybody else care to comment on whether or not we have been able to use access to this farm credit for the kind of infrastructure I am referring to—broadband and that kind of thing? Is there—so we have not been successful in using farm credit to build out that kind of infrastructure so far. Is that right?

[No audible response.]

Senator VAN HOLLEN. Does anybody know? Okay.

Mr. HANEY. I am sorry. There has certainly been an effort to build up broadband, various means, but whether it was farm credit——

Senator VAN HOLLEN. I got it. Okay. Thank you.

Mr. HANEY. —we do not know.

Senator VAN HOLLEN. Can I—so in Maryland we have a great rural agriculture sector. We also have a rising interest in urban agriculture. Can you tell me whether any of the programs you are talking about, especially farm credit programs, how they are currently being applied, if they are being applied in the area of urban agriculture? Obviously totally different profiles and so I am just curious.

Mrs. MINICK. Sure. Sure. I will talk a little bit, when you are saying farm credit I think you are meaning the farm credit system but also then credit available to farmers. Right? So both of those.

Senator VAN HOLLEN. Yes.

Mrs. MINICK. So I will talk to the farm credit system piece of that and then someone else can address the other part.

In Northwest Farm Credit we have a lot of folks that participate in the CSAs and those kinds of things as well, especially our urban areas around Seattle and that kind of thing. We have some great young and beginning programs. We call that Ag Vision. It really helps with the capital needed for that. Not only is their interest rate rebates in there for people that are just getting started but also that program is really hinged on education, so we offer a lot of educational programs for folks to come to, all the way from filling out your basic financial statement to succession planning and a lot of different things that go in there.

I think we heard earlier today that oftentimes, for young and beginning farmers, they enjoy and they can understand the farm side of things, but getting the financial and the business side of it down is a little bit harder. At Northwest Farm Credit, our Board, who are also farmers, they challenge us to grow that Ag Vision program by 15 percent a year, so that is really part of the initiative, and we are seeing that not only in our very rural areas but help in the urban areas. I think it is really important to make sure that consumer has a great tie to where their food is coming from, and that is really important for agriculture in the long run.

Mr. HANEY. May I address, again, the broadband question from a personal angle just a little bit? We are certainly, in the fruit business, have a retail market on the farm. Broadband build-out is more important now than ever. As we go through this local food transition across the nation, we have to be able to really conduct commerce at the farm, not at the marketplace but at the farm level now, everything from being able to swipe a credit card to being able to market the most effective way we market from our products anymore, and that is through social media and online advertising. So the importance of being able to connect the United States certainly to us and to farmers is more important now than ever.

Senator VAN HOLLEN. I appreciate that. I think it would be integral to people's efforts these days, and that is why I was wondering if we sort of expanded the reach of some of these programs to provide for broadband. But I look forward to following up with all of you.

Thank you. Thank you, Mr. Chairman.

Chairman ROBERTS. Senator, thank you for an excellent question.

This is going to conclude our hearing today. I want to thank each of our witnesses for taking time to share your view on risk management tools, including the commodities, credit, and crop insurance programs. The testimonies and conversations are invaluable for the committee to hear first-hand. They will not collect dust.

While we have much more work ahead of us, we now have held hearings and gathered support related to eight of the farm bill titles. Please go to ag.senate.gov and click on the Farm Bill Hearing box on the left-hand side of your screen, not the right but the left. That link will be open for five business days following today's hearing. To my fellow members, we would ask that any additional questions you may have for the record be submitted to the Committee Clerk five business days from today, or by 5 p.m. next Tuesday, August 1st.

The Committee stands adjourned.

[Whereupon, at 12:23 p.m., the committee was adjourned.]

A P P E N D I X

JULY 25, 2017

Senate Committee on Agriculture, Nutrition & Forestry
Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill
Tuesday, July 25, 2017
Statement for the Record

Senator Kirsten Giullibrand

Thank you, Chairman Roberts and Ranking Member Stabenow. I'm very pleased to introduce Lindsey Shute, who will be providing testimony during the third panel of today's important hearing.

Lindsey is a farmer from my home state of New York. She operates Hearty Roots Community Farms, which is a 70-acre organic vegetable, egg, and hog farm, in Clermont, New York.

Lindsey is also the founder of the National Young Farmers Coalition, and she has been become a national leader in advocating for young farmers on issues of land access, credit, training, and USDA programs.

One of the biggest issues that I continue to hear about from our agriculture community is the looming crisis of farmland transition...and Lindsey and her staff have been incredible advocates for making sure that here on this Committee, we are working to solve this problem.

So I'd like to thank the Chairman and the Ranking Member for including Lindsey Shute today, and I want to thank Lindsey for her valuable perspective.

NATIONAL SORGHUM PRODUCERS
COMMODITIES, CREDIT AND CROP INSURANCE – PERSPECTIVES ON RISK MANAGEMENT TOOLS AND TRENDS FOR THE 2018 FARM BILL

Presented to:

Senate Committee on Agriculture, Nutrition and Forestry

July 25, 2017

328A Russell Senate Office Building
Washington, D.C. 20515

Presented by:

Dan Atkisson
6 Hillcrest Drive
Stockton, Kansas 67669-1203

Introduction

Chairman Roberts, Ranking Member Stabenow and Members of the Committee, thank you for this opportunity to come before you and present the views of the National Sorghum Producers regarding the next Farm Bill as it relates to commodity policy and Crop Insurance. These policies are critically important to America's farmers and ranchers, so we greatly appreciate the subcommittee's focus here today.

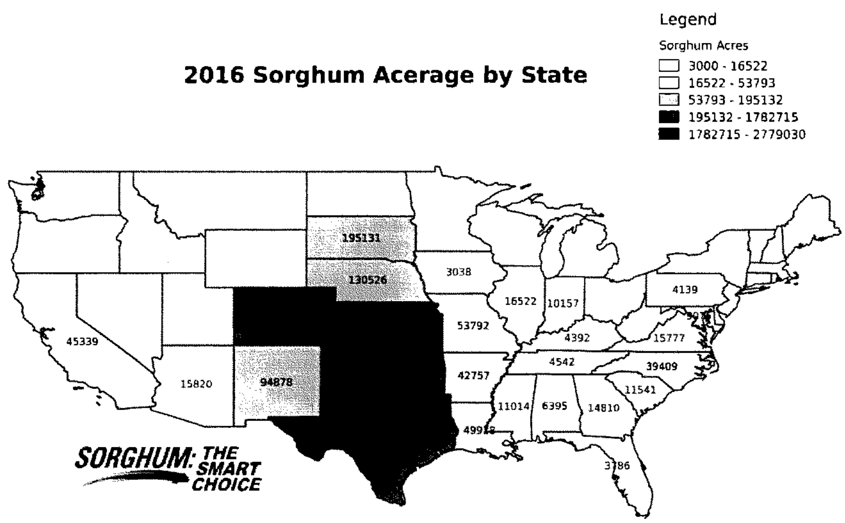
Mr. Chairman, I want to say how much we as farmer members of the National Sorghum Producers appreciate the task you have before you. As a proud Kansan, I appreciate your leadership on past farm bills and the focus you've placed upon the current farm bill, which our industry needs more than ever. I also want to say how honored I am to be here on a personal level. As a Kansas farmer, I was raised to admire and respect the tremendous work of our champion in the nation's capital – the Honorable Pat Roberts. We know that it is often difficult to relate the unique challenges that the farm and ranch community face to more urban constituencies. I want to say how appreciative we are to all the members of this Committee who work so hard to understand our issues and do this difficult work where it matters most.

My name is Dan Atkisson, and I farm near Stockton, Kansas. I am a true family farmer, working alongside my father, my wife, Amanda, and our 4-year-old boy, Eli, who I hope might also take care of our land and make a living from it one day. We grow sorghum, wheat, and forages to support herds of commercial and registered black Angus cattle. I am very honored to serve as Chairman of the National Sorghum Producers Legislative Committee. I am also Vice Chairman of the NSP board of directors and have been very involved since becoming a member of the second Leadership Sorghum class just a couple years ago. I am a proud graduate of Kansas State University with a bachelor's degree in Agricultural Technology Management and a minor in Animal Science. Again, I am humbled to be here today, and I hope my testimony as a farmer and on behalf of NSP will be helpful to you.

State of Sorghum and the Sorghum Economy

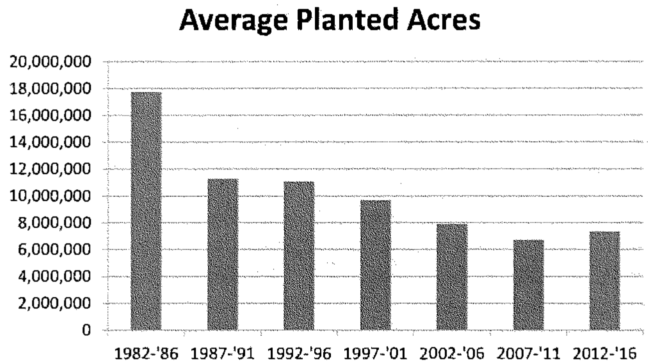
Although sorghum is considered an ancient grain, it has recently gained tremendous popularity for its positive health benefits for both people and pets. However, the fact remains most Americans wouldn't recognize sorghum if they saw it, and even in the world of agriculture where it is more common, sorghum has lost ground over the last 30 years to higher value crops.

Before getting into the specifics of the farm safety net, I want to begin by telling you a bit about this very important crop, and then I want to discuss the current economic realities facing sorghum farmers. Sorghum is a highly adaptable crop with many varieties and uses. It produces a grain for livestock feed but is also chopped for silage or hay or simply used as a forage which is often referred to as hay-grazer. As a feedstock for renewable fuels, sorghum is uniquely positioned as a source of starch, sugar, and cellulose all in a single crop. What makes sorghum really special is that it uses up to one-third less water than corn. It is grown throughout the U.S. – even in Minnesota and the Dakotas where it makes excellent pheasant habitat – but its water efficiency, drought tolerance, and soil conditioning qualities make it particularly valuable as a low input cash crop in the more arid western Great Plains and hotter regions like South Texas. The top two sorghum states are in fact Kansas and Texas, followed by Arkansas, Oklahoma, Colorado, and Nebraska.



Due to its health and environmental benefits, we believe sorghum has unique advantages and is well suited for growth on more U.S. acres. As such, our policies reflect the promise sorghum has as a crop. Sorghum acres, nationally, plummeted through the late 1980s and 1990s, and have only begun to recover in the last few years. We want to see that positive trend continue.

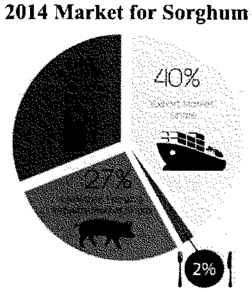
The first table in my testimony contains average planted acres for sorghum in five-year increments. The steep decline in the late 1980s can be directly tied to certain farm policies. For example, the Conservation Reserve Program took millions of acres in the western Great Plains out of production. Further declines in sorghum acreage were the result of economic and agronomic changes coinciding with the planting flexibility gained in the mid-1990s. During this time, many farms that had previously utilized sorghum in rotation with other crops began to focus on producing their highest yielding and grossing crops like cotton, corn and soybeans. Please do not misunderstand me. We support a targeted CRP and the planting flexibility farmers now enjoy. We just need to be careful in the development of farm policy to avoid unintended consequences.



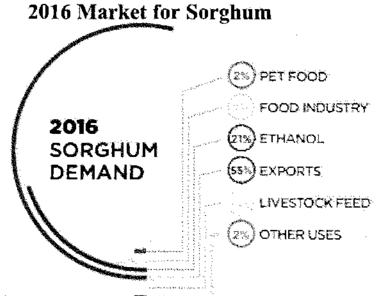
While sorghum has been knocked down over the years, we are not out. Recently, sorghum demand and markets have increased significantly. In fact, for an extended period in 2015 and 2016, sorghum was actually trading at a premium relative to corn. China has accounted for much of the increase in demand by importing sorghum to feed geese and ducks for their domestic market and to supply distillers who prefer its unique flavors. The domestic ethanol and feed markets are also growing. And, sorghum is also experiencing greater demand in high-end food markets, catching the eye of top chefs, nutritionists, and bloggers as a healthy, versatile whole grain alternative that also meets niche consumer requests, being non-GM and gluten-free.

For years, the sorghum market was roughly as follows: one-third for domestic livestock feeding; one-third for biofuels; and one-third to exports, with significant volumes used abroad for food aid. However, in the last years, the sorghum market has changed dramatically as shown in the charts included below.

2014 Market for Sorghum



2016 Market for Sorghum



Seed genetics and productivity are also improving for sorghum. In fact, 2016 was a record year for sorghum yields with a national average production of 77.9 bushels per harvested acre. This is further evidence of a real and exciting trend as the 2014 through 2016 average of 73.8 bushels per acre exceeds the previous 10-year average by 16 percent. Our sorghum yield contests are also highlighting remarkable productivity gains as winners in the last few years have consistently approached or exceeded 200 bushels per acre. This is truly remarkable.

With this backdrop, you can appreciate why we feel these are exciting times for sorghum in the big picture and for the long-term. But, as this committee well knows, times on the farm are not as encouraging. Depressed commodity markets are yielding prices below cost-of-production. This is a function of many things, including but not limited to strong production worldwide, a strong U.S. dollar, unpredictable export markets, and predatory trade practices used by foreign countries. As is nearly always the case in agriculture, the situation we find ourselves in today is not the result of anything that we as farmers or ranchers can control. All we can do is develop a good strategy for what might work best this year; do our best to implement the plan as efficiently as possible, cutting costs wherever we can; and pray the rain will fall right, that our crop will be better than we could hope for, and prices rebound.

Since passage of the 2014 Farm Bill, prices received by sorghum farmers have fallen precipitously, as is the case with most crops. In the five years prior to the enactment of the current Farm Bill, sorghum prices averaged $5.10 per bushel. For the 2014 crop, prices fell to $4.03 per bushel – a 21 percent drop. For the 2015 crop, it fell even further, to $3.31 per bushel – a 35 percent drop compared to the five-year benchmark. Worse yet, for the 2016 crop that was just harvested last fall, USDA is projecting the price received by farmers will be $2.70 per bushel – that is 53 percent of the benchmark price, meaning it takes twice the bushels to generate the same revenue for a farm. For the 2017 crop we are planting this spring, most farmers are again facing the sorry prospect of burning through savings or equity. Today, in farming, it is not a question of how to make a profit, but how to minimize our losses to survive.

For sorghum specifically, we have also had to battle a very significant emerging pest threat. The sugarcane aphid (SCA) is pressing up costs of production even as market prices decline. In 2016, the SCA reached all sorghum producing regions in the United States, impacting over 70 percent of the planted acres. When present, the sugarcane aphid increases operating expenses by as much as $40 per acre – an almost 30 percent spike in production costs. This translates into an additional $200 million in expenses, nationally. When added to resulting yield losses, we calculate the total burden incurred by U.S. sorghum farmers on account of the sugarcane aphid approached $430 million in the 2016 growing season alone.

In summary on the state of sorghum and the sorghum economy, there are some real reasons for optimism about growing sorghum markets and increasing productivity for the crop. But, this positive outlook is being over-shadowed by the economic reality facing our farmers right now. While this current reality is really taxing farmers, one silver lining may be that these conditions are a better lens through which to view the importance and purpose of U.S. farm policy.

Title I — What is Working and What is Not?

Before getting into the details on our thoughts concerning the Commodity Title of the Farm Bill, I do want to thank the Agriculture Committee for its strong statements regarding the budget process – making sure that adequate resources are available to write a good Farm Bill. We think it is right to point out that the 2014 Farm Bill, designed to save some $23 billion, is now estimated to save more than $100 billion. This is a real, and unique when looking at the totality of federal spending, contribution to deficit reduction made even as commodity prices and the farm economy have faltered. The National Sorghum Producers has proudly added its name to letters sent to the Budget Committee of both the House and Senate asking that a portion of these savings be reinvested into this critical sector of the economy. There is no more basic, nor important infrastructure that serves this nation and the world than the patchwork of independent family farms and ranchers that dot the countryside and feed, clothe, and fuel America in a manner unrivaled in history.

The National Sorghum Producers believes in the need for a strong and reliable Title I safety net that is appropriately balanced and provides assistance when and where it is needed. One very real problem with the current policy that is felt very acutely in times like this has to do with something as simple as the timing of payments and the problem this poses for farmers trying to cash flow. The National Sorghum Producers asks you consider moving up the timing of Farm Bill assistance so the support is put in the hands of farmers earlier than a full calendar year following the crop year it is meant to cover. For money that will be paid either way, there should be no significant budget impact. Along these lines, we would also ask that you investigate the possibility of raising loan rates to make them more relevant, which could also relieve cash flow burdens in the marketing year.

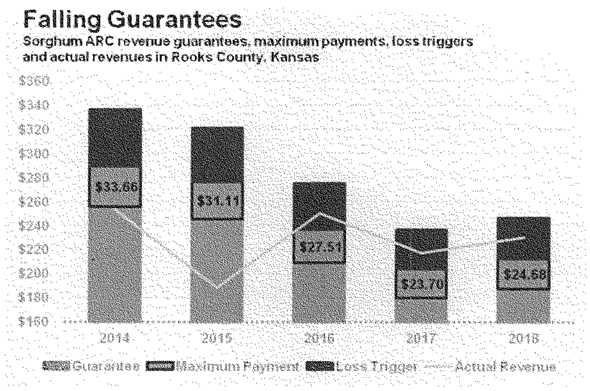
ARC and PLC

On the choice farmers were given under the 2014 Farm Bill, 5.966 million acres or 66 percent of the total sorghum acres were enrolled in Price Loss Coverage, while 2.998 million or 33 percent were enrolled in Agriculture Risk Coverage. In the first two years of the Farm Bill, ARC paid an average $12.14 per acre for 2014, and $17.98 per acre for 2015. It is expected that a comparable amount will be paid relative to the 2016 crop, even as crop prices have dropped to 53 percent of the original benchmark average. PLC made no payments in 2014 since the season average price of $4.03 per bushel was above the reference price of $3.95 per bushel. However, for 2015, average payments of $28.23 per acre were made, and for 2016 it is expected that relief to farmers will increase to more than $50 per acre.

Clearly, with the 20/20 vision that hindsight offers, PLC is the better safety net for sorghum farmers. PLC was very conservative upfront when prices were still above $4.00 per bushel. But, the policy is now kicking in to provide help when the help is desperately needed. In contrast, ARC assistance was a virtual certainty when farmer elections were being made. With a target county revenue generated from a $5.10 per bushel previous 5-year average, and futures prices sinking, the logic was to take the bird in hand and put it to use, hoping the market would turn around in the out-years. Unfortunately for farmers, markets have not rebounded.

When assessing the relative value of ARC and PLC, then, we do not look at the dollars generated but rather at the risk management or downside protection that is provided. To us, the safety net is more about the reliability, fairness and timeliness of help when help is most needed. On all these counts, NSP believes PLC provides the better safety net for our farmers. Going forward, we are very open to the idea that the ARC model could be improved. We also believe PLC could be improved, or that a hybrid approach might surface as the best model for Title I assistance. What follows is just our frank assessment of how these respective policies are working relative to the important goals listed above.

In regard to reliability, ARC misses the mark because of the revenue calculations that are used. The reality of PLC is that our farmers know that if national prices are below $3.95 per bushel, some help is on the way. Farmers can count on this, secure credit, make plans, and leverage dollars based on this certainty. In the highly uncertain business of farming, any certainty we can get is of tremendous value to us. This is also why Crop Insurance is so valuable – because of its rock-solid certainty. With ARC, even in the first year where, due to price decreases, it was a virtual certainty that some help would be on the way, one could not really count on it, and bankers could not lend on it, because it all hinged on how the county performed. In fact, many counties in heavy ARC areas did not receive ARC assistance because of strong county yields. Problems of this sort are greatly exacerbated for crops, like sorghum, that have variable yields. With large sized counties and weather events, such as hail, that can decimate one corner of the county while the bulk of the county gets a nice rain, even counties that do receive an ARC payment have both winners and losers. In short, because ARC is not reliable, it cannot hedge risk or leverage dollars in the agricultural community as effectively as PLC.



Concerning fairness, ARC again falls short because of county variability that does not always coincide with producer experience. PLC pays the same rate based on national prices to all farmers based on the historic yields they have proven on the farm. While it is not perfect, it is fair. For both 2014 and 2015, we have counties that received significant ARC payments next to counties that received no ARC payment. And, in every county that received a payment, there are producers that yielded well above the county average and producers that yielded well below. Not to mention, the FSA's arbitrary 20 percent threshold requirement for yields to be split between irrigated and non-irrigated creates even more frustration. No policy is perfect, and the National Sorghum Producers has and will continue to defend ARC against critics of U.S. farm policy, but there is no question the county-based model creates inequities and frustrations. That is why Congress has rejected this kind of approach in the past. Perhaps some of these wrinkles can be ironed out. But, as long as ARC remains a county-wide policy, it will inherently create these kinds of issues.

And, finally on the issue of timeliness, our bedrock principle is that help under the Commodity Title should be reserved for when help is most needed. And, we believe that PLC better achieves this objective. As prices for commodities have continued to collapse, the ARC safety net has withered. In my home county of Rooks, Kansas, the ARC revenue guarantee was $289.48 for 2014, $267.55 for 2015, and $246.13 for 2016. For the 2017 crop to be planted, the revenue guarantee is significantly diminished again – to $211.04 per acre – just as the maximum assistance per acre has diminished from $33.66 when the fall started to $23.70 this year. Contrast this to PLC which, by remaining constant, has effectively increased in significance to the farmer as the economy has weakened. We believe that this is the better and more efficient model going forward.

There are three more issues I would raise relative to the Commodity Title. First is the issue of cotton and generic base. A significant number of sorghum farmers throughout the south also have generic base. The National Sorghum Producers support the National Cotton Council's efforts to designate cottonseed as an oilseed, establish a ginning assistance program or to otherwise restore Commodity Title coverage for this important crop. The second issue is that of payment limitations and means testing. Given that the National Sorghum Producers believes the safety net should kick in to help cover significant losses when times are hard, we also believe the safety net that only partially covers losses should not be further reduced by arbitrary limits. Third, concerning the Conservation Reserve Program, which we recognize is not a Title I policy, but does intersect closely with commodity policy, we would be open to ideas around shorter term CRP contracts that would use cover crops, including annual forages, with the caveat that communities and infrastructure can suffer due to decreased economic activity when land goes out of production for extended periods. We also note that if more sorghum were planted around the country, there would be a lot more pheasants and quail.

Finally, let me just reiterate again that the National Sorghum Producers strongly support an effective and reliable safety net under the Commodity Title. We are grateful to the Agriculture Committees for the diligence and work you put into crafting a reasonable compromise in the 2014 Farm Bill that is providing some important help during these hard times, putting farmers and ranchers in a better place than we would otherwise have been. However, the primary purpose of the safety net under the Commodity Title is to provide a bridge to help independent farm and ranch families stay in business through the tough times, and we are genuinely concerned that if current price predictions for the next few years come to pass, the current safety net in place will fail many of our farmers. This is why we so ardently believe the farm safety net must be strengthened and why we are as frank as we have been today. It is also why we are so eager to work with you and encouraged by this hearing today.

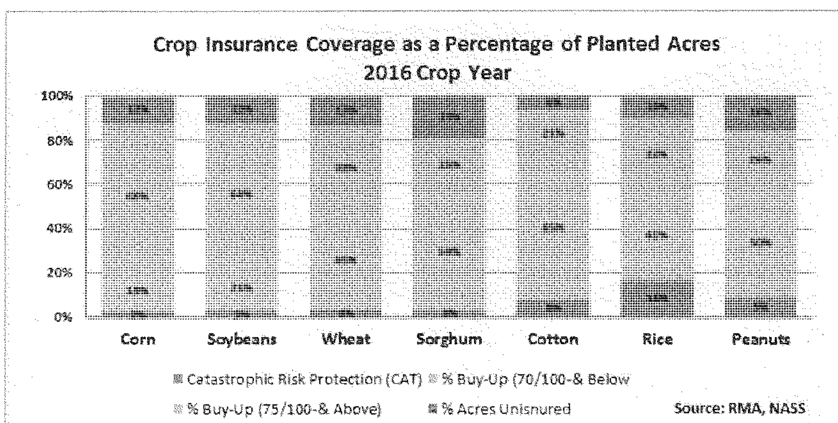
We have witnessed time and again how a struggling farm economy is left ailing for too long without a prompt and effective mitigation effort through farm policy. And, without exception, the problems that could have been fixed fairly inexpensively early on mount and mount and so does the cost of repair. When it comes to economic trouble in farm country, an ounce of prevention is truly worth a pound of cure.

Crop Insurance

The National Sorghum Producers is strongly supportive of Federal Crop Insurance and urges this panel and Congress to reject any attempts to cut or weaken it. Make no mistake, proposals like the so-called AFFIRM Act introduced by Congressman Ron Kind in the House and touted by the Environmental Working Group are crafted to kill Federal Crop Insurance. To struggling farmers and ranchers across this great country, there is absolutely nothing affirming about Ron Kind's AFFIRM Act. Means tests and arbitrary limitations would only restrict the actuarial pool and make crop insurance products more expensive for all of us. Elimination of the Harvest Price Option would kill a critical tool that helps us market our crops better. And the publication of our contractual premiums and other financial information would not be used to inform, but rather to further alienate producers. These ideas should be roundly rejected.

Crop Insurance is indispensable for sorghum farmers, but that does not mean it cannot be improved. For sorghum particularly, participation rates and coverage levels are low when compared to other crops. As the chart in my testimony illustrates, a full 19 percent of sorghum acres are not insured – the highest among major row crops. Moreover, only 25 percent of acres have coverage at 75 percent or above compared, for example, to 66 percent in the case of corn. There are many reasons for this, but the single biggest reason is that sorghum insurance is too expensive. Over the last 10 years the loss ratio for sorghum has been 0.88 – lower than corn, for instance, and 12 percent lower than the statutory target. Considering this window of time includes three years — 2011 through 2013 — of record drought covering much of the Sorghum Belt, we believe the rates for sorghum, generally, should be lowered.

NSP is very grateful for the improvements that were made to Crop Insurance in the Farm Bill. Given the epic drought of 2011 through 2013, many of our producers have benefitted greatly from the Yield Exclusion provisions of the Bill, along with the ability to purchase different coverage levels between irrigated and non-irrigated farms. While some Supplemental Coverage Option policies have been sold, it has not met expectations. However, we expect these sales will pick up when the pricing options become more attractive, and we would encourage the subcommittee to maintain this option, which can work well in conjunction with PLC.



While all these movements are positive for farmers, we need to recognize that Crop Insurance benefits cover what is planted and, therefore, can impact plantings based on the relative competitiveness of the policies. While we argue that our average rates are too high, the real problem becomes obvious when we start comparing county by county rates relative to competing crops. This is why NSP is so focused on bringing sorghum Crop Insurance policies up to par with its competing crops in all regions. We currently are working with private partners and RMA on exploring means of improving the policies via the 508(h) process or other authorities. This is not a new effort. We have worked in the past to increase options for sorghum silage, and more recently annual forage crops. We hope to continue these efforts and will keep the Committee apprised.

Finally, NSP recognizes that many of the professional critics of agriculture policy who are not actually putting themselves at risk but only booing from the sidelines have moved their vitriol from the fixed or direct payments that were eliminated in the 2014 Farm Bill to Crop Insurance. Again, this is where Congressman Ron Kind is carrying their water with the reintroduction of the AFFIRM Act. NSP believes Kind's bill has no place in the business transaction of Crop Insurance, as previously noted. Crop Insurance is very expensive, but I appreciate the fact that I as a famer can choose to participate at whatever level I need and will have bankable and reliable support. The value of Crop Insurance is not the premium discount, or the indemnity, as the critics would have you believe, but rather it is the certainty created by this contractual arrangement where I have the peace of mind that comes with insurance on my crops. NSP is absolutely committed to protecting and improving this important tool.

Regulatory Burdens

Finally, we would be remiss if we did not address some of the regulations and red tape that drive up our costs as producers and add to the risk management challenges we face.

NSP is grateful for the recent rescinding of the Obama administration's Waters of the United States (WOTUS) rule. We also hope similar attention will be given to pesticide and herbicide registrations under FIFRA. Growing crops comes with many challenges. I can be certain that each year we will face pest and disease issues. However, we are continually less certain about the crop protection products we will have access to. I have noticed that products which were previously registered appear to be held to a new and much more precautionary standard in re-registration process. However, I am most concerned with the regularity at which new and innovative tools, which even the EPA says are safer from an environment and human health perspective, are challenged in the courts. In recent years, it seems that each time a product is approved by the EPA under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) it is challenged in the courts under the Endangered Species Act (ESA). Only the attorneys win under the current situation, while farmers risk a smaller and smaller toolbox. We need Congress to provide greater clarity on how FIFRA and ESA apply to pesticide registrations or I fear that the lower acreage crops like sorghum will be left without the necessary tools to deal with the pest, disease, and weed challenges we face.

Increased regulatory burdens have only continued to raise our cost of production, not only with sorghum but with all crops. The same type of commonsense approach as taken to WOTUS needs to be taken to the Endangered Species Act, FIFRA, OSHA and other agencies and policies that impact our livelihood and the ability to keep producing the safest, cheapest, most abundant food and fiber supply in the world.

Conclusion

As prices continue to drop and inputs continue to skyrocket, it's urgent that we have a farm bill done on time to provide our growers with the policy certainty they need more than ever. Again, we want to thank you, Mr. Chairman, for your dedication to America's farmers and ensuring we have, and will continue to have, the policy we need to continue being productive and profitable.

We have focused on Title I and Crop Insurance today, but I hope from my comments you can see that we consider all aspects of the Farm Bill to be critical, from research issues like the sugarcane aphid, to rural development and bioenergy, to easing burdensome regulations on farmers, to trade promotion and market development policies. It is all important and a part of a piece, but tough economic times like our current reality do cause us to focus on the farm and making it through the next season – an area where Title 1 and Crop Insurance rightly take center stage.

NSP appreciates what was accomplished in the 2014 Farm Bill. We look forward to working with the Senate Agriculture Committee and our fellow commodity organizations to make it even better going forward.

CIPA

Testimony of

William Cole, Chairman

Crop Insurance Professionals Association

Before the Committee on Agriculture, Nutrition, and Forestry

United States Senate

Regarding "Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill"

8:30 a.m., Tuesday, July 25, 2017

106 Dirksen Senate Office Building

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, thank you for the privilege of testifying before this Committee today.

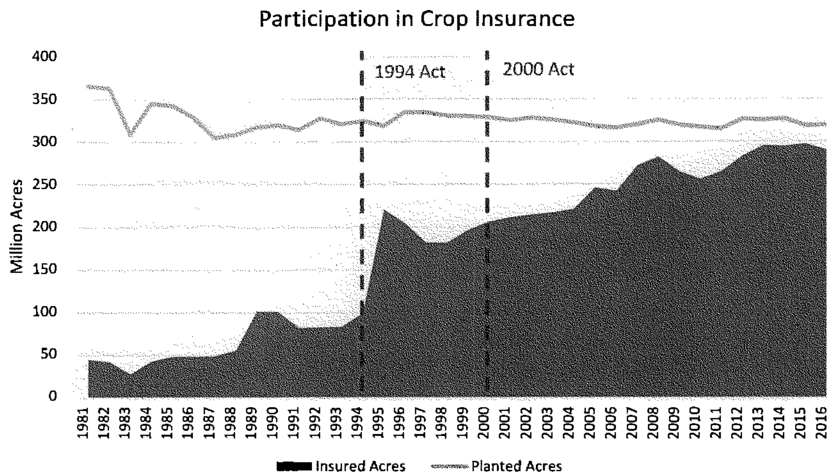
My name is William Cole. I am a crop insurance agent from Batesville, Mississippi and I was born and raised in the small town of Pope just 9 miles down the road. The Mississippi Delta has been my home all of my life, except for my time at Ole Miss where I earned a degree in Business Administration.

I have been in the crop insurance business serving my farmer customers for 22 years, primarily insuring cotton, rice, corn, soybeans, wheat, peanuts, and grain sorghum in Mississippi, Tennessee, Arkansas, Louisiana, and Alabama. We have also written some PRF policies since its expansion into our area.

Karen, my wife of 24 years, our two sons, Harris and Ian, and I live on our farm outside of Batesville where we raise commercial cattle and quarter horses. We also have a rice and soybean farm in the Delta. My family and I are involved in our community as well. I serve as an elder at our Presbyterian Church and I also serve on a local school board.

Speaking about the importance of Federal Crop Insurance before this Committee is a little surreal. After all, the Chairman of this Committee authored the Agricultural Risk Protection Act of 2000 in the Senate that has doubled participation over the past 17 years.

The Chairman's work is largely responsible for the success story of Federal Crop Insurance which today insures 90 percent of all U.S. planted acres, 290 million acres in all, with $100 billion in liability protection in force today. Thank you, Mr. Chairman, for all you have done for America's farmers and ranchers by ensuring that they have access to something as basic as insurance, which most Americans simply take for granted.



The organization I am representing today is the Crop Insurance Professionals Association, or CIPA, which is the only national organization of crop insurance agents that is focused solely on Federal Crop Insurance and led solely by agents. We are very proud of this distinction but we also greatly appreciate and work very closely with other organizations that share our strong commitment to crop insurance, including both company and agent organizations.

As this Committee knows, private sector delivery is one of the four main drivers that has made Federal Crop Insurance what it is today. For this reason, CIPA certainly pays close attention to issues affecting private sector delivery. Overall, however, CIPA probably spends much more time trying to ensure that farmers and ranchers have access to high quality coverage and in working to address any problems with crop insurance that our customers may run into. In short, CIPA and our agent members – who serve farmers and ranchers in at least 35 States – are very focused on the risk management needs of our producer customers. As such, I greatly appreciate that this is also the focus of today's hearing.

Under today's Federal Crop Insurance, producers of some 130 commodities from across the country can more effectively manage their risks. A farmer can know at the beginning of the year what kind of insurance he has in force, and in the event of a loss he knows that relief is on the way, usually within 30 days of a claim being finalized.

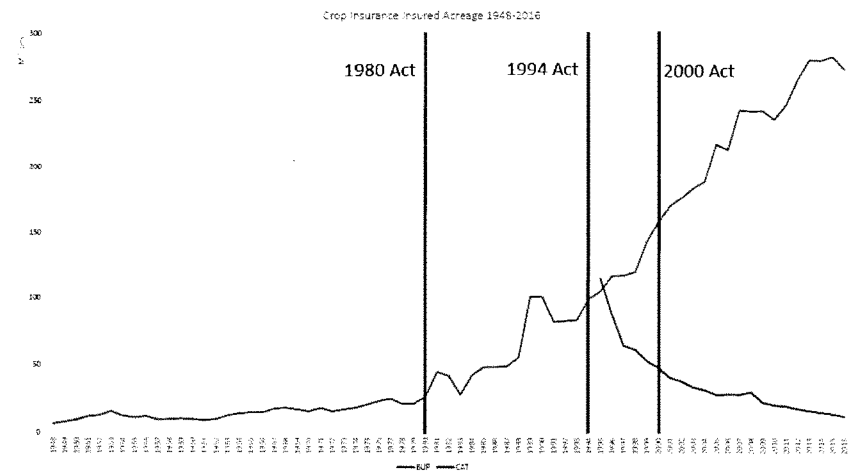
Crop insurance offers peace of mind to farmers, helps them secure credit, invest in their farms, and better market their crops, and it also stabilizes the economies of rural communities, especially in times of natural disasters.

But, it was not always this way. Although lawmakers in 1938 had a grand vision for Federal Crop Insurance much like we see it today, it was only a vision and they had to start out small, beginning with just one crop.

Unfortunately, Federal Crop Insurance did not grow much beyond that fairly inauspicious start until 1980 when Congress turned the sales and servicing of crop insurance over to the private sector. This decision by Congress to entrust Federal Crop Insurance to companies and thousands of dedicated agents from across the country has paid off and it is one of the four key drivers behind the success in crop insurance that really took root 37 years ago.

Fourteen years later, after the Mississippi River floods of 1993, Congress sought to improve upon the Federal Crop Insurance Act of 1980 with the passage of the Federal Crop Insurance Reform Act of 1994 – authored by a distinguished Member of this Committee and then Chairman, Senator Patrick Leahy – that aimed to increase participation and coverage levels for farmers. That legislation, along with the introduction of revenue insurance developed by Kansas State University Professor Art Barnaby, significantly built on the achievements of the 1980 Act.

And, finally, in 2000, Congress went to the drawing board one last time to make critical adjustments in order to boost participation and access to quality coverage that brought us to where we are today. Under the leadership of Chairman Roberts and others, the Agricultural Risk Protection Act was developed in a way that would give meteoric rise to both participation and coverage levels of farmers and ranchers, doubling in 17 years the participation rate achieved over the previous 56.



It is a remarkable success story. Not only has Federal Crop Insurance provided farmers with the insurance they have sought for nearly 80 years, but it has ended costly, unbudgeted ad hoc crop loss disaster programs that have not been enacted by Congress in 10 years.

Many Members of this Committee undoubtedly recall that ad hoc assistance was far more costly and far less effective than crop insurance. It would patch holes at a 65-60 maximum rate, but it did nothing to help farmers leverage risk and make critical investments to improve their operations. Estimates are that even under this model the 2012 drought could have cost taxpayers more than $17 billion had the program mirrored the 1988 drought package. That is $3 billion more than the total cost of crop insurance in that worst of all years.

But, that is not the end of the story when it comes to taxpayer savings under Federal Crop Insurance. Earlier this year, the Congressional Research Service (CRS) issued a report in which it notes that the Congressional Budget Office (CBO) overstated the five-year costs (FY 2014-2018) of Federal Crop Insurance by $10.887 billion.

In fact, the revised CBO cost estimate of Federal Crop Insurance for this year is $3.471 billion, a level of spending that approximates the costs of crop insurance 13 years ago, despite the doubling of participation that has largely occurred over the same period of time.

While CBO estimates show costs settling into the $7 billion range in future years, the fact that five-year estimates were so significantly overstated, with 2016 and 2017 estimates off by $4.5 billion and $5.3 billion, respectively, future CBO baseline updates may well bring further good news of taxpayer savings.

But, even as things stand, the June 2017 CBO baseline update indicates that Federal Crop Insurance is on target to save taxpayers $6.69 billion over the next 10 years relative to the baseline used to write the 2014 Farm Bill.

These budget savings are in addition to the roughly $17 billion in savings from Federal Crop Insurance achieved through administrative or legislative actions taken since 2008, including the 2008 Farm Bill, the renegotiation of the Standard Reinsurance Agreement in 2010, and the subsequent rerating of crop insurance policies.

That Federal Crop Insurance has saved taxpayers money is incontrovertible.

While we are very proud of crop insurance's fiscal success it is very important to understand that these cuts have also meant great pain for the private sector delivery system, including for the thousands of agents who are the "boots on the ground" for crop insurance.

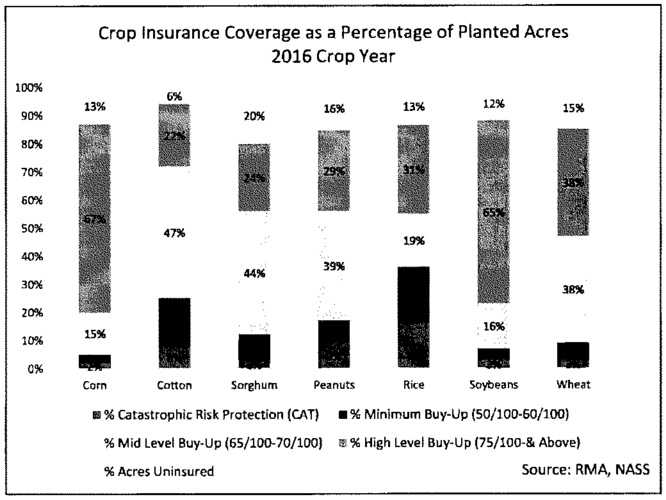
Of course, crop insurance policies do not sell themselves. The impressive record of success of Federal Crop Insurance did not just happen. Rather, Congress provided the private sector the risk management tools that farmers and ranchers need to manage risk and stay afloat and we have gotten those products out there. That is why private sector delivery is so critically important not just to companies, agents, and loss adjustors, but to America's farmers and ranchers who depend upon crop insurance, most especially over the past 24 years.

The timing of crop insurance's emergence as a cornerstone in the farm safety net has been crucial. Ranking Member Stabenow often remarked that the 2014 Farm Bill is "not your father's Farm Bill". Neither are the risks, challenges, and stakes involved in farming and ranching today those of previous generations. As examples, the average size of non-real estate loans to farmers has doubled since 1994 and the average cost of production per farm has more than doubled.

Crop Insurance has been absolutely vital in seeing America's farmers and ranchers through this dramatically changing economic landscape for agriculture.

Yet, despite the great advances that have been made over the past 37 years, some regions and crops have not benefited to the degree others have. This is not so much a criticism of Federal Crop Insurance but a challenge as we all seek to continually improve policies. In CIPA's view, we ought to be every bit as aspirational as the authors of the key crop insurance acts have been in ensuring that all of America's farmers and ranchers have a strong menu of risk management options under crop insurance. After all, if Chairman Roberts and other lawmakers had not had a vision in mind at each of the key periods of time in the history of crop insurance, we would not have reached the place we are at today.

Coverage for corn is a good example that we should strive to emulate for all other crops. 67 percent of corn has 75 percent coverage or higher, meaning most corn farmers have a 25 percent deductible or less. Now, contrast this with cotton, sorghum, peanuts, rice, and wheat where just 22, 24, 29, 31, and 38 percent, respectively, have 75 percent coverage level or higher. The majority of policies for these crops involve deductibles of anywhere from 35 to 50 percent. A similar story can be told with regard to other crops as well. So, there is plenty of work to be done, and this work is certainly ongoing.



On the positive side of the ledger, there have been over 160 new product introductions since 2000, with many of these new risk management tools aimed at addressing the perils unique to underserved commodities or regions of the country. And, this work is paying some dividends. For instance, liability protection in force for specialty crop farmers has nearly tripled since 2000. In fact, 5 of the top 10 insured commodities, as measured by liability protection in force, are specialty crops.

We are certainly hopeful that changes made in the crop insurance title to the 2014 Farm Bill will continue to enhance the quality of risk management tools available to farmers and ranchers.

The Yield Exclusion, for example, has helped many, many farm and ranch families get back on their feet, often times after multiple years of natural disasters that, but for this provision, would have artificially deflated their actual production history and insurable yields resulting in what would amount to a double deductible. During debate over this provision, concern was expressed by some that the Yield Exclusion might adversely impact actuarial soundness requirements. However, the data indicate that Yield Exclusion is actually improving the overall actuarial soundness of crop insurance. In fact, in 2016, the loss ratio was less than half of what the law requires.

Similarly, the changes made to Enterprise Units (EUs), including allowing farmers to elect EU by practice and by differing risk, have also been favorable, allowing farmers to more affordably close deductibles and ensure that coverage is tailored to their risks.

Whole farm insurance is yet another means by which Congress has given us the tools we need to reach out to farmers and ranchers that find more traditional policies less optimal for their operations. Specialty crop farmers, especially out west, but also in Florida and elsewhere around the country, have found the new policy very effective.

Beginning farmer provisions have also been extremely beneficial to thousands of young farm and ranch families just starting out who need crop insurance even more than most because they do not have the reserves and equity built up that those who have farmed or ranched for years may have.

There were also some important equity provisions included in the Farm Bill that took off some of the unnecessarily hard edges of compliance that did not contribute to the integrity of crop insurance but injured innocent farmers. For example, the Administrator was given some discretion to allow for the late payment of premiums in special cases where, before the Farm Bill, a sort of strict liability rule canceled policies on farmers. There were situations where farmers lost insurance coverage just because the post office failed to collect the mail one day at a local mailbox that the farmer put his payment in. We believe that there are more common sense changes like this that should be made under crop insurance in order to avoid these kinds of inequitable, even punitive, results.

As agents, we are on the front lines of protecting the integrity of crop insurance and avoiding improper payments, and we take this job very seriously. In fact, in 2016 alone, the improper payment rate under crop insurance stood at 2.02 percent, which is roughly half of the government-wide average. Agents are very proud of this achievement.

While any form of insurance will always have its share of bad actors, the universe is very small in crop insurance. Farmers do not want to lose a crop any more than someone wants to wreck his car or lose his home or business in a fire. To this point, consider this: since 1988, crop insurance has covered $15 trillion in liability. During this same period, total premiums were $136 billion and total indemnities came to $116 billion. Farmers pay premiums year after year without receiving an indemnity, with only about 19 percent of policies paying an indemnity in 2016. In short, farmers and ranchers view crop insurance as risk management, not a means to receive a payment. And, typically, it is the farmer, not Uncle Sam, who is writing the check.

There are specific ways to build upon the success of these important provisions but, for now, it suffices to say that each has been a success.

But, there are also a few provisions that have not performed quite as well as we might have all hoped.

Linkage of conservation compliance to crop insurance is an example where little has been gained in exchange for a whole lot of effort, and some tragic stories of lost coverage to boot. The provision was adopted under the premise that farmers and ranchers would not lose their coverage on account of red tape, and the goal was always to bring farmers into compliance rather than to punish a farmer for non-compliance. However, in practice, farmers have lost coverage on account of red tape and they can be denied coverage even if they work successfully to come back into compliance. While I appreciate that hard line positions, for and against near any proposal, are becoming more commonplace these days, there is no reason why this issue of equity could not be addressed, particularly where the solutions seek to fulfill the pledges made concerning how conservation compliance is supposed to work on the ground. We believe that dealing with these issues would actually strengthen producer support for conservation compliance.

Area plans of insurance, including the Supplemental Coverage Option and the Stacked Income Protection for Upland Cotton (STAX), have not sold well for a multitude of reasons, including producer wariness about coverage that is not tailored to the risks on their farm, higher than expected premium rates, and, in the case of STAX, the fact that the policy was simply never designed to mitigate the impacts of predatory trade practices by China, India, and other countries. That is the job of the Farm Bill, not Federal Crop Insurance, and CIPA certainly adds it support for our cotton farmer customers who seek inclusion in the Commodity Title to the Farm Bill.

While well intentioned, the Acreage Crop Reporting and Streamlining Initiative, or ACRSI, needs considerably more fleshing out if it is to actually ever work on the ground without adverse consequences for farmers and other parties involved. ACRSI was intended to benefit farmers but the liability involved and the potential for the inadvertent loss of Farm Bill benefits or crop insurance coverage is simply too great under the program as it currently exists.

In regard to dairy eligibility for crop insurance, we agree with dairy farmers who make the case that milk is not included in the definition of "livestock" under the statute and should, therefore, not be subject to the cap on the cost of livestock insurance products. Historically, we have seen the Risk Management Agency forced to shut down the LGM dairy policy offering within minutes due to sales exceeding capacity. As the Whole Farm policy continues to expand, this is going to be an increasingly frustrating problem. Meaningful eligibility for crop insurance coverage could help struggling dairy farmers in the same way Commodity Title eligibility will help struggling cotton farmers.

On a related note, a few studies were initiated by the Farm Bill on the feasibility of different crop insurance policies to benefit livestock producers. However, as long as the cap is in place, there really cannot be the kind of private sector innovation that is necessary to create a successful livestock policy since there is no capacity to offer the policy once it is developed.

In sum, as crop insurance agents, we certainly want to ensure that our farmer and rancher customers have reliable protection under Federal Crop Insurance. But, as the primary trusted advisor of so many producers, we also want make sure that farmers and ranchers have all the tools they need to survive in a very difficult economic climate for U.S. agriculture.

Looking forward to the 2018 Farm Bill, we hold out hope that Congress will carefully consider that the 2014 Farm Bill is on target to save more than $100 billion over 10 years, four times what was pledged; the considerable savings that crop insurance is contributing; the hardship a 50 percent drop in net farm income over the past four years is causing; and agree that a strong new Farm Bill – complete with much-needed and long-overdue regulatory reform – is in order.

In the interest of the farmers and ranchers we serve, CIPA strongly believes that a strong new Farm Bill must be passed on time in order to provide the safety net that struggling producers need right now. Crop insurance is working, but other areas of the farm safety net need shoring up. On this score, I would be remiss if I did not express my personal gratitude to my Senator, the Honorable Thad Cochran, for his work to ensure cotton farmers have an adequate safety net in order to weather these very difficult times.

None of the four Farm Bills that I have experienced in my capacity as a crop insurance agent has come easy. The last process took from late 2011 to early 2014 to complete. The delay was not a function of the Agriculture Committees not able to get their work done because the Agriculture Committees have a long tradition of getting good work done in a bipartisan manner. Instead, extraneous factors slowed Farm Bill efforts down.

We are seeing some of this play out already at the beginning of the current Farm Bill process. Legislation offered by Senator Jeff Flake (R-AZ) and Rep. Ron Kind (D-WI), proposals by the Environmental Working Group and the Heritage Foundation, and even provisions within the Administration's FY 2018 budget are deeply troubling because of the irreparable damage they would do to Federal Crop Insurance.

Among those who are responsible for the success of Federal Crop Insurance today, Dr. Art Barnaby of Kansas State University certainly ranks among them. And, this is what Dr. Barnaby had to say about these proposals that share many common threads between them: "If all of these crop insurance changes were to pass, it will kill crop insurance. One wouldn't expect the critics will get all of the changes they are asking for, but just one of these changes could upset the equilibrium in [crop insurance] and start the death spiral."

These are ominous warnings from a long-time crop insurance expert in academia. And they are the same warnings issued by farmers, ranchers, and lenders from across the country in 2015 when a deal was hatched to cut crop insurance without the consent of the Agriculture Committees. Thankfully, due to the work of the Agriculture Committees, Congress quickly rescinded these ruinous cuts.

If I were to categorize the attacks against Federal Crop Insurance, I would say they largely break into three different groups: (1) kill the insurance risk pool by excluding farmers and acreage that are good risks from crop insurance through arbitrary limits on the levels and kinds of coverage, limitations on premium discounts, and means testing;

(2) kill private sector delivery through unsustainable cuts to A&O and company rate of return; and (3) demand Congress breach long-time privacy protections under crop insurance so the information can be publicized and distorted in much the same way Farm Bill information is today.

In evaluating these proposals, Dr. Barnaby asked the question: "Is the debate over budget [savings] or [over the] elimination of crop insurance?... [Making] these changes...will likely make [crop insurance] ineffective, and over time farmers will drop their coverage."

The first category of attacks – including what would be first ever limitations on premium discounts, first ever means testing, the capping of coverage levels, and the elimination of other kinds of coverage – threaten harm not only to farmers directly affected but all farmers because they propose to remove good risk from the crop insurance risk pool, driving up premiums for those remaining in the pool to the point where, in the words of Dr. Barnaby, the "insurance pool kills itself".

Beyond the impact on the risk pool, there are many other serious problems with these proposals as well. There are, in fact, too many to number. For instance, Dr. Barnaby points out that a California farmer with 543 acres would hit the proposed limit on premium discounts. And, I know from conversations with a peach farmer in South Carolina that he would hit the pay limit with just 25 acres. Obviously, at what acreage level a farmer would be hit by the pay limit depends on the crop, production per acre, and crop value but one thing is clear wherever or whatever a farmer produces: if you are a full time farm or ranch family just struggling to make ends meet, the proposal is aimed at you, although the grapeshot would manage to hit all farmers.

The proposed means test also fails to recognize that farmers operate in a perfectly competitive market where average returns over the long-haul are close to zero. In fact, annual returns to many farmers are often in the red. And, this means that farmers must make hay while the sun shines, building up reserves and shoring up equity in the relatively fewer good years in order to survive the multiple bad years. The proposed means test would deny crop insurance to farmers using this common sense risk management strategy because rainy day funds built up in good years can mean ineligibility for crop insurance in years when farmers are under water.

These proposals, along with the Heritage Foundation's proposal to cap crop insurance coverage at 70 percent yield coverage and eliminate revenue and replacement coverage, would drive down participation and coverage levels, unraveling the achievements of Chairman Roberts in the Agricultural Risk Protection Act of 2000 and that of Senator Leahy in the Federal Crop Insurance and Reform Act of 1994 and return us to the days when costly, unbudgeted ad hoc crop loss disaster programs are needed almost annually.

The second category of attacks would cut administrative and operating (A&O) expense reimbursement used to pay a portion of the costs of delivering crop insurance, including agent commissions and loss adjustor wages and salaries, by 30 percent despite the fact that the current Standard Reinsurance Agreement already cuts A&O by 30 percent, and would reinstate the deep cuts to the rate of return to providers that Congress specifically rejected because of the irreparable injury they would have worked upon private sector delivery and, thus, crop insurance. In short, these attacks would undo the achievements of the 1980 Federal Crop Insurance Act that underpins the whole system.

I will not go into the third category having to do with distortions but will instead simply suggest that data and information can be very helpful in Farm Bill deliberations only insofar as they are not misused for the purpose of misleading public and lawmaker opinion concerning U.S. farm policy. Without putting too fine a point on this, the misuse of information for this nefarious purpose is the sole contribution of certain think tanks to every Farm Bill debate I have witnessed.

Working together, I am convinced that we can enact a strong new Farm Bill on time that fully protects Federal Crop Insurance and CIPA stands ready to help however we can.

Thank you once again for the privilege of testifying before you today. I am truly grateful for the Committee's dedication to America's farmers and ranchers and sound U.S. farm policy, including strong Federal Crop Insurance.

Statement of the American Farm Bureau Federation

**TO THE UNITED STATES SENATE
COMMITTEE ON AGRICULTURE**

PRIORITIES FOR THE 2018 FARM BILL

JULY 25, 2017

Presented By:

**Mark Haney
President, Kentucky Farm Bureau Federation, and
a member of the American Farm Bureau Federation Board of Directors**

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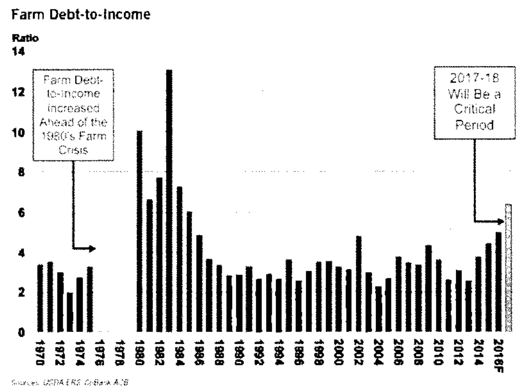
Thank you, Chairman Roberts, Ranking Member Stabenow and members of the committee, for the opportunity to share the views of the American Farm Bureau Federation (AFBF) on the current state of the agricultural economy and on our recommendations for the upcoming farm bill.

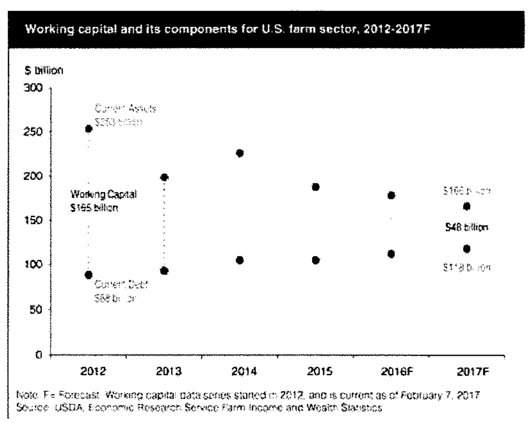
I am Mark Haney, and I represent a fifth generation on our family farm in Nancy, Kentucky where, along with my brother we produce apples and peaches as well as raise beef cattle. We also have a Farm Bureau Certified Roadside Farm Market where we sell produce from our farm as well as cider, jellies, baked goods and other products. I am privileged to serve as president of the Kentucky Farm Bureau and a member of the AFBF Board of Directors. AFBF is the nation's largest general farm organization, with nearly 6 million member families, and works on behalf of our members in every state in the nation and Puerto Rico. Our farmer and rancher members grow virtually every crop produced, in all sectors of the livestock, dairy, poultry and aquaculture industry, on farms and ranches of every size, using the full range of production systems from organic methods to the latest in high-tech and biotechnology tools. We also proudly include as members many of the men and women who are our neighbors in rural communities all across America.

Farm Bureau has been following the committee's work to gather information to assist you in the formation of the new farm bill, and it is with great interest that we have reviewed the testimony presented by other organizations representing the many agricultural commodity, animal agriculture and specialty crop sectors sharing their concerns about current market prices, farm income, and the economic outlook for the near future. I do not intend to reiterate all of those concerns other than to note I hear many of the same from Farm Bureau members.

I do, however, want to share one chart that I believe highlights the realities of the situation farmers and ranchers are facing in today's agricultural economy. The following chart showing debt-to-income ratios was developed from data provided by USDA's Economic Research Service (ERS) and CoBank. The verbiage accompanying this chart states: *"The farm sector debt-to-income ratio is a leading indicator of the health of the farm economy. Debt-to-income, which shows farmers' ability to pay down liabilities, is forecast by USDA-ERS to rise above six times in 2017. A ratio of 4-5 times is seen as a concerning level. Comparatively, the debt-to-income ratio in the 1970s reached worrisome levels for the four years leading into the 1980s farm crisis. Long-term, the severity of the farm financial situation will depend on how fast debt levels rise and how fast the Federal Reserve System raises interest rates. Higher interest rates ultimately will have the dual effect of depressing land values and stressing borrowers at a time of elevated debt levels."*



As indicated in the chart, 2017 and 2018 will be a critical period for farmers and ranchers. This chart also emphasizes the reason we need a strong safety net in the upcoming farm bill. For many of our major commodities, there is little domestic demand growth on the horizon. A strong dollar amplified by weaker economic growth in many countries and the production expansion by our major competitors in international markets gives us all pause regarding expectations for significant export demand growth. Add to this the uncertainty regarding the reactions among our key export markets relative to the new administration's position on trade agreements, and the concerns rise even higher. Farmers and ranchers are tightening their belts and paying very close attention to their individual financial situations. Simply put, they are in greater need of strong, secure safety net programs and risk management tools than has been the case for several years.



The ratio of debt to assets has increased for commercial farms since 2012. The chart above reinforces what we hear from farmers and lenders. Farmers have working capital challenges, but not a debt crisis, at least not yet. Their lenders report they have the assets to refinance short-term debt to longer-term loans with more manageable annual payments that allow them to continue to operate. But if commodity prices continue at present levels, most everyone agrees the financial conditions of farmers and ranchers will slowly and steadily deteriorate. If there is any comfort in the current situation, it is that most economists do not expect a crisis such as agriculture experienced in the 1980s.

This again highlights the importance of the safety net programs and risk management tools this committee has provided for agricultural producers. The last thing we need at this point is a reduction in the level of federal commitment, substantial or otherwise, and on behalf of Farm Bureau members, we appreciate your continued efforts to protect these important programs.

As was pointed out in the letter that 18 farm groups sent to Congress a few months ago, we are concerned about the financial pressures on farmers and ranchers as prices remain low and costs of production remain at high levels. We outlined the following reasons additional funding will be necessary to draft a farm bill that provides a robust safety net:

- Net farm income has dropped 50 percent from just four years ago, the largest four-year percentage decrease since the Great Depression.
- The aggregate debt-to-asset ratio remains low compared to the mid-1980s farm financial crisis, but it has risen from 12 percent to 14 percent in the last two years.
- Many farmers and ranchers are relying on capital reserves while many others, including beginning farmers, have already depleted reserves because they have not had the necessary good years to build them up.
- Based on averages, one in 10 farmers is either highly or extremely highly leveraged. For most major commodities, the figures are significantly higher – 19 percent for cotton farmers, 24 percent for wheat farmers, and 16 percent for corn farmers.
- The dollar remains strong, which makes exporting our products even more difficult.
- Our export markets may be stifled by U.S. trade policy. Farm Bureau estimated the completion of the Trans Pacific Partnership agreement would have increased farm income by $4.4 billion annually—income that has effectively been left on the table.
- Agricultural exports to Mexico and Canada have quadrupled since we entered the North American Free Trade Agreement (NAFTA), and Canada and Mexico are our second- and third-largest export markets. Loss of market share in Canada or Mexico due to less-favorable ag trade terms in a renegotiated NAFTA or due to less-friendly relations between our countries will depress prices further.
- Other countries heavily subsidize and protect their producers. The Organization for Economic Cooperation and Development provides a Total Producer Support Estimate

(PSE) each year for the 30 developed countries around the world. The average PSE is 18 percent, meaning 18 cents of each dollar a farmer receives comes from domestic support by the government. The U.S. is way below that average, with a PSE of only 8 percent.

- Developing countries are providing large sums of support to their producers. For 2015, China's rice, wheat, and corn subsidies are estimated to be $100 billion in excess of the levels to which it committed. That is more than the entire safety net for all of America's farmers and ranchers over the life of one farm bill and more than half of another. U.S. farmers are willing and able to compete with farmers in other countries on a level playing field, but they cannot compete with the treasuries of foreign governments. Until there is a level playing field, U.S. agriculture requires a strong safety net.

- The 2014 farm bill contributed $23 billion to deficit reduction over 10 years. It was the only reauthorization bill that voluntarily offered savings during the 113th Congress.

- Farm budgets are very tight this year and, with USDA predicting commodity prices to remain flat for the next several years, we need a strong, effective farm bill to help farmers and ranchers through this difficult, long-term period of depressed commodity and livestock prices.

The AFBF Board of Directors recently met to discuss our recommendations for the upcoming farm bill debate. Based on the outcome of this discussion I am providing the following recommendations, grounded in our grassroots policy, for your review and consideration as you work to develop the new farm bill.

These recommendations are not set in stone; rather, they are designed to provide the necessary flexibility to ensure that Farm Bureau is prepared to work with you in achieving the best possible farm bill that meets our key farm policy objectives while assisting you in meeting the challenges this important legislation will endure.

The following overarching goals serve as the basis for our recommendations:

- Protect current farm bill spending.
- Maintain a unified farm bill that includes nutrition programs and farm programs together.
- Ensure any changes to current farm legislation be an amendment to the Agricultural Adjustment Act of 1938 or the Agricultural Act of 1949.
- Prioritize our top funding priorities -- risk management tools, which include both federal crop insurance and Title I commodity programs.
- Ensure programs are compliant with the World Trade Organization agreements.

The Board recommends the following five provisions in particular for your consideration:

- Allow farmers to select the "higher of" the five-year Olympic Average yield for the Agriculture Risk Coverage County Program (ARC-CO) or a simple 10-year average yield.

- Increase the reference price used as the floor for the ARC-CO program by 5% for corn, soybeans, wheat, sorghum and other minor crops. Increasing the ARC-CO plug prices for corn, soybeans and wheat by 5% would mean ARC-CO floor prices of \$3.90, \$8.80 and \$5.80 per bushel, respectively.

- Support a cotton lint program and/or designating cotton seed as an "other oilseed" to make cotton eligible for Title 1 commodity support programs.

- Improve the Dairy Margin Protection Program by supporting a package that contains the following: a) a two-tiered approach to providing a safety net for dairy by continuing to treat production of 4 million pounds of milk covered annually differently than more than 4 million pounds of production; b) increase the administrative fee from \$100 to \$300 for the catastrophic level of protection; c) reduce premium rates 25% from the current rate for the first 4 million pounds of production history covered and increase premium rates 25% from the current rate for coverage above 4 million pounds; d) lower the maximum coverage level from \$8.00 to \$7.00; e) raise the catastrophic level from \$4.00 to \$4.50; and f) increase the feed ration formula for all producers by 10 percent.

- Increase the \$20 million annual cap on livestock insurance products to \$75 million annually.

The AFBF Board also approved the following recommendations to address additional issues important to our farmers and ranchers.

Commodity Programs:

We support:

- Continuation of the Price Loss Coverage program and the ARC program. Farmers want a choice of which risk management programs work best for their operation.

- Changes to the ARC-CO program to make it more effective and fair to all farmers.

- The opportunity for all farmers to re-elect and/or re-enroll in Title 1 programs.

- Basing Title 1 payments on historic, rather than planted, acres.

- Altering the cascade used to determine county yields for the ARC program to make Risk Management Agency (RMA) data the primary option followed by contiguous county RMA data, National Agricultural Statistics Service data and discretion of the state Farm Service Agency director.

- Making ARC-CO payments using the ARC-CO payment rate for the county in which the land is physically located rather than the rate for the administrative county used by the farmer.

Conservation Programs:

We support:

- Requiring USDA to update rental rate data for the Conservation Reserve Program (CRP) every year rather than every other year.
- Capping the pollinator rental rate at the lower of $300 per acre or 90% of the average county cash rent for the type of land that is entered into the pollinator program.
- Allowing adequate flexibility in establishment practices and mid-contract maintenance for acres enrolled in the CRP to completely control any noxious weeds or problem species that may have been introduced in the pollinator plot.

We do not support:

- Increasing the cap on the CRP above the current 24 million acre cap.
- CRP "knock offs" that offer contracts similar to the current CRP program but only require short-term (3-5 year) contracts rather than 10-15 contracts.
- Allowing the same parcel of land to be re-enrolled in the general CRP after the conclusion of two contracts.

Dairy:
We support maintaining the current three-month sign-up gap and ending enrollment in September prior to the Margin Protection Program coverage year and retention of the Secretary of Agriculture's ability to delay the sign-up period on an ad hoc basis.

Whole Farm Revenue Protection Program (WFRP)
We support keeping the WFRP as a pilot program rather than making it a permanent federal crop insurance program.

Working Together:

Over the years, many members of the House and Senate Ag Committees and members of Congress in general have encouraged various groups to work together to come up with consensus positions for farm bills. AFBF President Zippy Duvall has stressed unity as one of his highest priorities for Farm Bureau and we have played a role in at least four initiatives to do just that in 2017:

- In February, Farm Bureau helped organize a coalition letter to Congress signed by 502 groups representing agriculture, nutrition, conservation, rural development, crop insurance, energy and other interests. The letter stated, "It is imperative that the committees not be hamstrung by further budget or appropriations cuts to any farm bill program. Instead, we strongly encourage you to recognize the substantial savings already achieved, which far exceed expectations, and to provide the committees the opportunity to complete their work through regular order, without arbitrary budget cuts or caps. With the agriculture and rural economy struggling, households across the country struggling to meet their basic needs for nutrition, and farm income down 46 percent from only three years ago, it would be perilous to hinder development and passage of the 2018 farm bill with further cuts."

- Earlier this year, Farm Bureau joined with a coalition to protect the crop insurance program. Ninety-four companies and trade associations representing crop insurance companies, agents, farm and commodity groups and lenders are participating and are circulating weekly messages on various aspects of the crop insurance program.

- In March, Farm Bureau helped organize a coalition letter to Congress signed by 18 farm and commodity groups which stated, "The factors outlined (in the letter) make the case for a strong safety net that will ensure that U.S. farmers and ranchers have the wherewithal to continue to farm and ranch until market conditions improve

- Also in March, Farm Bureau signed a document that addressed 13 issues on which each of the following eight farm and commodity groups have agreed for the upcoming farm bill. We will continue to work toward further agreement on other issues and with other farm and commodity groups. We also continue to seek guidance from the leadership of the House and Senate Ag Committees. That document is printed below.

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FARM BILL ISSUES ON WHICH WE AGREE
March 24, 2017

On March 15, 2017, farm and commodity organizations sent a letter to the Senate Budget and Appropriations Committees pointing to the sharp fall in farm prices and income since 2013 and asking Congress to provide additional funding in order to develop an effective farm income safety net in the 2018 Farm Bill. A number of these organizations have met to discuss specific issues that need to be addressed in the next farm bill and will continue to work to develop consensus proposals to share with the Agriculture Committees on potential ways to resolve them. The following organizations are in agreement on the attached initial list of positions. To be clear, the beginning of this document covers only those issues where there is a consensus on every issue.

As our discussions continue and as guidance from the Committees is provided, we hope to expand this list to cover additional issues expected to be considered during negotiation of the new farm bill.

Overarching Issues:
Increase funding in the 2018 farm bill in order to address the significant reductions in farm prices and income incurred since 2013, and to meet other critical needs.

Federal crop insurance and commodity programs are our top funding priorities.

Commodity Programs:
Continue a counter-cyclical program like the Price Loss Coverage (PLC) program and a revenue program like the Agricultural Risk Coverage (ARC) program.

Change the ARC and PLC programs to make them more effective and fairer to all farmers.

If the ARC and PLC programs continue, farmers must be allowed to re-elect and re-enroll on a crop-by-crop basis.

Commodity program payments should be based on recent historical crop production rather than on current-year planting.

Crop Insurance Programs:
Oppose reducing premium discounts.

Conservation Programs:
Maintain strong funding for federal conservation programs which preserve environmental benefits, while continuing the prioritization of working lands conservation programs.

Maintain strong funding of the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP).

Examine the rental rates of the Conservation Reserve Program (CRP) and the Conservation Reserve Enhancement Program (CREP) annually at enrollment to ensure they mirror the rental rates of comparable land in the immediate area.

Improve State Technical Committees to make them more ag-friendly by encouraging producers' participation and input.

Other Programs:
Ensure adequate funding for agricultural research and education.

Continue work on simplifying procedures, reducing paperwork requirements and streamlining interactions between the Farm Service Agency (FSA), the Natural Resources Conservation Service (NRCS) and the Risk Management Agency (RMA) via the Acreage Crop Reporting Streamlining Initiative (ACRSI.

Continue and work to improve the Young and Beginning Farmer Programs implemented in the 2014 Farm Bill.

<u>Additional Farm Bureau Policy Objectives:</u>
While many of the issues facing farmers and ranchers are outside the jurisdiction of the House Ag Committee, they nonetheless are huge influences on our ability to be profitable. Nevertheless, these issues are important and impactful to the future of America's family farms and are worthy of your attention. Farm Bureau has five priorities on which we are focused in 2017 to help farmers and ranchers. They are (1) a robust 2018 Farm Bill; (2) a workable immigration program; (3) tax reform; (4) improvements in trade; and (5) regulatory reform.

Immigration Reform
U.S. agriculture faces a critical shortage of workers every year as citizens are largely unwilling to engage in these rigorous activities and guest worker programs are unable to respond to the marketplace. This situation makes our farms and ranches less competitive with foreign farmers and less reliable for the American consumer. Securing a reliable and competent workforce for our nation's farms and ranches is essential to agriculture and the U.S. economy.

Farmers and ranchers have long experienced difficulty in obtaining workers who are willing and able to work on farms and in fields. Jobs in agriculture are physically demanding, conducted in all seasons and are often transitory. To most U.S. residents seeking employment, these conditions are not attractive. A number of studies document this fact, and farm worker representatives also acknowledged this in recent congressional testimony. Yet, for many prospective workers from other countries, these jobs present real economic opportunities.

In times of labor shortages farmers have relied on these foreign workers, who are admitted under a government sponsored temporary worker program known as H-2A, and on workers who appear to have legal status to be working in the United States. The demand for foreign workers is heightened due to not only a lack of a domestic workforce, but also the reverse migration of workers from the U.S. to Mexico, historic levels of immigration enforcement and bipartisan congressional commitment to a credible work authorization system through mandatory E-Verify. Those factors, combined with an increasingly rigid and burdensome H-2A program, demonstrate the need for a new approach.

Reforms to the immigration system can ensure that American agriculture has a legal, stable supply of workers, both in the short- and long-term, for all types of agriculture. This requires a legislative solution that deals with the current unauthorized and experienced agricultural workforce and ensures that future needs are met through a program that will admit a sufficient number of willing and able workers in a timely manner.

Tax Reform

Farm Bureau supports replacing the current federal income tax with a fair and equitable tax system that encourages success, savings, investment and entrepreneurship. We believe that the new code should be simple, transparent, revenue-neutral and fair to farmers and ranchers.

Agriculture operates in a world of uncertainty. From unpredictable commodity and product markets to fluctuating input prices, from uncertain weather to insect or disease outbreaks, running a farm or ranch business is challenging under the best of circumstances. Farmers and ranchers need a tax code that recognizes the financial challenges faced by agricultural producers.

Tax reform should embrace the following overarching principles:

- Comprehensive: Tax reform should help all farm and ranch businesses, including sole-proprietors, partnerships and sub-S and C corporations.
- Effective Tax Rate: Tax reform should reduce combined income and self-employment tax rates low enough to account for any deductions/credits lost due to base broadening.
- Cost Recovery: Tax reform should allow businesses to deduct expenses when incurred, including business interest expense. Cash accounting should continue. Sect. 1031 like-kind exchanges should continue.
- Estate Taxes: Tax reform should repeal estate taxes. Stepped-up basis should continue.
- Capital Gains Taxes: Tax reform should lower taxes on capital investments. Capital gains taxes should not be levied on transfers at death.
- Simplification: Tax reform should simplify the tax code to reduce the tax compliance burden.

Pass-through Businesses: Any tax reform proposal considered by Congress must be comprehensive and include individual as well as corporate tax reform. More than 94 percent of farms are taxed under IRS provisions affecting individual taxpayers. Any tax reform proposal that fails to treat those taxed under the individual and corporate tax codes fairly will not help, and could even hurt, the bulk of agricultural producers who operate outside of the corporate tax code.

Effective Rates: Any tax reform plan that lowers rates by expanding the base should not increase the overall tax burden (combined income and self-employment taxes) of farm and ranch businesses. Because profit margins in farming and ranching are tight, farm and ranch businesses are more likely to fall into lower tax brackets. Tax reform plans that fail to factor in the impact of lost deductions for all rate brackets could result in a tax increase for agriculture.

Cost Recovery: Because production agriculture has high input costs, farmers and ranchers place a high value on immediate expensing of equipment, production supplies and preproduction costs. Also of critical importance is the deductibility of business interest expenses for interest paid on mortgages for land and buildings, operating loans, and vehicles and equipment purchases.

Cash Accounting: Cash accounting is the preferred method of accounting for farmers and ranchers because it provides the flexibility needed to optimize cash flow for business success, plan for business purchases and manage taxes.

Like-Kind Exchanges: Farm Bureau supports the continuation of Sect. 1031 Like-Kind Exchanges for real property such as land and buildings, for personal property including equipment and vehicles, and for breeding and production livestock.

Estate Taxes: Farm Bureau supports permanent repeal of federal estate taxes. Until permanent repeal is achieved, the exemption should be increased, be indexed for inflation and continue to provide for portability between spouses. Full unlimited stepped-up basis at death must be included in any estate tax reform. Farmland owners should have the option of unlimited current use valuation for estate tax purposes. Capital gains taxes should not be imposed on transfers at death.

Capital Gains Taxes: Farm Bureau supports eliminating the capital gains tax. Until this is possible, the tax rate should be reduced and assets should be indexed for inflation. In addition, there should be an exclusion for agricultural land that remains in production, for transfers of farm business assets between family members, for farmland preservation easements and development rights, and for land taken by eminent domain. Taxes should be deferred when the proceeds are deposited into a retirement account.

Other Provisions Important to Farmers and Ranchers: Farmers and ranchers support tax incentives for renewable fuel and energy, the Domestic Production Activities Deduction (Sect. 199), farm and ranch income averaging, installment land sales, elimination of the UNICAP Rules for plants, and the tax deduction for donated food and donated conservation easements.

Trade

The U.S. food and agriculture sector is heavily dependent on international markets and trade is vital to the continued prosperity of farmers and ranchers. Half of the U.S. wheat and rice crop is exported. Soybean exports accounts for more than 40% of U.S. production, while corn exports have declined in recent years to 12% of production. These numbers, however, understate the impacts of agricultural exports. Indirect exports of corn and soybeans (and other ag commodities) occur through meat and livestock exports. Domestically fed livestock that are exported are also an indirect export of corn, soybeans and wheat used as feed for those animals. This impact is substantial as exports account for 21% of pork production and 10% of beef production. The percentage is even higher for crops such as cotton and tree nuts. Over the past few years, foreign markets have also become increasingly important to supporting the dairy industry, with exports now accounting for one out of every seven days of U.S. milk production. Clearly, without those markets, commodity prices received by producers would suffer.

With over 96 percent of the world's population living outside of the United States, expanding access to international markets is essential for our future success. This includes maintaining and increasing access to markets through existing and future trade agreements, and leveraging export programs that serve as catalysts to increased market access.

Over 20 million jobs across the country are directly or indirectly dependent on agriculture and account for nearly $1 trillion or 13 percent of gross national product. If our agricultural sector can preserve its competitiveness in the global marketplace, we can grow this number and be a strong contributor to a growing economy.

Finally, demand growth will be critical to helping the agriculture sector get out of this revenue downturn. The Trans-Pacific Partnership had the potential to raise net farm income by $4.4 billion annually without the need to boost government spending. We are disappointed that our participation in the TPP was withdrawn, but we are working on ways to ensure a quick start to bilateral negotiations with a variety of countries.

Regulatory Reform

Federal regulations have a direct impact on farmers and ranchers. Over the years, the breadth and extent of that regulatory landscape have increased. Today, agricultural producers are faced with a flurry of requirements through the Clean Water Act (such as the "waters of the U.S." rule, the "prior converted cropland" criteria, wetlands jurisdictional determinations or total maximum daily load limits); the Endangered Species Act (through designation of species, establishment of critical habitat and questionable use of science); the Federal Insecticide, Fungicide and Rodenticide Act; the Food Safety Modernization Act; immigration and labor regulations; and interpretation of the Federal Land Policy and Management Act, to name just a few.

Often, these requirements are the result of federal regulations. Sometimes they emanate from court decisions. But no matter how they are established, the result often can be controversial. Stakeholders disagree on the language in the statute and affected parties disagree on the science, the data or the models underpinning one or the other.

Americans, including farmers and ranchers, need a regulatory system that is fair, transparent, adheres to the will of Congress, takes economic impacts into account and respects our freedoms.

The Administrative Procedure Act is the principal federal statute that governs how regulations are promulgated. Enacted in 1946, the law has not substantially changed in the 70 years it has been on the books even though the federal government has expanded enormously.
Policies today are also increasingly determined as the result of litigation.

We must also ensure that our public policy does not hurt the economic viability of farm and ranch families across the country. These issues often come from corners of the federal government that may not understand production agriculture. Yet a broad range of regulatory actions have the potential to increase the costs and reduce the margins of farmers and ranchers.

Whether the regulations deal with the environment, immigration and labor, food safety or financial reform, they can create an uncertainty that threatens to hold back investment and growth across the agricultural sector. Congress and the administration must ensure that the marketplace, not the federal government, determines the cost of production for America's farmers and ranchers. If our farms and ranches are weighed down with costs imposed by either regulatory actions or delays in the regulatory process, farm income will decrease and market share will be lost to our competitors.

Thank you again for holding this important hearing and for providing me the opportunity to share the concerns of Farm Bureau members from all across our great nation as you move forward on developing the next farm bill. We appreciate your leadership and are fully committed to working with you as you seek ways to ensure America's farmers and ranchers are sustained through the economic challenges we face today.

Testimony of

Jennifer James

Before the U.S. Senate
Committee on Agriculture,
Nutrition, & Forestry

Hearing: Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill.

Washington, D.C.
July 25, 2017

Introduction
Chairman Roberts, Ranking Member Stabenow, and Members of the committee, thank you for holding this important hearing to review the farm safety net. My name is Jennifer James, and I'm a fourth generation rice farmer from Newport, Arkansas. While I identify myself as a rice farmer, our family farm is diversified. I farm in partnership with my father and my husband, we primarily grow rice and soybeans, and provide overwinter habitat for migrating waterfowl on 6,000 acres every year. We take great pride in our commitment to the conservation of natural resources and instituting practices that provide wildlife habitat and conserve water.

I am proud to serve the rice industry as Chairwoman of USA Rice Federation's Sustainability Committee and as a member of the USA Rice Farmers Board of Directors, the USA Rice Domestic Promotion Committee, the USA Rice Communications Committee, and the USA Rice Asia, Turkey Promotion Subcommittee. I'm also active on the state level and serve as Vice Chair of the Arkansas Rice Farmers Board of Directors, a member of the Arkansas Agriculture Board, the Arkansas Ag Council Board of Directors, the Jackson County Farm Bureau Board of Directors, and the St. Louis Federal Reserve Bank Agribusiness Industry Council. I appreciate your invitation and am honored to offer my testimony on behalf of the USA Rice Federation.

We operate our farm much like a publicly owned business operates. Although not officially, we recognize my father as the CEO, my husband as the COO, and myself as the CFO. We conduct monthly manger meetings with agendas and supporting documentation. We review our budget to actual costs and discuss crop conditions, marketing plans and progress, and human resource concerns. We report to our land partners regularly and meet with our lender in an official review at our request at least twice per year. We employ multigenerational family members as well as extended members of our family. Some employees have been with us for more than 30 years. We truly are a family farm.

I am very proud of the fact that the original farm has been owned and operated by our family for over 100 years and we are recognized as an Arkansas Century Farm. The land has provided a living for four generations and we are currently raising the fifth generation. My grandmother outlived her husband by 20 years. Because of the hard work of my father, our farm provided rental income for my grandmother which enabled her to have the full care she needed at assisted living facilities after my grandfather passed away. Our farm has provided for my Father who is now 73. I'm at the midpoint in my career and it has provided for me and my family as well. My son dreams of obtaining a degree in Agricultural business and returning to till the land his great-great grandfather purchased in the late 1800s.

I'm very proud of this heritage but I do fear that my son will have to downsize in the future because of the current and arbitrary AGI means test and restrictive and burdensome rules for program eligibility. Even if my son were to farm with his first cousins they would not be considered a family farm because my brother left the farm last year to pursue another business venture.

State of the Rice Industry
While the last few years have been extremely difficult for the U.S. rice industry we continue to have a major impact in our local communities and the national economy. The U.S. rice industry is a multibillion dollar industry that provides jobs and income for not only producers and processors of rice, but for all involved in the value chain. Much of this economic impact occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, up and down the Mississippi River Basin starting in Illinois, down the Bootheel of Missouri, through the Grand Prairie of Arkansas, where I call home, and down through the Mississippi Delta. All combined, these areas plant rice on three to four million acres annually.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain rice, to aromatic and specialty varieties. Last year, rice farmers produced a crop directly generating $5.6 billion that was reinvested in local economies. This production and the subsequent sales of rice generated $34 billion in total value added to the U.S. economy from rice production, milling, and selected end users. The industry provides jobs and income to more than 128,000 people within the U.S. labor force.

Today, about 81 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and within the top five largest exporters worldwide. On average, about 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Mexico, Haiti, Japan, Central America and the Middle East. Of the rice produced by our famers that remains in the domestic market, 53 percent is bound for direct food use, 16 percent is dedicated to processed foods, 15 percent is used to produce beer, 14 percent is for pet food, and the balance is used for industrial purposes.

Recent analysis conducted by Texas A&M's Agricultural and Food Policy Center concluded that on average, each rice farmer in the U.S. generates more than $1 million of economic activity in his or her local economy annually. While rice farming and the associated production and processing industries continue to act as economic drivers in rural communities, many of our growers have been struggling with rice prices well below the cost of production for the last three years. Farmers rely on good years to help support them through the bad years. This is especially challenging for young and beginning farmers, who have not yet had an opportunity to build reserves.

When the current Farm Bill was enacted in early 2014, U.S. rice prices across all grain lengths averaged $16.30 per hundredweight. The USDA's most recent forecast for the 2016/17 prices show an average price of $10.50 per hundredweight – a ten-year low for the industry, and an overall decrease of 36 percent. Even more extreme, California's Temperate Japonica rice was averaging $21.60 per hundredweight for the 2014/15 marketing year, and is now forecast at $13.60 per hundredweight – a 37 percent decline in just two years. In addition to the low prices we are witnessing, the rice industry has been severely impacted by natural disasters. Over the last four years, our national average yields have taken a significant hit and decreased annually due to extreme flooding or drought throughout the rice-growing regions. The U.S. rice industry has clearly been injured by factors far outside of our control. Weather events will continue to impact our yields and other major rice producing countries, many of which do not abide by World Trade

Organization (WTO) rules, will continue to overproduce and artificially depress world market prices for rice. A robust safety net is necessary to protect American farmers from not only extreme weather events but also multiple year price declines.

Beyond the substantial economic and nutritional benefits of rice are the environmental dividends from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependent species. Using flooded rice fields over winter for waterfowl habitat is a leading example of the compatibility of agricultural and natural resource management. Rice farmers capture winter rains to help decompose straw, prevent erosion, and control weeds. But the flooded rice fields have an additional benefit, food for wildlife and waterfowl including waste grain, weed seeds, and invertebrates. These natural byproducts of rice production provide vital nutrients for millions of migratory birds need to survive the winter and to prepare for their journey north the following spring.

All of the major rice-producing areas in the U.S. host important waterfowl activity during winter months. In the Delta region of Arkansas, Mississippi, Missouri, and Louisiana, at least 70 wildlife species rely on rice fields for habitat. In California, rice fields provide habitat for 230 species of wildlife, and provide wintering habitat for some seven million ducks and geese that winter each year in the Pacific Flyway. This habitat is so critical to the flyway that experts estimate we would lose more than one million ducks if California rice acres were cut in half. Additionally, rice production areas in Texas correspond with the bird migration corridor known as the Central Flyway, providing important habitat to hundreds of bird species that rely on these temporary wetlands during their migratory journey.

The cost of replacing existing rice habitat with managed natural wetlands would be more than $3.5 billion, and the operation and maintenance costs of maintaining those managed seasonal wetlands would average $73 million a year. Without rice farming, the amount of wetland habitat in the U.S. would be vastly reduced – a loss that would have a disastrous effect on waterfowl, shore birds, and a host of other wetland-dependent species.

This symbiotic relationship with the waterfowl industry led to a historic partnership with Ducks Unlimited, called the Rice Stewardship Partnership. While we both have separate missions and methods, we have managed to collaborate and find common ground and develop goals for our Partnership, including work on the Regional Conservation Partnership Program (RCPP).

Regional Conservation Partnership Program is a Success

Our Partnership was awarded $10 million in 2015 by the USDA's Natural Resources Conservation Service (NRCS) to implement an RCPP project across the six major rice-growing States. The project directly funds Environmental Quality Incentives Program (EQIP) and Conservation Stewardship Program (CSP) contracts with rice growers. While the CSP portion of our project is still underway, the Partnership has been able to facilitate more than 200 EQIP contracts with growers throughout the country to further improve rice's environmental footprint. This year, the same Partnership was able to secure an additional $15 million through two new RCPP projects, further stretching the reach of the cost-share programs throughout the South.

It is important to us that this fiscally responsible program is reauthorized when you are writing the next Conservation Title. Our three projects alone have pulled together nearly 100 diverse partners to help implement their goals, communicate successes, and ultimately share the cost of investment in working lands conservation programs to ensure NRCS gets the most bang for their buck.

The Importance of Working Lands Programs

CSP, and especially EQIP, are referred to by farmers as the "workhorses" of NRCS conservation programs. They are valuable cost-share programs that incentivize farmers to implement a number of conservation practices on our operations that have proven benefits to the environment. The relatively small investment made by the program has no doubt made our land more resilient to extreme weather events by reducing erosion and runoff and improving soil health.

EQIP is vital because it is such a straightforward program with an extensive list of practices that NRCS is able to assist farmers with implementing. EQIP's structural practices can help establish the equipment needed to better manage water resources, help with irrigation efficiency, fencing, and erosion control.

CSP has been revised to become more like EQIP but operates with five-year contracts to provide more time for the extensive work to be completed. This program helps to target specific resources using a number of complimentary practices, and has been a great tool for rice farmers to have in our toolbox to pay for expensive long-term management practices.

In the South it is not uncommon for farmers to rent portions of their cropland. Many farmers do not have certainty of whether they will hold the lease on a piece of ground from one year to the next so it is often not worth the risk to invest a lot of capital into someone else's land. These cost-share programs are the only thing that helps to bridge that gap, allowing land-renters to install conservation measures while footing only a portion of the cost. Improvements in efficiencies benefit the farmer while the environmental perks benefit the landowner by simultaneously raising the land value. Across the country, a great deal of EQIP and CSP contracts are carried out on rented land that would otherwise probably be left untouched by conservation improvements.

Working Lands Programs are Economic Drivers

Throughout rural America, working lands programs serve as economic drivers. It takes more than just one farmer to complete the work needed to implement an EQIP or CSP contract. Think about the outside technicians, engineers, and local soil and water conservation districts needed to help oversee the conservation planning; the scientists, the land movers, the equipment that needs to be purchased to implement these conservation practices.

Not to mention, with working lands programs the land is still in production, so the economic drivers of small communities are still working, unlike some programs like the Conservation Reserve Program (CRP) that pay farmers not to grow a crop. Small towns like mine rely on the agriculture industry for jobs and investment or they would disappear; when my business prospers, everyone around me benefits in one way or another.

More than 75 percent of rice farming operations in the South operate in what USDA considers "StrikeForce counties"— rural counties with more than 20 percent of the population below the poverty line. These communities all rely on vibrant farming operations to stay alive and NRCS working lands programs help to shoulder the burden of high operating expenses. These conservation practices have helped me stay in business over the course of this depressed farm economy having increased my efficiency by increasing my yields and decreasing my input costs to boost my margins.

When we are not in the growing season and purchasing inputs, we are still growing the local economy. The waterfowl hunting business brings millions of dollars to the South's local economies during the fall and winter months when work elsewhere is short. Visitors travel from all over the world to hunt in rice fields and they all need lodging, food, equipment, etc.

As an industry, we see EQIP and CSP targeted every year during the appropriations process. Their mandatory funding is cut, reducing the amount of work NRCS can provide in each of your Districts throughout the country and creating a backlog that will take years to catch-up to the demand that is out there. It is important to us that these are not only preserved but codified in a way that they are not always seen as low-hanging fruit when it's time to find savings.

EQIP Provision Limits Long-Term Effectiveness
Current EQIP rules place an arbitrary three-year limit on funding annual management practices. As strong stewards of the land and staunch advocates for migratory waterfowl, we support a change in this limitation for projects implemented "purely for the benefit of wildlife". This is necessary in order to sustain these beneficial practices and demonstrate long-term benefits. While these annual management practices benefit waterfowl, some of them ultimately reduce farm profitability because of their expense to the farmer. Therefore, producers will most likely stop implementing them if cost-share assistance for these proven, effective annual management practices is terminated after three years.

SAM/DUNS is a Barrier to Conservation Adoption
Currently, farmers who want to participate in Farm Bill conservation programs have to wade through an annual registry process called the System for Award Management (SAM) and Data Universal Numbering System (DUNS), designed for transparency for multi-billion dollar federal defense contractors. This complicated process to comply with SAM and DUNS typically ties up hours of my time and that of our local soil and water conservation district or NRCS office. It is disincentive for many us to sign-up for these important conservation programs. Immediately following a successful registration using SAM, my inbox, mailbox, and phone are flooded with solicitors who have just been provided my information, a serious breach of my privacy. The rice industry is supportive of efforts to exempt NRCS programs from complying with this burdensome reporting process.

Sustainability is Necessary for Future Generations
As a mother, farmer, conservationist, and on behalf of the USA Rice Federation, I greatly appreciate the work this committee has done to ensure that farmers have the tools they need to implement conservation practices and feed our growing population. While conservation may not necessarily be the most controversial issue in the Farm Bill, it is a vital part of our industry and a necessary investment if we want to leave our land and operations as a legacy for our children. I urge this committee to increase farm bill resources in working lands programs.

The reality is that if we aren't good stewards of our working lands, the food security we enjoy today in the United States may not be available to our children. That's why I have worked as Chair of the USA Rice Sustainability Committee over the past eight years to make conserving water and providing habitat for waterfowl a priority for the rice industry.

Over the past 20 years, rice farmers have decreased land use by 35%, energy use by 38%, and water use by 53%. Conservation may not be at the top of our list every day, but it is on the list every day.

Trade and Export Factors Influencing U.S. Markets
The U.S. rice industry relies heavily on exports. Approximately 50 percent of our annual crop is exported to more than 120 countries around the globe, accounting for 8 percent of global rice trade. These exports are critical to rice farmers, millers, and merchants. U.S. rice exports have been inconsistent over the last decade, adding to the uncertainty in our markets and we are also seeing a consistent increase of imported foreign rice, growing from 5 percent to nearly 20 percent of consumption over the last two decades. These growing imports are mostly originating from our global trade competitors that are frequently in violation of their WTO obligations.

According to a 2015 study on the global competitiveness of the U.S. rice industry by the U.S. International Trade Commission (USITC), rice has the highest levels of government-interference when compared to all other crops. U.S. farmers simply cannot compete with foreign government treasuries, like that of China, India, and Thailand. Producers in these and other countries overproduce as a result of the lucrative subsidies they are provided that encourage them to plant rice even when the market tells them otherwise, distorting the world market price. Thankfully, last year the U.S. Trade Representative finally initiated a case against China's grain subsidies at the WTO, including their rice subsidies. We appreciate this Committee's recognition of these WTO violations and for holding several Congressional hearings to bring the issue to the forefront. We are confident that the U.S. has a strong case and will win. While WTO cases take some time to run their course, we are already seeing other bad actors take note of the case against China. Two weeks ago, India, another notorious violator of WTO commitments, requested "observer status" on the case out of concern that the U.S. will soon challenge their illegal subsidies. It is critical that the U.S. government continue to go after the bad actors that put American rice growers at an unfair disadvantage and threaten our livelihood.

The USITC report lays out these problems in great detail. The key conclusions are well known to our industry and my fellow producers. It outlined the extent of foreign government involvement in global rice markets and the high levels of foreign tariffs that keep U.S. rice from competing in those markets. USITC analysts concluded that U.S. rice production would be 1.3 million metric tons (mmt) higher in the absence of global tariffs. Removing foreign tariffs not only leads to higher production in the U.S., but would also increase U.S. exports by slightly more than 1.3 mmt or approximately 25 percent. Please keep in mind that U.S. import duties on rice are essentially zero.

Examples of Export Challenges
The U.S. rice industry continues to face a number of challenges in exporting our safe, nutritious, and cost-effective crop. Several examples include:

- No access to the Cuban market.
    - With the appropriate statutory changes, the U.S. could regain 30 percent of the Cuban rice market within two years. That is an estimated 135,000 metric tons of new demand. We anticipate the U.S. share of the market would exceed 50 percent within five years, and it could reach 75 percent or more within ten years with full commercial relations. That is equal to somewhere between $40 and $60 million worth of new demand from Cuba within those first two years of lifted sanctions. We appreciate the leadership of Senators Heitkamp and Boozman for introducing S. 275, the Agricultural Export Expansion Act, which seeks to remove private financing barriers for agricultural commodities with Cuba, and also appreciate the support of the cosponsors on this committee: Ranking Member Stabenow, Senator Cochran, Senator Leahy, Senator Klobuchar, and Senator Bennet.

- Irregular/non-transparent tenders for rice to be shipped to Iraq.
    - The U.S. State Department worked with the Iraqi government to sign a memorandum of understanding that supports regular U.S.-specific tenders for rice. While we have seen some positive movement, this large export market remains inconsistent and intergovernmental corruption in Iraq often acts a barrier to selling our rice. Iraq at one time was the largest market for U.S.-grown rice but in recent years has been sourcing much of its rice from Thailand – a major competitor with the U.S. in terms of rice exports.

- Lack of meaningful, quality access to Japan.
    - While the Trans Pacific Partnership (TPP) trade deal would have provided some new access for U.S.-grown rice to Japan, the real gains were unclear and volume remained below what we felt was fair. The industry sought a higher volume tariff rate quota (TRQ) for U.S.-grown rice going into Japan. We support a bilateral trade deal with Japan that revisits the TRQ level for U.S.-grown rice and provides the additional assurances we need on quality of access.

- Little to no access to the European Union (EU) and the United Kingdom (UK).
    - U.S. rice exports to the EU effectively halted in 2006 due to an incident where genetically engineered rice accidentally entered the commercial supply. The issue has been resolved yet the market never recovered beyond a small quantity shipped largely to the UK under an existing trade concession. EU duties applied on U.S. rice outside the concession are high but unfortunately they provide favorable trade concessions for our global competitors. USA Rice is seeking substantive market access gains in Europe. That is why we support a U.S.-UK bilateral trade deal once the UK has formally exited the EU in 2019 and why we support returning to talks surrounding the Transatlantic Trade and Investment Partnership.

U.S. International Food Aid Programs

In addition to trade and export challenges, USDA and the U.S. Agency for International Development (USAID) international food aid programs continue to be a target for cuts and statutory revisions by Congress, the administration, and others. These international food aid programs have long been a critical component of our diplomatic success. They are supported by farmers, shippers, processors, mills, and humanitarian organizations. They have a distinguished record of saving lives in the face of daunting emergency situations and preventing crisis through effective monitoring and response. The programs have an extensive history of measurable successes reducing hunger and malnutrition while also supporting education, democracy, and agricultural development in vulnerable populations throughout the world. This year in particular, our food system is projected to face unprecedented demand, especially in nations across Sub-Saharan Africa and the Middle East.

Rice is one of the primary commodities utilized by a number of these programs, whether it is by direct aid or through monetization. Unfortunately, the administration's recent budget proposal threatens to reduce or even eliminate this already small market for U.S. rice farmers through cuts in funding. The U.S. rice industry has invested a lot of time and capital into developing fortified rice which has been recently approved for use in food aid to reduce global hunger and malnutrition, particularly in women and children. Despite only serving as a one to five percent share of all rice exports, it is important to the industry that we continue to play a strong role in providing our nation's agricultural bounty to those in need by fully funding the USDA's Food for Progress and McGovern-Dole Food for Education programs and USAID's Food for Peace program.

Export Marketing and Development Programs are Worth the Investment

Trade and exports are not self-sustaining without regular, strategic marketing of our products. The majority of U.S. agricultural products are promoted globally through the USDA's Market Access Program (MAP) and Foreign Market Development (FMD) program that provide annual allocations to commodity organizations through an extensive application/request process. These programs are vital in promoting growth and new opportunities for our agricultural exports and have a long track record of measurable success throughout their lifespan.

USA Rice not only effectively utilizes our annual allocation, but we contribute $7 in private industry funds for every $1 in federal funding through MAP and FMD, making them true economic drivers. Unfortunately, funding for these programs through the farm bill has remained flat for a number of years. Without additional funding, there are less dollars for us to develop export markets. Each year, commodity organizations participate in these programs which highlights their success but also means there's less money to go around. Additionally, annual sequestration cuts means the programs will become less effective. We would like to see a significant increase-- even a doubling of funding for these programs to help grow agricultural exports amid this turbulent trade atmosphere. We believe providing additional resources will help to elevate commodity prices, thus offsetting the costs of the Commodity Title.

Increasing Costs for Production

According to USDA's Economic Research Service, the 2018 crop year is forecast to have some of the highest production costs on record – nearly $1,000 per acre for rice. Our operating costs plus labor exceed every other crop covered by the Commodity Title. To put that into perspective, the production costs forecast for 2018, including labor, are: $679 per acre for corn; $479 per acre for soybeans; $312 per acre for wheat; and $317 per acre for sorghum. Folks may question why rice farmers do not typically choose to grow something else, and the answer has many important aspects. Weather, water availability, and soil type all play a role in whether it is agronomical to grow rice in a region. But, most importantly, it is economics. The initial investments for rice farmers including equipment, infrastructure for irrigation, conservation measures that have been installed, etc. are so specialized that it is difficult to economically justify a shift from year to year.

According to USDA's February Agricultural Prices Report, the Prices Received to Prices Paid ratio in January for food grains, including rice, was at 62.9 percent, down 15 percent from a year ago. With rising input costs and decreasing rice prices, our reserves, if we have them, are going to continue to dwindle for the foreseeable future.

Options for Different Crops & Production Regions

Farm policy must be designed to give producers options of what policy will work best for their mix of crops and growing region. I consider my farm to be diversified, growing four of the major program crops. We are fortunate to farm in an area where we have the ability to rotate among several crops. Not all production regions have that ability and may be limited to just one or two crops that can be profitably produced. Because of this great diversity across American agriculture we need policy options that can be tailored to the risks we are faced with.

On my farm in the Mid-south I can rotate up to three other crops with my rice, whereas rice producers on the Gulf Coast have, in most cases, only one other crop rotation option, and yet in California, rice producers have, in most cases, only one cropping choice: rice. Due to a host of differences in market prices, production costs, yields, marketing patterns, and uses. Each crop has very different pricing and marketing options.

For rice farmers and our lenders, statutorily set reference prices are simple and bankable, and if set at the appropriate level will provide some level of protection from our main risk, multiyear price declines. However, the current reference prices are not reflective of our increased cost of production and do not take into account year over year inflation.

In the past, there have been concerns raised about statutorily set reference prices distorting planting decisions and resulting in significant acreage shifts. Based on my personal experience, the experience of the thousands of rice farmers that the USA Rice Federation represents, as well as the analysis of accredited economists that this committee relies on; the reference prices that we are currently conducting economic analysis on, will not create distortions or drive planting decisions. This is because the reference prices are below the cost of production and will be decoupled from production (paid on historic base acres) and use only percentage of historic yields for purposes of calculating the payment rates. Further, PLC only covers 85% of base acres and any assistance that comes from PLC is calculated and distributed more than a year and a half after I planted the crop.

As I noted earlier, we have a diverse cropping mix, and our planting decisions are based on a number of economic, agronomic, and marketing factors, but farm policy that sets support levels below costs of production is not a factor in those planting decisions. For these reasons, I do not believe that it is possible to plant simply for the purpose of receiving program payments under the current policy.

Price Protection is Key
The development of farm policy should be focused on providing producers with price protection, not just for price moves during the growing year, but for multiple years of price declines as we've seen since the current legislation was enacted. Those that say crop insurance is the centerpiece of farm policy or that believe crop insurance is the cornerstone of the safety net, certainly don't understand the nature of growing rice. Crop insurance can't, and it was not designed to, provide price protection across multiple years. Adequate price protection is the most critical component of the next farm bill and must be included in any policy option.

It is safe to say that the reason I am still in business today is because of the safety net provided by the 2014 Farm Bill and, specifically, Price Loss Coverage (PLC). When prices were as high as they were during the last farm bill's development, USA Rice advocated for a safety net to protect us during multi-year price declines (i.e., PLC) instead of shallow losses. We appreciate this Committee's recognition that the farm safety net is not one-size-fits-all and for including PLC, which, by and large, is working as intended.

The 2014 Farm Bill allowed growers to choose between PLC and the Agriculture Risk Coverage (ARC) within Title I. While a small number of rice farmers elected to use ARC, the vast majority enrolled in PLC. In total, 99 percent of long grain rice farms and 94 percent of medium grain rice farms selected PLC as their safety net of choice.

Rice is unique in that it has different market prices for Southern-grown long grain and medium grain rice types and California's Temperate Japonica-type rice. Since the current farm bill has been in place, a small number of insubstantial ARC payments have been made to rice farmers in select counties. PLC has been the primary safety net for rice farmers. Long grain rice prices settled below the reference price after the 2014 and 2015 crop years and growers received much needed assistance. Southern medium grain rice growers only received support through PLC for the 2015 crop year.

We acknowledge the political and budgetary considerations at play in writing the last farm bill, and the subsequent need to shift assistance timing for Commodity Title benefits until the crop year is fully completed. But the time delays are exaggerated for rice. If triggered, USDA issues PLC assistance to long and medium grain rice growers in the South in November based upon the previous crop year's Market Year Average price -- so the payment is made roughly 18 months after the crop had been planted. For Temperate Japonica rice growers in California, PLC assistance is issued even later -- in February -- based on the Market Year Average price for the crop that had been planted two years before.

There are multiple problems created at the farm level as a result of this delay. The bills for our input costs ahead of planting season do not wait until a year after the crop is harvested before coming due. When farmers go to the bank after harvest, it is nearly impossible to predict a year and a half in advance what kind of assistance they may qualify for – making it impossible to accurately predict cash flow. That has a big negative impact on the ability of farmers to access capital through financing.

Our first priority in the upcoming reauthorization of the farm bill is to increase the rice reference prices for PLC or any price triggered program to more closely reflect the significant increases in production costs for rice across all regions and take inflation into account as well.

We also request that this Committee look into mechanisms to accelerate at least a portion of the PLC assistance which growers are anticipated to receive. I believe that the assistance will be more effective if producers can start utilizing it sooner during the year. More importantly, bankers would be more apt to approve our annual operating loans if the PLC assistance is advanced or accelerated.

Program Eligibility and Payment Limitations

The 2014 Farm Bill made very substantial changes to the payment eligibility provisions, lowering the adjusted gross income (AGI) means test and, included a very significant tightening of "actively engaged" requirements for eligibility. In my opinion, USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated, restrictive, and punitive.

Following the publication of USDA's 2015 Actively Engaged in Farming regulation there was a lot of confusion and disruption throughout farm country. This regulation is burdensome and costly for the affected operations, which are primarily in the Mid-south. There are, unfortunately, no safeguards in the USDA's final rule that would protect entities from maintaining "family farm" status following the death or retirement of a lineal family member, such as a parent or grandparent. It was not the intent of Congress to force family farms out of eligibility as a result of family transitions. As a daughter, granddaughter, and mother, I can truly attest to the importance of estate planning activities to ensure the continued operation and viability of a family's farm. My son hopes to one day take over the family farm from and this rule makes that future less certain because of a few misguided or perhaps unintentional phrases in a federal regulation. This Committee should revise the statute to provide an exemption or safeguard to protect hardworking farm families against unforeseen linkage breaks in their operating structure. This Committee should revise the statute to provide an exemption or safeguard to protect hardworking farm families against unforeseen linkage breaks in their operating structure.

In addition, the regulations should not include a cap on active personal farm managers. Invoking an arbitrary limit of one to three farm managers completely ignores the diversity and unique needs of farming operations across different crops and regions. Southern family farming operations are often larger than three individuals, and are most affected by this limit. While a family operation can have as many farm managers as required to manage the complexity and scope of the operation, it is irrational to then limit the number of eligible farm managers in similar operations that involve non-lineal family members, friends, or neighbors. The diverse sizes and scopes of farming operations across the nation require different types of expertise and numbers of individuals to adequately manage such operations. A limit ignores economies of scale, the increasing need to achieve efficiencies in agricultural production, and the complexity of such operations.

USA Rice opposes additional eligibility requirements based on a producer's adjusted gross income (AGI). In fact, we firmly believe that this AGI test should not exist at all. Farmers need to build up reserves in good times in order to weather bad times. But, an AGI test that excludes farmers from farm bill assistance in a given year due to the AGI of the farmer in previous years turns this fact of life on its head.

Additionally, a \$125,000 payment limit seemed like a farfetched problem when the 2014 farm bill was written and prices were higher. Unfortunately, in current market conditions, many growers are at or close to the payment limits. If a farmer is limited at \$125,000 and their losses are \$200,000 across the operation, there is a serious problem with the effectiveness of the safety net. It seems counterintuitive to maintain policy that provides full assistance to producers when they experience some losses but only partial assistance to those that are hit the hardest and experience deep losses.

Finally, the fact that the previous Administration chose to impose sequestration after pay limits were applied has effectively changed the pay limit. Farmers have already been sequestered through our own budget reductions and more than a 50 percent decline in farm income over the last few years. We believe that the farm safety net should be exempt from sequestration. If not exempted we believe that any future sequestration rates should be applied before the pay limit is applied.

Crop Insurance Needs Improvement
Crop insurance has not been as valuable a risk management tool for rice as it has been for other crops and regions. Rice farms are 100 percent irrigated, and on average, our yields are very consistent. Our financial problems occur with higher production costs due to irrigation or as the result of a weather event in the fall that disrupts our harvest and affects the quality of our crops.

Revenue Protection policies work well when prices are high and were increasingly utilized by rice farmers through 2014, but have faced challenges and diminished sales in recent years. Revenue-based insurance uses averages from the Rough Rice Futures Contract in the fall to set the expected price used to calculate revenue. Unfortunately, because rice is a thinly traded commodity in the futures market, in 2015 there was not an adequate amount of activity for RMA to determine an expected price. Therefore, revenue policies were not available for that year and producers were forced to use Yield Protection coverage, which did not provide adequate protection.

Though rice yields do not tend to be as variable as other crops due to our irrigation practices, crop insurance rates remain high relative to other crops. For example, a 75 percent Revenue Protection policy for corn in Floyd County, Iowa on a slightly above average Actual Production History would cost the farmer \$9 per acre — that is \$1.70 out of pocket for every \$100 in coverage. The same policy on rice in Richland Parish, Louisiana would cost \$23 per acre — that is \$4.87 for \$100 in coverage. So in this example, the cost of rice insurance is nearly three times as high as the corn insurance – and this is reflective of the cost across the rice belt. With the price guarantee of $10.30 per hundredweight of rice this year, it is easy to see why standard Revenue Protection insurance is not as useful of a tool as we had hoped it would be for rice farmers.

The 2014 Farm Bill created a county-wide insurance-based policy called Supplemental Coverage Option (SCO) that we had hoped, coupled with PLC in the Commodity Title, would provide a complementary set of risk management tools for our growers. However, after the product was rated by USDA's Risk Management Agency (RMA), in most counties it was economically infeasible to purchase for most producers.

USA Rice spent several years working with consultants to develop an insurance product that would provide coverage for drastic changes in margins based on rising input costs. This product was finally approved in 2015. However, in the course of its development it was merged with a product designed to cover margins in other crops, and the resulting changes did not meet the needs of the rice industry. Participation in the Margin Protection insurance product has been very low, with the number of policies sold in the single digits last year. For all of our investment and efforts, the product is simply not functioning as an adequate risk management tool. However, this does not mean the concept is without merit. Because of our investments in the initial product structure and the need to cover our margins as input costs rise in the future, we would be very supportive of this Committee looking into ways to revise Margin Protection to be more affordable and to better fit the needs of rice farmers.

Finally, we have made attempts to improve crop insurance for rice farmers through the promotion of a downed rice policy that indemnifies producers for increased harvest costs associated with late-season storms that lay the rice down. This policy has been fairly successful in certain areas but problems with the overall range of the policy persist. As an industry, we plan to continue to work to improve crop insurance coverage and options for rice farmers and will continue to utilize basic coverage options to, at least partially, insure our crop in the event of catastrophic losses due to weather.

Farm Policy is Necessary for National Security

Our nation's strong farm safety net would not be what it is without all of the pillars that make up farm policy. Agriculture is not a partisan issue. We divide ourselves by region and sector but not by political beliefs. Fortunately, the Commodity Title and other titles make sure that each of our different sectors and regions has something that works. Without the certainty of this legislation, our already high-risk career would take on a new level of risk.

While some of the factors affecting the farm economy are within the control of the farmers themselves, most of them are not. Illegal and over-subsidizing of rice production by our foreign competitors, phony sanitary and phytosanitary barriers, lack of private financing options, etc. all play into the need and justifications for strong farm policy to protect our basic agricultural infrastructure.

The average U.S. farmer faces more and different risks than any other business we could point to. We are affected by global futures and cash markets, weather, pests and disease, and any number of other factors that could cause our crop to fail and our farms to go bankrupt. We are at the mercy of our bankers who have to be able to justify giving us our annual operating loans and determine if the lenders can absorb the unique risks associated with farming. The business of agriculture is high stakes. Most farmers borrow more money in one year than the average family borrows in an entire lifetime.

When threats are made to cut or eliminate funding and policy for the farm safety net, the very existence of the full-time family farmer is put in jeopardy. Without a strong and predictable safety net, only a small number of truly consolidated operations would survive. These would not be the competitive family enterprises we know today.

Please keep in mind that if it were up to us as farmers, we would prefer to prosper solely on the great prices our crops bring at the market. Unfortunately, commodity markets are not always kind, and agricultural markets are distorted by our foreign competitors. The simple fact is that right now our crops are not bringing enough at the market to pay our loans and buy our supplies for next year without the assistance provided by the farm bill.

I am here to ask for this Committee's consideration in not only maintaining our Commodity Title policies, but strengthening them by using our recommendations as you prepare to reauthorize the farm bill.

I want to again thank you, Chairman Roberts, Ranking Member Stabenow, and the Members of the committee for inviting me here today to provide insight on behalf of the U.S. rice industry.

TESTIMONY OF ROGER JOHNSON
PRESIDENT
NATIONAL FARMERS UNION

SUBMITTED TO THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY OF THE UNITED STATES SENATE

"Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill"
July 25, 2017
Room 106 Dirksen Senate Office Building
Washington, DC

Chairman Roberts, Ranking Member Stabenow, members of the committee,

Thank you for the invitation to testify today and the work this committee is doing to understand the challenges that face agriculture. My name is Roger Johnson, and I serve as president of the National Farmers Union (NFU). NFU represents roughly 200,000 family farmers, ranchers, and rural members. NFU works to improve the well-being and quality of life of family farmers, ranchers and rural communities by advocating for grassroots-driven policy adopted annually by our membership.

As the title of this hearing indicates, commodity programs, access to credit, and crop insurance, will be key components of the 2018 Farm Bill. This rings especially true as we continue to witness pressure in the countryside as commodity prices remain low and farmers and ranchers struggle to adjust. We are three years into this downturn, forecasts by the U.S. Department of Agriculture (USDA) point to a prolonged period of depressed prices. Given this scenario, NFU believes that the farm bill safety net should provide meaningful assistance in two fundamental circumstances: when disaster strikes and when prices are low and remain below the cost of production for extended periods of time. These two scenarios have separate solutions, the first is crop insurance and the second is commodity programs.

Our current environment has implications for producers accessing credit, negative farm budgets, depressed markets, viability of the safety net and increased demand for mediation services. In my testimony I will discuss all of these issues and also note some NFU priorities heading into this farm bill cycle.

Credit:

We face increased challenges nationwide associated with accessing credit. Farm Service Agency's (FSA) Farm Loan Program has seen significant increases in loan demand. On top of demand increase, we have also witnessed an uptick in challenges associated with loan servicing. The one year period from June 30, 2016 to June 30, 2017, FSA saw delinquencies rise in the direct loan program from 20,344 to 21,719 and from 1,392 to 1,562 among guaranteed loans. Direct delinquent loans more than 90 days past due rose from 7,492 to 8,060. Lastly, debts restructured in the same time period rose from 2,064 to 2,592.

During fiscal year (FY) 2016 FSA set a new record across its loan portfolio. Obligations of direct and guaranteed operating and farm ownership loan funds reached $6.3 billion. This was the highest volume in FSA's history.[1] As many of you know, FSA ran out of money last summer, after which reprogramming of funds was required in order to limp into the next fiscal year. Just the same, loan backlogs were reported.

Thankfully, the Appropriations Committees, led by the Senate, provided meaningful increases across the farm loan program to clear the backlog and meet increased demand in FY17. Unfortunately, the House Committee on Appropriations recently passed a bill, which cut roughly $800 million in loan authority from the FSA. While I appreciate the different jurisdictions of the respective committees that drive agriculture spending, I would be remiss if I did not highlight these proposed cuts in light of credit proposals intended for the next farm bill.

Legislation in both the Senate and House has proposed increasing current limits within various farm loan programs. Guaranteed loan limits would increase from $1.39 million to $2.5 or even $3.5 million. The direct loan limit would increase from $300,000 to $600,000. NFU appreciates the intent of the legislation as farmers have been faced with significant increases in operating and ownership expenses. We remain concerned that by increasing the limits, fewer overall loans will be made. We must see increases in overall loan appropriations in order to ensure increases to individual loan limits are appropriate. With spiking demand, I think the last thing we want to see are fewer, high-dollar loans being made.

[1] https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/funding/index

As you consider changes to the credit title, I urge members of this committee to focus loan limit increases within the direct loan programs, work to ensure higher overall lending authority for all aspects of FSA's Farm Loan program, invest mandatory money for state mediation grants, enhance the IT capabilities associated with the loan programs, maintain environmental requirements tied to loans, and ensure continued access for beginning farmers in these programs.

Commodities:

Grains and Oilseeds:

Farmers and ranchers are facing very serious financial challenges. July outlooks from USDA's Economic Research Service (ERS) provide little reason for optimism. Higher than expected yield forecasts for many crops have kept projected prices low or only modestly higher. ERS has projected corn prices down to $3.30 per bushel, sorghum down to $2.90 a bushel, soy up to an average of $8.90, all wheat up to $4.80, long-grain rice season average of $11.20-$12.20, medium-and short-grain rice average up to $12.40-$14.40 per cwt, and an upland cotton midpoint of $0.61 per pound.[2] NFU is hearing from its members that multiple years of low prices with only short-term price swings are presenting significant challenges.

While national averages tell a compelling story, I believe that it further aids this committee if a snapshot at the farm-level is captured. While I spend much of my time in Washington, I remain a farmer from Turtle Lake, ND. The North Dakota State University (NDSU) Extension Service produces annual projected crop budgets in an effort to assist producers with estimates of revenue and costs for selected crops. With a few exceptions, most notably soybeans, the projected 2017 crop budgets for North Central North Dakota paint a challenging picture. While these are averages and make a variety of assumptions, it nonetheless provides a window into the challenges that farmers face in north central North Dakota. By regionalizing the estimates we arrive at a more accurate estimate of profitability.[3]

I will use corn, spring wheat, soybeans and oats as examples. NDSU adds projected direct costs with indirect costs and compares them to projected market incomes. The resulting per acre profitability is shown below:

Crop	Projected Price	Market Income	Sum of Listed Cost	Profitability
Spring Wheat	$4.96	$233.12 Per Acre	$243.33 Per Acre	-$10.21 Per Acre
Corn	$3.30	$353.10 Per Acre	$356.68 Per Acre	-$3.58 Per Acre
Soy	$8.70	$278.40 Per Acre	$225.83 Per Acre	$52.57 Per Acre
Oats	$2.19	$159.87 Per Acre	$204.13 Per Acre	-$44.26 Per Acre

To further drive home the point of the struggles facing farmers, while the crop budget projects $3.30 a bushel corn, local cash price in Minot for delivery to CHS was $2.68 on July19, 2017. So while the crop budget shows a loss of $3.58 an acre, losses will likely be worse. This comes on top of similar losses for the last three years.

To combat periods of prolonged low prices our members believe that a strong safety net is required. Much discussion and debate has centered on programs that fit the budget. Using the budget as a starting and ending point for the nation's agriculture safety net is problematic from our perspective. Feeding the nation is a national security priority and should be treated as such. As recently as April 25, 2017, the President reaffirmed this belief.[4] We must maintain farm programs that help offset low prices until favorable prices return.

[2] https://www.ers.usda.gov/topics/farm-economy/commodity-outlook/ers-outlook-reports-and-data/
[3] https://www.ag.ndsu.edu/farmmanagement/crop-budget-archive
[4] https://www.whitehouse.gov/the-press-office/2017/04/25/presidential-executive-order-promoting-agriculture-and-rural-prosperity

NFU urges this committee to reform existing Title I programs to account for multiyear price declines and notable operational problems that surfaced in recent years. Under the Price Loss Coverage (PLC), NFU urges this committee to raise reference prices. Relative cost of production should be heavily weighed when exploring changes to PLC reference prices.

Many of our member who signed up for the Agricultural Risk Coverage (ARC) program experienced challenges with the program. This committee should work to reform the program to function better in the next farm bill. One challenge associated with ARC, which has received significant attention is the issue of the data cascade used to calculate yields and subsequently payments. NFU values the role that both the National Agriculture Statistics Service (NASS) and the Risk Management Agency (RMA) play. But for the purposes of the ARC program, we must ensure that local flexibility is provided to address unexplained variations between neighboring counties. Some of our members who participated in the ARC program were denied payments even as their neighbors in an adjacent county received them. In these cases agronomic and climatic conditions were very similar, but produced different payment outcomes. The next farm bill must address this and provide state FSA committees additional authority.

While we encourage alterations to the program, we would urge the committee to ensure that these changes don't distort the choices given to producers. As you are well aware many producers, enticed by the prospects of payments in the onset of the program, chose ARC, leaving themselves much less protected in the out years. Changes to ARC must not come at the cost of improvements to PLC.

Dairy:

NFU has also heard from dairy producers with serious concerns over the Dairy Margin Protection Program (DMPP). While this program was always intended to be a risk management tool in a sector that historically relied on direct payments, it has nonetheless fallen well short of expectations. Dairy farmers are experiencing an extended period of very low milk prices and MPP has been unable to provide meaningful relief. We have serious concerns that if this problem goes uncorrected more dairy farms will go out of business.

Low prices and volatility have dominated dairy economics over the last three years, forcing many producers to shutter dairy farms across the country. Milk prices reached $24 per hundredweight in 2014 but quickly eroded, falling to $16 per hundredweight in 2016. These prices are well below the cost of production. Meanwhile, cash receipts over the last three years demonstrate the volatility. In 2009, cash receipts were $24.3 billion, shooting up to $49.3 billion in 2014, and quickly falling to $34.2 billion in 2016.[5] Despite the unfavorable economic conditions faced by dairy producers, U.S. milk production increased for the seventh consecutive year and the dairy herd continues to expand.[6]

As dairy farmers face such headwinds, congress must develop a comprehensive dairy program to allow dairy producers across the nation to receive a profitable return on their investment. NFU believes that a multipronged approach should be considered. We support an incentives-based inventory management program that is farmer-led to balance production with consumer demand.

NFU has urged USDA to aid the Federal Crop Insurance Corporation (FCIC) board in determining that livestock and the products that livestock produce are two distinct and different types of commodities. This distinction would provide important opportunities for dairy producers who are currently subject to a cap on all livestock crop insurance policies of $20 million. Providing uncapped revenue insurance options to dairy farmers is an important first step. We urge members of this committee to express support to USDA for such steps.

[5] https://agriculture.house.gov/uploadedfiles/brown_testimony.pdf
[6] https://www.ers.usda.gov/data-products/dairy-data/

DMPP has provided very little relief to struggling dairy producers. In 2016, about two thirds of milk production, or 140 billion pounds of production history, enrolled in DMPP did not sign up for buy-up coverage. It is widely recognized that the program has failed dairy producers. There must be an acknowledgement, especially during the farm bill drafting process, that producers paid millions of dollars into the program and did not receive assistance during troubling economic conditions. As a second step, to crop insurance, DMPP must be reformed to create a more meaningful safety net. NFU urges this committee to explore no- or low-cost coverage for $8 margins less than 5 million pounds of milk production, the removal of the $100 administrative fee, and using monthly all milk averages for margin calculations.

Cotton:

The current economic situation for cotton is anemic and is threatening to cause long-term and potentially irreversible damage to the industry and the associated infrastructure. Losses in cotton areas translate into pressure on associated businesses, infrastructure and rural economies. The infrastructure for the U.S. cotton industry (gins, warehouses, marketing coops and merchants, and cottonseed crushers and merchandizers) will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of low prices such as currently exists today.

NFU believes that Stacked Income Protection Plan (STAX) is not sufficient to solve the current situation on its own. To start, STAX only covers roughly 26 percent of cotton acres.[7] NFU is supportive of classifying cottonseed as an "other oilseed" for the purposes of PLC. At the very least, cotton should be reclassified as a covered commodity in the next farm bill. We also hope that this committee can work with the USDA towards additional steps within existing authority to provide relief along the lines of the Ginning Cost Share program.

Crop Insurance:

The assistance that Title I programs are providing is complemented by the role of crop insurance, which provides an essential risk management tool to farmers. Unfortunately, when prices are low crop insurance is woefully inadequate. On average, farmers must incur losses of almost 30 percent before their insurance coverage starts to provide assistance. Farmers also spend approximately $4 billion per year out of pocket to purchase insurance from the private sector.[8] All that being said, crop insurance, year over year, has provided a meaningful, timely and flexible program that fits individual producer demands.

Federal crop insurance is based on fundamental market principles, which means high risk areas and high value crops pay higher premiums for insurance. This emphasis on crop insurance and risk management has replaced constant demand for ad hoc disaster assistance, and was paid for entirely by the taxpayer, while frequently not being delivered in a timely manner. This committee must protect the integrity of crop insurance for the benefit of farmers and ranchers.

While often thought of as a tool designed for major commodities, crop insurance is available for roughly 120 crops, to farmers of all types and sizes, and in all states.[9] NFU supports the continuation and improvement of the federal crop insurance. To this end, NFU would urge the committee to explore additional improvements to the Whole Farm Revenue Protection (WFRP) plan included as part of the 2014 Farm Bill, improvements at the intersection of conservation and risk management, and innovative applications of the federal crop insurance program that addresses food liability issues associated with direct sales to consumers.

[7] https://agriculture.house.gov/uploadedfiles/lee_testimony.pdf
[8] http://archive.constantcontact.com/fs158/1103508273436/archive/1124126672578.html
[9] https://www.rma.usda.gov/pubs/rme/quickfacts.pdf

Changes contained in the 2014 Farm Bill pertaining to the Noninsured Crop Disaster Assistance Program (NAP) provided additional buy-up coverage not previously available. In 2015, almost 23,000 NAP applications for individual crops included buy-up coverage. Also in 2015, the number of beginning and socially disadvantaged farmers that participated in the program doubled to 16,467. These developments were recently explored by USDA's ERS.[10] Both through this report and anecdotes from the field have pointed to a rather interesting development. Beginning farmers are using NAP as a springboard into WFRP plans. While both NAP and WFRP have a long way to go in the eyes of beginning farmers, it is an important introduction to risk management for beginning farmers without prior crop insurance experience.

Beginning farmers who utilize NAP to build 3 years of crop history for WFRP are able to receive 2 years of beginning farmer discounts in the new policy. NFU would ask this committee to explore whether 5 years of discounts are sufficient, particularly since other USDA beginning farmer provisions last 10 years. We also hear that the record burdens have created a barrier to use. We ask that this committee consider improving WFRP so that it is a more accessible policy. Lastly, the livestock cap that WFRP falls under represents a significant problem for our diversified members wishing to utilize WFRP. We ask that WFRP policies that contain livestock operations not be counted towards the livestock cap and consider reworking the $1 million livestock liability limit as well. Diversity on the farm leads to less risk, we should not be punishing farmers for seeking additional diversity.

NFU believes there are minor changes that can be made within the federal crop insurance program that incentivize, rather than punish producers. For example, NFU supports the replacement of cover crop rules tied to eligibility for crop insurance coverage with the established National Resources Conservation Service's (NRCS) Good Farming Practices process.

Lastly, we urge this committee to explore insurance opportunities related to liability of direct to consumer sales of farm goods. The explosive growth of this sector is well known and well understood. In 2016, there were 8,669 farmers markets listed in USDA's National Farmers Market Directory.[11] NFU supports a national food liability insurance program to assure that unprocessed or less processed whole foods, fresh fruits, cheese and dairy products, meats and fresh vegetables continue to remain competitive in the marketplace. NFU members believe that food liability culture places the farmer in an unfair position and should be addressed if we intend to have continued growth of minimally processed foods. Our members have voiced concern that private sector commercial liability protection does not fulfil their requirements.

Conclusion:

There are many challenges facing agricultural today. This committee has a challenging task ahead of it as it begins to grapple with these problems. The farm bill safety net needs to be protected. There must also be recognition on our part that these programs are not perfect and will need to be modified where necessary, for the benefit of family farmers. Our collective challenge is to continue working to provide help when and where needed – and to encourage the continued growth and success of our most vital industry – agriculture.

Thank you.

[10] https://www.ers.usda.gov/publications/pub-details/?pubid=83650
[11] https://www.ams.usda.gov/services/local-regional/farmers-markets-and-direct-consumer-marketing

INDEPENDENT COMMUNITY
BANKERS of AMERICA

Commodities, Credit, & Crop Insurance:

Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill

Brenda Kluesner

Independent Community Bankers of America

U.S. Senate Committee on Agriculture, Nutrition and Forestry

July 25, 2017

Washington, D.C.

Commodities, Credit, & Crop Insurance

Introduction

Mr. Chairman and members of the committee, thank you very much for the opportunity to testify today. My name is Brenda Kluesner and I serve as a loan officer with Royal Bank in Cassville, Wisconsin testifying today on behalf of the Independent Community Bankers of America (ICBA).

The focus on the farm bill titles being discussed today is of great interest to thousands of community banks serving rural America and the agricultural sector. The nation's community banks strongly support America's farmers and ranchers and our rural communities. We look forward to assisting you on the next farm bill to help ensure a strong and stable farm sector.

Royal Bank

Royal Bank is a locally owned and operated full-service community bank with a geographical footprint serving nineteen Central and Southwestern Wisconsin markets. Royal Bank provides extensive services to the agricultural community in order to help crop farmers and livestock and dairy operators thrive and grow. Royal Bank has $400 million in assets with over $90 million in agricultural loans. Approximately one-third of these loans have USDA FSA guarantees. Royal Bank provides quality financial products and services through a network of locally controlled offices, taking pride in prompt personal service and a financially successful organization.

The Role of Rural Community Banks

Community banks play an important role in the nation's economy. There are approximately 5,800 community banks in the U.S. Thousands of community banks are in small, rural, and even remote communities. Community banks under $10 billion in assets provide slightly over 75 percent of all agricultural credit from the banking sector. Community banks under $1 billion in assets extend approximately 56 percent of non-real estate loans from the banking sector to the farm sector and 62 percent of the real estate credit. Community banks also provide approximately 40 percent of all small business loans even though they hold only 10 percent of banking industry assets. Therefore, it is important Congress keep in mind the important role community banks play in agricultural finance and keeping our rural communities healthy and vibrant.

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Focus of Testimony

My testimony today presents five principles we believe should be incorporated into the next farm bill and discusses briefly the background of the current farm economic situation.
My testimony also stresses the importance of farm programs to the agricultural sector from a community bank perspective. The farm bill, crop insurance and USDA programs are all essential to keeping a healthy farm economy. A strong farm safety net and ample funding for guaranteed farm loans can help prevent or alleviate a potential farm credit crunch from developing if continued low commodity prices persist over the next couple of years.

Principles for the Next Farm Bill

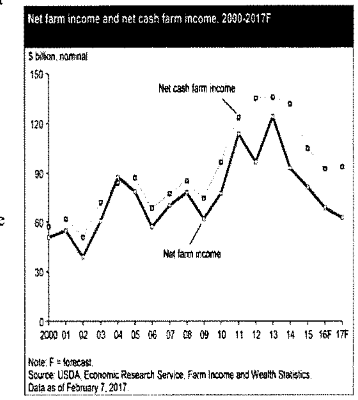
Regarding the topics being discussed today, we suggest five key principles be incorporated into the next farm bill as follows:

1) Congress should provide ample funds for commodity programs, crop insurance and USDA guaranteed loan programs to help producers weather a potential farm income or farm credit crisis;
2) Changes should be considered to any programs under the House or Senate Agriculture Committees' jurisdiction if the end result is to assist farmers and ranchers and the community banks that serve them;
3) Congress should direct federal agencies to reduce regulatory burdens impacting producers and no regulations should be proposed or adopted that are not based on specific statutory or legislative language or which could add unnecessary or inappropriate regulatory burdens to users of various programs;
4) Congress should require federal agencies to implement programs in a manner that treats all categories of participants or stakeholders in each program fairly;
5) Direct government loan programs should be designed in a manner that compliment – not undercut – the lending activities of private sector lenders.

Background on the Farm Economy

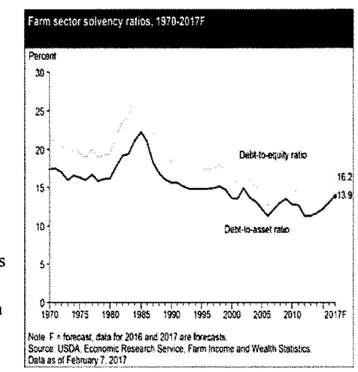
Some experts have said we are only one normal harvest away from dire conditions in the farm economy. Last year we may have dodged a bullet. In 2016 we had a convergence of two important factors that held further problems with farm finances at bay. We had very bountiful crops in many areas and significant farm program payments. One or both of these factors may not occur this year.

USDA's February farm income forecasts, relative to 2016 levels, projects farm sector profitability measures for 2017 to range from nearly flat to declining. Net cash farm income, one measure of profitability, is forecast at $93.5 billion, up 1.8 percent compared to the 2016 forecast. Net farm income, a broader measure of profitability because it includes noncash values such as inventory flows and economic depreciation, is forecast at $62.3 billion for 2017, down 8.7 percent compared to 2016.



USDA has also calculated that 10 percent of farmers are highly or extremely leveraged. Farm real estate debt in 2017 is expected to reach a historic high of $240.7 billion in nominal terms. An additional contributing factor to the increase in farm real estate debt is increasing use of real estate as collateral to secure nonreal estate borrowing. Farm nonreal estate debt is expected to continue to increase in 2017.

USDA notes debt is predicted to grow and the value of farm assets is anticipated to decline, leading to an increase in the farm sector debt-to-asset ratio and debt-to-equity ratios. Such trends reflect a modest increase in farm financial risk exposure from 2015. The 2017 debt/asset and debt/equity ratios, if realized, would be the highest since 2002. Liquidity ratios have weakened over the past several years and working capital has diminished. The 2017 debt service ratio, which measures the share of production available for debt payments, at 0.28 is at its highest since 2002. The times interest earned ratio, which measures the farm sector's ability to meet interest payments out of current net farm income, at 4.4 is at its lowest since 2002.



Importance of a New Farm Bill

Mr. Chairman and committee members, we encourage Congress to adopt a new multi-year farm bill by the time or shortly after the current farm bill expires next September. Past farm bills have experienced delays and extensions. The road to passage of farm bills is fraught with legislative land mines and passing them is never easy.

It is important to keep in mind that having a five or six year farm bill in place provides producers and lenders and other stakeholders a longer-term timeframe in which to engage in business planning decisions allowing them to make commitments for several years into the future. Short-term timeframes of a year or two are not conducive to making the full array of business decisions that are required by today's farming operations.

Many producers either do not cashflow or are on the precipice of not being able to cashflow. If commodity prices continue to remain at current depressed levels, the financial condition of many producers will deteriorate further. These are just a couple of reasons why a farm bill with strong commodity programs needs to be put in place upon expiration of the current bill.

Importance of Crop Insurance

Last year, 1.2 million crop insurance policies were sold, protecting over 130 crops on almost 300 million acres of farmland. Those crops carried an insured value of approximately $100 billion.

As the manager of Royal Bank's extensive crop insurance operations which protect 20,000 acres of Wisconsin farmland, I must underscore the importance of this vital program to ensuring the long-term viability of our producers and their ability to repay farm loans. There have been a number of proposals in recent years to cut or gut the premium subsidies to farmers, introduce means testing or reduce payments to crop insurance agents. Adopting these types of amendments would have unintended and negative consequences which could harm many producers and their lenders.

As manager of a large crop insurance portfolio in our bank, I'm very aware that cutting premiums to farmers, for example, will diminish their financial solvency, could threaten their ability to remain on the farm in the event of adverse weather and could undermine their ability to repay their loans. This is not the set of policies we should be considering when we are in the midst of the fourth straight year of declines to net farm income. These declines have cut net farm income in half from 2013 levels. We need to protect premium subsidies to farmers and the financial stability and infrastructure of the overall program while keeping in mind this is a complex program for agents to manage.

A specific change we recommend is to allow farmers to report their acres for crop insurance purposes to either their crop insurance agent or to the USDA Farm Service Agency instead of requiring producers to report to both. This is an example of a duplicative regulatory requirement that could be streamlined.

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How Farmers are Coping with Low Commodity Prices

In recent years, community banks have been able to serve farm borrowers with ample credit at near historically low interest rates. However, the decline in farm income has placed stress on the ability of farm borrowers to cash flow. Higher expected interest rates may add to this stress. ICBA conducted a survey of its Agriculture-Rural America Subcommittee of over 25 bankers from all farming regions of the U.S. Following are some of the findings:

Some community banks have as much as eighty percent or more of loans made solely to farmer or ranchers. In some rural communities the entire community is dependent on agriculture. In these communities all of the banks' lending is related to agriculture either directly or indirectly.

When asked about the level of financial stress within their portfolios, some bankers stated seventy-five to one hundred percent of their producers were feeling financial stress due to low farm prices. In some cases the percentage was much smaller and was dependent on which commodities were produced as some producers are diverse enough to still be profitable.

Other causes of financial stress included high rental rates, living expenses that are too high relative to farm income, too great of an investment in farm machinery, and factors such as weather. Healthcare can be a major living expense impacting producers.

When asked if producers could strengthen their financial situation by lowering their expenses, including family living expenses, some bankers indicated this may be possible, although many producers have already tightened their financial belts. Producers are having a hard time trying to reduce input costs such as fertilizer expenses or renegotiating rental rates due to the willingness of other farmers to pay the higher rental rates. Producers are trying to reduce expenses on seed, chemical and fuel costs through pre-payments or changing vendors. Even with these possible reductions, their ability to cash flow will be difficult. Some producers have already locked in expenses for several years into the future.

As producers have moved from expansion mode to survival mode there will be greater demand for debt restructuring such as through extending loan maturities. Many farmers with tight cash flows are using up working capital and are expected to borrow more in the future. Bankers also report an increase in credit demand from producers who are being told by the Farm Credit System (FCS) to look elsewhere for credit.

Due to financial stress and the projected farm financial deterioration over the next couple of years, some farmers have made the decision to exit farming. They have decided to exit due to the difficulty of being profitable in the current environment. Most farmers still have adequate to strong equity.

However, their working capital and cashflows are not sufficient to continue operating. While some producers have sufficient capital to withstand losses over the next couple of years, other producers will sell assets like land to remain viable.

In the worst position would be young, beginning and small farmers particularly if they have high debt levels or if they have little to no backing from their extended family or their parent's farm assets. These are the farmers that would be most at risk of having to exit production agriculture. However, if low farm prices continue over the next couple of years we are likely to witness a larger exodus of farmers from agriculture including larger farmers and ranchers.

We expect bank regulators will challenge banks who are trying to work with producers if they are projected to have negative cash flows for the next year or two despite having a strong equity position. This is where USDA guaranteed loan programs could have a tremendously positive impact as explained below.

Importance of USDA Guaranteed Loan Programs

Many banks are using the USDA guaranteed farm loan programs and Farmer Mac to help borrowers restructure debt to get their annual cash needs down. There was much less interest in these programs four years ago when Congress wrote the last farm bill. However, things have changed for the worse and these programs will have a much greater demand in the years ahead.

Provide Adequate Funding – One issue that seems to regularly occur is the farm loan programs can run out of funding. There needs to be enough flexibility in USDA programs to allow the transfer of funds within USDA between programs if they temporarily run out of funding and allow funding above the appropriated caps when needed. Any extra funds that may be needed could come from temporary or stopgap funding via the commodity credit corporation. The goal should be to prevent a backlog of approved loans that won't be funded until the next fiscal year.

Similar flexibility and backstop funding should be provided for USDA's Business and Industry (B&I) loan program. The B&I program has historically realized full utilization and the program's delinquency rates are at an all time low.

Especially in this economic environment, farmers may not have much time to get their loans funded after approval. This type of flexibility should be authorized in the farm bill. We should keep in mind, particularly for the guaranteed farm loan programs, that the farm ownership (real estate) program operates at no cost as costs are covered by the origination fee. The operating loan program has only a very minor cost yet helps lenders provide hundreds of millions of dollars to producers who would not otherwise obtain credit.

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For fiscal year 2017, the appropriation of $21 million allowed lenders to make $1.96 billion in guaranteed operating loans. FY2018 appropriations for USDA farm loans should at least match FY2017 levels.

Raise Loan Limits – It is important Congress raise lending limits for the USDA guaranteed farm operating and ownership programs from the current $1.4 million limit to $2.5 million or greater to reflect today's higher farmland costs. This could be especially important for young, beginning or small farmers who want to become established within their family's existing farm operation/structure. The family's farm may need to expand to accommodate the next generation of the farm family, such as a son or daughter, but they could be prevented from doing so at the current loan limit.

Additionally, many farmers are denied access to USDA guaranteed loans because their credit needs may exceed the loan limit. Raising the loan limit is not intended to impact all of the bank's farm customers. Rather, it is intended to help those farmers who may exceed the loan limit and allows community banks to keep pace with those occasional customers who have credit needs above the arbitrary USDA loan limit.

The guaranteed programs operate at minimal federal costs. Therefore, Congress could accommodate additional credit to farm borrowers with only a negligible cost to the federal government, ensuring the survival of thousands of family farmers. Bipartisan legislation has been introduced in Congress to address this issue and we recommend passage.

The direct loan programs are also a valuable financing tool for many farmers and ranchers, especially younger ones that are buying land. These programs assist the ability of farmers to cash flow and have attractive interest rates benefiting producers over the life of their operation. The programs can help young farmers in either getting started in farming or in transitioning a family farm to the next generation.

Whether direct loan limits are increased or not, these programs need to ensure direct financing from USDA complements bank financing to ensure direct loans, particularly larger ones, don't subtract from financing already being provided by banks. Also, since these programs have a 'credit-elsewhere' test, this requirement should be tight enough to ensure producers don't shop for credit denials, for example, from money center banks that are not making farm loans. In addition, many borrowers apparently do not pursue direct loans due to the amount of paperwork they have to fill out. Paperwork requirements should be reexamined.

Additional Recommendations for USDA Credit Programs

Bankers in our survey made a number of recommendations to improve USDA credit programs:

- Minimize origination fees as they can discourage use of USDA programs;
- Minimize paperwork requirements – a need cited by many bankers;
- Remove the USDA's recently imposed requirement that producers have an environmental assessment within the past 12 months prior to financing a smaller livestock facility or 24 months prior to financing a larger livestock facility;
- Provide lenders consistency when using USDA loans across state lines as the requirements often differ, making use of the programs more difficult in these instances;
- Increase USDA staffing levels which will quicken approval times for loans;
- To free up USDA staff and reduce wait times for farmers, crop insurance reporting should be done either through private crop insurance agents or USDA but not both;
- Allow banks to choose which USDA-FSA office to work with to help ensure a timely loan approval process and minimize any loan approval issues in certain counties;
- Better software integration to allow USDA information sharing with the private sector;
- Improve requirements for loss settlements in the case of borrower liquidation.

Comment on NEPA Restriction

USDA adopted a final regulation to implement and reconcile changes to the National Environmental Protection Act (NEPA). USDA's final rule included a provision not contained in the proposed regulation. At issue is USDA's requirement that prohibits any refinancing of debt within 12-24 months after any ground disturbance or construction. This prevents producers from accessing the guaranteed loan program and raises the costs of financing for producers and is unnecessary in many cases.

Farmer Mac Recommendations

We are aware Farmer Mac has three technical changes to their charter. One change deals with the eligibility of farms organized as family trusts; a second change deals with Farmer Mac's ability to purchase the guaranteed portion of USDA guaranteed loans not under the ConAct of 1972; and the third provision would remove an arbitrary loan limit for loans of less than 1,000 acres. Based on our understanding of these provisions, we believe community banks would be supportive of these changes.

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Preventing the Next Farm Credit Crisis

Bankers are reporting regulators are now very closely scrutinizing bankers' ag loan portfolios during examinations. Since stressful times in agriculture may persist for several years, it is important regulators not over-react and put unnecessary pressures on ag lenders. Ag lending is often cyclical in nature with good times followed by bad times and good farm lenders know how to weather the normal ups and downs of agricultural markets. Many of the best loans are made in difficult times.

For example, regulators typically require banks to keep a list of farmers who don't make **all** scheduled payments regardless of the amount of their equity. If regulators see the farmers' names a second time in a subsequent exam, they tend to classify the loan. If the volume of these loans reaches a high enough percentage of the bank's capital, the bank will be placed under an 'enforcement action.' However, if banks make these loans as USDA guaranteed loans, examiners will only classify 10 percent of the loan, reducing the amount of banks' classified loans by 90 percent if guaranteed by USDA. For example, on a $1 million loan, a ninety percent USDA guarantee would reduce the amount classified from $1 million to $100,000 – a ninety percent reduction in the amount that counts against the bank's capital.

Banks fear regulators may over-react to the downturn in prices and classify more loans. Having an expanded, robust and well-financed guaranteed loan program could remove pressures on banks to withhold financing from many producers and avoid a farm credit crunch.

Farm Credit System Abuses

There are multiple abuses of Farm Credit System's (FCS) lending authority which we believe Congress should also address going forward. While not the focus of today's busy hearing, we look forward to discussing those issues again with Congress in the near future.

Conclusion

Congress has the power to help avoid a farm credit crisis. Yes, we need a strong farm safety net for commodities and we need a strong crop insurance program – both vital to producers and lenders. We also need to enhance, streamline and adjust USDA guaranteed lending programs in the next farm bill to ensure they fulfill their potential to be a key component of the farm safety net and to help prevent the next farm credit crisis.

Thank you for holding this hearing. ICBA and our nation's nearly 6,000 community banks look forward to working with you in writing the next farm bill.

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Testimony of Nick McMichen

On Behalf of the National Cotton Council

before the

Committee on Agriculture, Nutrition, and Forestry

U.S. Senate

Washington, DC

July 25, 2017

Introduction

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, thank you for the opportunity to provide this testimony regarding the current farm bill and the policy needs of the U.S. cotton industry in the next farm bill.

My name is Nick McMichen and my family and I operate a fifth-generation diversified row crop and cattle farm in Centre, Alabama. Our crop mix consists of cotton, corn, peanuts, soybeans, and wheat. Our farm has been in production agriculture since 1842, settled via a land patent signed by President James K. Polk.

I serve as a producer delegate to the National Cotton Council (NCC) and Alabama state chairman to the American Cotton Producers. I also serve on the Southern Cotton Growers board, am an elected member of Alabama Cotton Commission, and a board member for the National Association of Wheat Growers, and Alabama Wheat and Feed Grains Committee.

In 2017, I was elected president of Area II-Alabama Association of Conservation Districts, and also serve on the Coosa Valley RC&D Council Board and chairman of Cherokee County Soil and Water Conservation District.

I am a partner in McMichen Farm and Cherokee Gin and Cotton Company.

The NCC is the central organization of the United States cotton industry. Its members include producers, ginners, merchants, cooperatives, warehouses, textile manufacturers and cottonseed processors and merchandisers. Farms and businesses directly involved in the production, distribution, and processing of cotton employ more than 125,000 workers and produce direct business revenue of more than $21 billion. Annual cotton production is valued at more than $5.5 billion at the farm gate. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 280,000 workers with economic activity of almost $100 billion.

In addition to 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.

Current Industry Conditions

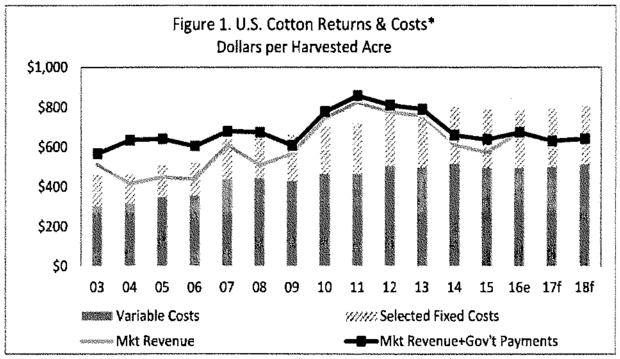
As you know, the current economic situation for much of production agriculture is bleak, including for U.S. cotton farmers. The passage of the 2014 Farm Bill coincided with significant changes in the global cotton market. Shortly after the bill was approved, cotton prices began a significant decline, the result of a build-up of global cotton stocks, especially in China, decreased demand, and reduced exports. In 2015, this led to the lowest U.S. cotton acreage in more than 30 years. While cotton prices and acreage have increased from the lows experienced in 2015, producers are still struggling with prices at levels not adequate to cover all production costs. According to USDA data, in 2016, 19 percent of cotton farms are considered either highly or extremely highly leveraged.

To understand the challenges facing cotton farmers, it is important to review the dynamics at work in global cotton demand. USDA estimates world mill use at 113.8 million bales for the current 2016 marketing year. However, even with very modest growth, world cotton demand remains more than 10 million bales below the peak demand observed in 2006. Slumping demand is largely the result of the tremendous increase in polyester use. During the past decade when cotton mill use fell by 10 million bales, polyester's production capacity, primarily located in China, increased by 157 million bales. Excess production capacity, in many cases fueled by government support, is contributing to polyester prices in Asian markets of approximately 50 cents per pound. While consumers continue to express their preference for cotton products, the tremendous increase in low-priced polyester production has created extraordinary hurdles for increasing cotton demand.

I highlight these issues because of the critical influence of international markets and manmade fiber on the financial conditions of U.S. cotton farmers. Policies that directly affect international production, consumption and trade have a direct bearing on U.S. market prices.

2017 cotton acres increased to 12.1 million acres, a 20% increase from 2016 and a continued recovery from the 30-year low experienced in 2015. Above-average cotton yields in some states, improved water availability and moisture conditions, and the relative economic return of cotton compared to other major row crops (i.e. corn, soybeans, wheat) are encouraging more acres in some areas.

While cotton returns have improved relative to other crops, USDA data indicate that on average, cotton market returns are generally sufficient to cover variable (or operating) costs but fall well short of total costs. Since 2014, market returns from cotton and cottonseed have fallen short of the total costs of production (variable and fixed, not including return to management and family living expenses). When accounting for the minimal Federal farm policy support provided to cotton during this period, the last three harvests have seen total costs significantly exceed total returns. These sustained losses in the current period are unlike any in recent history for U.S. cotton.



While input costs have largely leveled off in recent years, there has been little to no decline in these production expenses. Furthermore, projections by the Food and Agricultural Policy Research Institute for 2017 and 2018 call for lower cotton market revenue relative to the 2016 crop.

For the 2014-16 crops, total market revenue and governments payments for cotton averaged just 83% of the total costs depicted in Figure 1. For 2017 and 2018, the ratio of revenue + government payments to total costs falls to 80% based on FAPRI projections.

While most commodity prices have weakened over the life of the current legislation, cotton still finds itself at a disadvantage relative to the major crops covered by the Title I safety net. A weighted average of market returns + government payments for corn, soybeans, wheat, rice and peanuts stood at 99% of total costs for the years 2014-16. Under the FAPRI projections, the ratio for those crops is 98%.

Cotton Policy and the Farm Bill

The lack of eligibility for the same price and revenue policies as other crops remains a major concern for cotton. As you know, these Title I commodity policies in the farm bill are designed to help producers withstand prolonged periods of price declines and depressed market conditions. While the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) policies have generally performed well for producers, like myself, of other crops, I remain vulnerable to further instability in cotton markets.

Under the current farm bill, cotton producers can purchase the Stacked Income Protection Plan (STAX) crop insurance policy. In addition, the marketing loan program was modified so that the loan rate can adjust lower based on average market prices of the prior two years. Cotton is the only program crop that does not have any long-term price or revenue protection policy in the 2014 Farm Bill.

Cotton policy in the 2014 Farm Bill was enacted largely in response to a World Trade Organization (WTO) trade challenge brought by Brazil against certain components of U.S. farm policy and select cotton-specific policies. To avoid further political controversy and trade retaliation, Congress provided STAX as the core safety net for cotton. Unfortunately, given the changes in market conditions, STAX has proved inadequate for U.S. cotton producers.

The cotton industry is currently requesting that the Administration provide a bridge of economic relief for our industry until a new farm bill can be enacted. The previous Administration operated the Cotton Ginning Cost Share Program for the 2015 crop, which quite literally helped many cotton farmers stay in business. Over 1,600 agribusinesses and lenders recently wrote President Trump requesting that this program be renewed. Their call was joined by bipartisan letters that included 26 Senators and 109 Members of the House asking that the cost share program be available starting with the 2016 crop year. Several Members of the Committee cosigned that letter and our industry is extremely grateful, especially to Senator Boozman for leading the initiative.

In addition, another short-term initiative that can help bridge the industry's need for support until the next farm bill is the designation of cottonseed as a covered commodity eligible for the ARC/PLC programs. The Senate Appropriations Committee recently approved the FY 2018 Agriculture Appropriations measure that includes a provision to make cottonseed eligible for ARC/PLC beginning with the 2018 crop year. The House Appropriations Committee included report language supporting this type of policy as part of their Agriculture Appropriations bill. We are very appreciative to Chairman Cochran and others on the Appropriations Committee for their commitment to this issue and are hopeful this policy can be included in a final FY 2018 agriculture funding bill later this year. While we are counting on the Cotton Ginning Cost Share program from the Administration and the cottonseed policy so that many farmers can maintain their family farms in the interim, our industry also is looking ahead to what a viable safety net will be for cotton farmers in the next farm bill.

The NCC has begun internal discussions on the policy objectives for cotton in the next farm bill. We know that a meaningful safety net for cotton must be included in Title I of the farm bill. Better protection in times of depressed markets can take on several forms, and our industry will continue to pursue the best avenue to provide growers with adequate protection that is consistent with both our international obligations and the needs of our industry. A survey of our producer members clearly indicated that a viable, long-term Title I safety net should not rely solely on cottonseed but rather take into consideration the full value of the cotton crop.

Our industry is continuing our policy development work with the goal of providing the Agriculture Committees with detailed policy recommendations by early fall.

As the cotton industry can attest to first hand, an effective safety net for producers must consist of two key components: 1) an effective commodity policy that provides either price or revenue protection to address prolonged periods of low prices and depressed market conditions that span multiple years; and 2) 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.

Marketing Loan Program

There are several other important provisions of the farm bill that are priorities for our industry. Our industry relies heavily on a properly functioning marketing loan program that helps ensure orderly marketing and flow of cotton to the market. Maintaining the marketing loan policy, with some minor adjustments, is a priority.

Crop Insurance

A strong crop insurance program is also critical since in agriculture, one thing for certain is crop losses will occur in some part of the U.S. each year. Annual losses incurred by farmers clearly demonstrate the need for crop insurance protection and the public-private partnership of program delivery. Farmers, their lenders, input suppliers and other stakeholders agree that crop insurance protection should remain a viable, affordable tool for managing risk.

Notwithstanding the relatively low participation in the STAX policy due to the weaker market prices for cotton, crop insurance as a whole, and underlying individual policies specifically, remain a critical component of the overall safety net for cotton producers. In 2016, 96% of cotton acres were covered by either multi-peril "buy-up" insurance or catastrophic coverage. 88% of these acres were covered by multi-peril insurance. The STAX policy was purchased on more than 2.5 million acres covering 26% of total insured acres. Participation in STAX has not been as extensive as initially projected, largely because of extremely low prices, which render the revenue assurance of STAX less beneficial relative to the costs of production.

For this reason, it is imperative that cotton producers have access to the same complement of risk management policies and tools as other producers, including commodity policies in Title I, along with crop insurance.

Federal crop insurance provides an effective risk management tool to farmers and ranchers of all sizes when they are facing losses beyond their control, reduces taxpayer risk exposure, makes hedging possible to help mitigate market volatility, and provides lenders with greater certainty that loans made to producers will be repaid. The public-private partnership of program delivery works very well, allowing for timely and outstanding service to producers when they need it the most and providing much-needed jobs across rural America.

While the overall crop insurance program is working well and should be defended, there are a few areas that can be improved. The NCC is currently working with the Risk Management Agency (RMA) to improve quality loss provisions that have proved inadequate for many producers in the Southeast region who suffered through extensive rains during the 2015 and 2016 harvest seasons. RMA has been a good partner in identifying and pursuing improvements to this feature of the crop insurance product. It is our understanding that an improved quality loss provision will be available for cotton crop insurance policies for the 2018 crop. Particularly important in the Southwest region is the ability to insure Enterprise Units by practice, which is permitted in the 2014 Farm Bill. In our view, RMA has not implemented this provision in the manner intended by Congress and should be reconsidered by USDA and, if necessary, further clarified in the next farm bill.

Payment Limits and Program Eligibility

Our industry is opposed to any further tightening of payment limits and eligibility requirements, as we believe these policies are already too burdensome and restrictive considering the size and scale of production agriculture necessary to be competitive and viable in today's global market. In addition, we believe the current definition of 'family member' that is used for actively engaged provisions in the farm bill should be broadened to ensure extended family members are not forced out of the family farm simply because they do not fit within the current, unnecessarily restrictive definition for 'family member'. We hope to work with the committee to address this problematic provision in the next farm bill.

Extra Long Staple Cotton Policies

There are important policy considerations for Extra Long Staple (ELS) or Pima cotton as well. The industry is evaluating the potential for an increase in the loan rate for the ELS loan program in order to better reflect the relative market value of Pima cotton. Since this is a non-recourse loan without marketing loan provisions, there should be little, if any, additional government cost or exposure. Also, the ELS Cotton Competitiveness Program is not currently functioning as intended given the recent shift in the countries that are major producers, importers and exporters of ELS cotton. For the intended objectives of this program to be met, USDA needs to take steps to update the key price data being used. If USDA continues to resist this administrative adjustment, then modifications in the next farm bill could be necessary.

Conservation Policies

Conservation programs continue to be extremely popular across the Cotton Belt. Specifically, the Environmental Quality Incentives Program and the Conservation Stewardship Program are both heavily accessed. I commend the Committee for streamlining conservation programs in the 2014 Farm Bill. This made them easier for the Natural Resources Conservation Service (NRCS) to administer, but more importantly easier for producers like myself to utilize. These programs have become integral parts of many producer's operations and achieve the goal of improving and protecting the environment while also improving our farming operations.

One area that can be improved is exempting NRCS from requiring producers participating in USDA cost share programs to obtain and keep up to date a System for Award Management (SAM) number and a Duns and Bradstreet (D-U-N-S) number. The SAM number is burdensome because of the yearly renewal requirement. The D-U-N-S number can also be complicated if the number is arbitrarily changed without the producer's knowledge. Many producers, including some in my area, have had payments extensively delayed after they had completed the project because of this paperwork requirement. In addition, many producers may not realize that while obtaining these numbers is a burdensome, time consuming process, they can obtain these numbers for free, yet inadvertently agree to pay companies who contact them directly hundreds of dollars to obtain the numbers. The SAM system and D-U-N-S requirement were never intended for conservation contracts, and it is our hope that this oversight can be corrected in the next farm bill.

Textiles and Economic Adjustment Assistance Program

After a decade of experiencing a precipitous decline in the amount of cotton used by U.S. textile mills, U.S. mill consumption has stabilized since 2008 due to ongoing assistance provided in the farm bill.

The recent years of stability and expected future growth can be attributed to the continued benefits of the Economic Adjustment Assistance Program (EAAP), first authorized in the 2008 Farm Bill. Recipients must agree to invest the proceeds in equipment and manufacturing plants, including construction of new facilities as well as modernization and expansion of existing facilities. EAAP funds have allowed investments in new equipment and new technology, thus allowing companies to reduce costs, increase efficiency and become more competitive. By allowing U.S. textile mills to make the new investments necessary to remain competitive, the program supports a manufacturing base that supports jobs in the United States. We strongly support continuation of the program in the new farm law.

Exports and Trade Promotion Programs

The U.S. cotton industry is heavily reliant on exports and open markets for U.S. cotton and cotton textile products. U.S. cotton producers, and the other six segments of the industry, operate in highly integrated and competitive global fiber and textile/apparel markets. On average, 75% of U.S. cotton production is exported as raw cotton fiber, and another 20-25% is exported as textile products (yarn, thread, fabric), so nearly 100% of U.S. production is ultimately exported in some form. The U.S. cotton industry is extremely dependent on open trade relationships with key markets. Likewise, factors in the global fiber market heavily influence the economic situation of the U.S. cotton industry.

Currently, markets are closely watching China's management of cotton stockpiles (~48 million bales) and issuance of import quotas. India's increased production and potential growing presence in the export market could weigh on markets as this year's harvest approaches. As discussed earlier, cotton continues to face growing competition from heavily-subsidized, foreign-produced manmade fiber.

Given the tremendous reliance by our industry on exports of raw cotton fiber and yarn, it is essential that the U.S. agriculture industry have a strong, well-funded public-private partnership to help leverage private resources to expand export markets and grow demand for U.S. agriculture products. A central part of this effort is USDA's Market Access Program (MAP) and Foreign Market Development (FMD) program. Even though the U.S. continues to be heavily outspent by other major agricultural producing and exporting countries, MAP and FMD investments have been flat for more than a decade. MAP and FMD have resulted in a $2.1 billion increase per year in cash farm income since 2002. Agricultural exports in 2014 accounted for $340 billion in economic output and supported 1.1 million jobs. For this reason, we believe it is justified for the new farm bill to invest additional funds in these programs.

The value of U.S. cotton fiber exports exceeds $5 billion annually, along with an additional $3 billion in exports of value-added cotton textile products. Independent studies found that for each dollar spent by organizations like Cotton Council International that partner with USDA to expand and promote exports, there is a $35 return on investment. In direct monetary and in-kind investments, the U.S. cotton industry invests over $2 for every $1 of MAP funds utilized for export promotion activities. These programs work and in response, our industry's stakeholders are investing in their businesses and creating jobs.

Credit Challenges

The availability of credit is paramount for all of agriculture, and particularly so for producers. The recent period of prolonged, depressed cotton prices has placed an extraordinary strain on the ability of many cotton producers to obtain credit. Highlighting this concern across the Cotton Belt is a recent letter signed by 1,605 agricultural lenders, lending associations, agribusinesses, and other rural businesses requesting short-term economic assistance for cotton producers through the Cotton Ginning Cost Share program. In addition, maintaining adequate funding for USDA to operate the direct and guaranteed operating and farm ownership loan programs is of critical importance to our industry.

Regulatory Burdens

The U.S. cotton industry continues to be burdened by various regulatory issues that need to be addressed to help reduce unnecessary costs. For example, in September 2015, the Food and Drug Administration (FDA) issued the *Food Safety Modernization Act Preventive Controls for Animal Food Rule*, in which the preamble excluded all cotton gins from the Current Good Manufacturing Practices (CGMP) requirement. Yet the rule creates a distinction between gins that are **not** considered farmer-owned under the rule and those that are considered farmer-owned. The non-farmer-owned gins, according to FDA definition, would be subject to the rule's hazard analysis and preventative controls requirements. Because of the type of processing that all gins do, the ownership structure of a cotton gin should have no bearing on whether gins are included under any section of this rule. Cotton gins do not convert any raw agricultural commodity into a processed food and do not perform any activity that would not fit within either the harvesting activity classification or the holding activity classification in the regulation. Cotton gins simply separate the seed cotton (a perishable raw agricultural commodity) into three products – seed; fiber; and leaves, sticks and stems. Our industry is asking FDA to modify this rulemaking and issue guidance that clarifies that all cotton gins, regardless of ownership structure or type, are exempt from these requirements. There is no scientific or risk-based rationale for treating certain gins differently solely based on ownership type.

Regarding the problematic Waters of the U.S. (WOTUS) regulation issued by the previous Administration, we are encouraged that the current Administration is acting to rescind the WOTUS rule. While the rescission of the rule has not yet been published in the Federal Register, we are hopeful that it will be soon and look forward to working with the Environmental Protection Agency (EPA) and the Army Corp of Engineers on a common-sense, agriculture-friendly replacement that includes input from key stakeholders, including those in the agriculture and regulated community.

The Endangered Species Act (ESA) is another area of over-regulation that affects farming. The EPA has worked for multiple years with the Fish and Wildlife Service (FWS) in an attempt to meet the legal ESA obligations of both EPA and FWS. However, the required consultation process is not working and continues to serve as a platform for legal action by activist groups. An approach has been developed to help streamline the consultation process, but it has not been fully implemented, so the current process continues to delay pesticide registrations and provide for continual legal action against federal agencies.

Pesticide registrations and re-registrations, even without ESA concerns, are becoming more problematic. The process is controlled by the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) but in recent years, litigation has been reshaping the process to provide less emphasis on FIFRA. In addition, EPA has come to rely on models that don't reflect real-world data and instead rely on theoretical modeling data, even when real world data is available. The agency has ignored the benefits of products to concentrate only on risks; relied on biased studies to show risks to pollinators; and developed new risk exposure models that assume exposure is absolute.

Congress can take action, working with the current Administration, to fix this broken ESA consultation process and create a path that allows for a timely, science-based, and comprehensive review of the risks and benefits of crop protection products.

Federal Check-off Programs

The U.S. cotton industry, like many other commodities, has a national commodity research and promotion program (check-off program) to allow the industry's stakeholders to combine resources for the benefit of the industry. The Cotton Research and Promotion Act of 1966 was the first legislation of its kind. It enabled producers of upland cotton and importers of cotton textile products, after passing a referendum, to unite to begin addressing competing fibers and re-establishing markets for cotton. Today, every bale of upland cotton produced and the cotton content of imported cotton products is assessed and those dollars fund a very successful research and promotion program. A recent third-party economic assessment of this program indicated returns to producers and the government of over $7.00 for every one dollar contributed over the life of the program. The return on investment is even higher for importers.

The Cotton Board's members are appointed by the Secretary of Agriculture to administer and oversee the operation of the program on behalf of all stakeholders. The program itself has significant built-in safeguards to protect this investment. In addition, USDA oversees almost every aspect of the program's operation. These are carefully managed, productive programs that generate positive return for U.S. cotton producers and importers of cotton products at no cost to taxpayers. These types of check-off programs should continue and should not be hamstrung by unnecessary legislative or regulatory provisions that do not contribute meaningfully to transparency but would weaken their effectiveness.

Conclusion

In closing, for the past three years, U.S. cotton producers have struggled with low cotton prices, high production costs and the resulting financial hardships. While cotton futures market prices initially increased for a brief period earlier this year relative to year-ago levels, prices have now retreated to the mid to upper-60 cent range, meaning many cotton producers continue to face economic and credit availability challenges. Therefore, it is imperative that the next farm bill bring cotton back into the Title I commodity policy so that cotton can access the same full complement of risk management tools as other crops.

The NCC looks forward to working with the Committee and all commodity and farm organizations to develop and pass a new farm bill that effectively addresses the needs of all commodities and all producers in all regions of the country.

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

FARM CREDIT®

Testimony of
Mandy Minick, Washington State President,
Northwest Farm Credit Services
on behalf of the Farm Credit System
before the U.S. Senate Committee on Agriculture, Nutrition and Forestry
July 25, 2017

Mr. Chairman, Ranking Member Stabenow, and members of the committee, thank you for allowing me to testify today on behalf of the Farm Credit System. My name is Mandy Minick. I am the Washington state president of Northwest Farm Credit Services, which is headquartered in Spokane, Washington.

Northwest Farm Credit is a financial cooperative providing financing, crop insurance and related services to farmers, ranchers, agribusinesses, commercial fishermen, timber producers, and rural homeowners in Montana, Idaho, Oregon, Washington and Alaska. We serve our customers through 45 branch offices located throughout the Northwest.

I will briefly describe Farm Credit and then focus on the coming Farm Bill.

In particular, I'll talk about the importance of a robust farm safety net, the immediate need to expand our export markets, and the challenges many farmers have in securing an adequate workforce. I also will discuss specific credit title topics including the need to modernize Farm Service Agency (FSA) loan limits and the challenges rural communities face as they look to rebuild their infrastructure.

Northwest FCS is part of the nationwide Farm Credit System. Farm Credit's mission is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

Farm Credit is a nationwide network of 74 borrower-owned lending institutions that share a critical mission assigned to them by Congress a century ago. These independent, institutions include four wholesale banks and 70 retail lending associations, all of which are cooperatively owned by their customers: farmers, ranchers, cooperatives, agribusinesses, rural utilities and others in rural America.

Our mission is to ensure that rural communities and agriculture have a reliable, consistent source of financing irrespective of cycles in the economy or vagaries of the financial markets. Hundreds of thousands of farmers around the country developed a farm operating plan this year knowing that Farm Credit has the financial strength to finance that plan and the strong desire and ability to help them succeed.

Farm Credit's unique cooperative structure means that the customer-owners who sit on our boards of directors are living, working, and raising their families in rural communities. They are deeply invested in the success of those communities and are interested in finding more ways for Farm Credit to contribute to that success.

Farm Credit reverses the normal flow of capital, raising money in urban financial centers and bringing it to rural communities.

There is no federal funding provided to Farm Credit. Instead, the four Farm Credit System banks own the Federal Farm Credit Banks Funding Corporation, which markets debt securities to the investing public that fund the lending operations of all Farm Credit institutions. Diversification of lending portfolios is a source of Farm Credit's financial strength. Through diversification of our lending – by geography, industry and loan size – Farm Credit manages risk and insulates itself against the cyclical nature of the industries we serve.

We believe we can play a more significant role in rural development, revitalizing rural infrastructure, strengthening the rural economy and creating good jobs for rural families. We are prepared to continue working with the committee and our partners in the community banking sector to find ways that all of us can contribute more to the vitality and success of our rural communities.

Farm Credit also makes extraordinary efforts to support young, beginning and small (YBS) farmers and ranchers. Each year, the Farm Credit Administration (FCA), our independent federal regulator, compiles data on Farm Credit YBS lending and reports it to Congress. Based on reports from the Federal Farm Credit Banks Funding Corporation and the Farm Credit Administration:

- Farm Credit made more than 64,000 loans to young producers (under age 36) in 2016 for a total of $9.3 billion. Those are new loans originated in 2016. When Farm Credit first began reporting this specific information in 2001, new loan levels that year were at 33,000 loans to young producers for $3.1 billion.

- Farm Credit made more than 81,000 loans to beginning producers (10 years or less experience) for $12.7 billion in 2016. This is double the number and triple the dollar amount of beginning farmer loans in 2001 when Farm Credit made 37,000 loans for $4.2 billion to beginning farmers.

- Farm Credit institutions made more than 155,000 loans to small producers (less than $250,000 in annual sales) for $12.2 billion in 2016, a substantial increase from the 114,000 loans for $7.6 billion made in 2001.

To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2016 Farm Credit had more than one million loans of all kinds outstanding, and slightly more than 500,000 of those loans outstanding were to small farmers and ranchers.

Note: The numbers above cannot be combined. A single loan to a 25-year-old rancher in her third year of ranching with annual sales of $100,000 could be counted in the young, beginning, and small categories. We report this way for two reasons: our regulator requires it and, more importantly, it is the most accurate portrayal of who we serve.

Farm Credit institutions have a deep commitment to YBS farmers beyond providing loans. In many cases, we offer incentives, education, mentoring, family business planning facilitation and other support to these producers. Farm Credit organizations nationwide provide training and host seminars on topics such as intergenerational transfer of family farms, risk management practices and developing effective business plans.

We engage across the spectrum with those entering agriculture, whether they are focused on conventional, organic, sustainable, indoor, farm-to-market operations, or other emerging business models.

As I mentioned earlier, Farm Credit is a customer-owned cooperative. Significant amounts of our operating expenses go toward better serving our customers through new technology, helping them grow their businesses through educational programs and supporting our communities through charitable giving. The net income we generate can be used in only two ways: retained within a Farm Credit institution as capital to build financial strength that ensures continued lending, OR paid to customer-owners by way of cooperative dividends, which effectively lowers the cost of borrowing for our customers. In 2016, Northwest FCS returned $99.4 million or 40 percent of our earnings to our customers, which helped their finances and provided a tremendous boost to local economies. We retained the other 60 percent to strengthen our association to ensure we can continue meeting the growing needs of farm families in our five-state service territory and help them through the inevitable cycles of agriculture

Farm Credit's mission is as vital today as it has ever been. We support rural communities and agriculture with reliable, consistent credit and financial services. We provide farmers, ranchers and agribusinesses with the capital needed to make their businesses grow and succeed.

Farm Credit's mission extends well beyond the farm gate. Our mission includes financing for farmer-owned cooperatives and other agribusinesses that farmers depend on to succeed. Farm Credit has financed more than $5 billion in exports of U.S. agricultural products. We also make more than $7 billion in loans for families to buy homes in very rural areas. Because a steady flow of credit means more jobs and economic growth, Farm Credit helps ensure the vibrancy of communities throughout rural America.

Strong, reliable and resilient rural infrastructure is critical to the success of rural communities and a key component of Farm Credit's mission. Farm Credit finances more than $27 billion in rural infrastructure, including rural electric cooperatives, water systems, telecommunications and broadband providers. These loans improve the quality of life in our rural communities, providing clean drinking water, broadband for our schools and reliable energy for rural families and businesses.

As you all are well aware, commodity prices have fallen while the cost of production has remained high. Forecasters see little chance of a quick commodity price rebound, barring unexpected changes in commodity demand, supply or both.

Fortunately, the industry balance sheet was mostly strong entering this cycle after several years of favorable profits in agriculture. While we have seen debt-to-asset ratios increase slightly in the past three years, they remain nearly even with the 30-year average and far below the levels seen in the mid-1980s. However, the trend causes concern.

Depending on geography and land type, the impact of the downturn on farmland values has been mixed. As farmland values rose sharply in the past decade, particularly in areas that produce cash grains, farmers and lenders both became increasingly conservative in leveraging real estate assets. Farmers bought increasingly high-cost ground but largely used cash generated from higher commodity prices and borrowed less on a percentage basis. For the most part, Farm Credit lenders and commercial banks were unwilling to loan much more than 50 to 60 percent of farmland values in areas where prices had jumped most aggressively. Some even limited the dollar amount loaned per acre.

Crop input prices, including cash rent, have not fallen in step with commodity price declines, squeezing profitability at the individual farm level. While we anticipate adjustments in some expenses will come, it remains difficult to accurately predict timing. Perhaps the best news for farmers is that interest rates remain historically low, another key difference compared to the downturn in the 1980s. While forecasters predict slightly rising rates over the coming months, those small increases start from an extremely low level. Debt costs are expected to remain low by historical standards.

Similar to the producers we serve, Farm Credit built financial strength in anticipation of this challenging economic cycle. We have been fulfilling our mission for more than 100 years and have deep experience in the inevitable cycles of agriculture. Like most, we could not predict with accuracy when this cycle would begin or end. But experience told us it was coming, and our institutions prepared for it. We built capital. We loaned conservatively. Today, Farm Credit is financially the strongest it has ever been and is prepared to use that strength to support our customer-owners and continue fulfilling our mission.

We continue to see modest loan growth in both our agricultural and rural infrastructure loan portfolios. The credit quality of our loan portfolio remains high as our members continue to meet their obligations. Credit quality in Farm Credit loan portfolios hit all-time highs during the years of high commodity prices and has returned to the historical averages. While we anticipate some deterioration in our loan quality as this cycle continues, we remain committed to working with our customers.

Our philosophy on credit today is this: we know our customers well, understand and respond to their needs and work cooperatively with them to analyze and structure our transactions to provide them with the best chance to succeed.

We have been working for years to help our customer-owners plan for the current environment. Many Farm Credit institutions have allocated additional resources to work with producers impacted by lower commodity prices. We are proactively reaching out and helping our customers understand their respective financial positions so they can work through business plans and make good decisions that, hopefully, lead to the best possible outcome for them. We are restructuring debt to spread out payments and are providing other loan structuring options when necessary and appropriate. We work every day to make sure Farm Credit customers have the best information available to help them manage costs and strengthen their risk-bearing capacity.

We understand that being dependable does not mean that we can save every operation. It does not mean that we are able to ignore good credit judgment or make credit decisions that are not constructive for the customer-owner or us as a lender. It does not mean that we will undertake undue risk or make all of the adjustments. We and our customer-owners both need to make adjustments – and we are working hard to take those steps together.

As price forecasts stay depressed, most producers' only option is to manage the cost structure of their operations closely. Many have eliminated non-essential expenses, scaled back expansion plans and delayed new equipment purchases.

Farm Credit is fortunate that our independent federal regulator, FCA, has deep knowledge of agriculture and considerable experience in the inevitable business cycles our members face. Their ability to look holistically at a customer's operation and understand an individual customer's risk-bearing capacity and equity position will, in many cases, determine whether we can continue with that customer. If the FCA is overly restrictive in its approach, it might tie our hands as we work to help members through this cycle. We are optimistic about the FCA's continued good judgment.

This downturn also provides a timely reminder of the importance of supporting key tools such as crop insurance, the current Farm Bill, the renewable fuels standard and promoting strong export markets to help maintain the viability of the industry. Passage of a strong Farm Bill next year is essential.

U.S. Farmers and Ranchers Need a Strong Farm Bill
The current cycle in agriculture makes this committee's work on the next Farm Bill crucial. We need a strong Farm Bill to provide a safety net against sustained market downturns. We pledge our support for this committee's efforts to pass a strong Farm Bill on time.

We strongly support maintaining and improving the Federal Crop Insurance Program along with Agricultural Risk Coverage and Price Loss Coverage programs. These are the heart of a strong Farm Bill.

Congress created the crop insurance system through the Federal Crop Insurance Corporation (FCIC) to promote the economic stability of agriculture. A successful public-private partnership, crop insurance is federally regulated and delivered by the private sector to help farmers maintain the country's safe, affordable food supply.

Crop insurance protects farmers and ranchers against financial losses caused by natural disasters (hail, drought, freezes, floods, fire, insects, disease and wildlife) and market disruptions resulting in lower prices for agricultural products. In 2015, USDA's 1.2 million federal crop insurance policies covered 120 different crops grown on approximately 300 million acres with an insured value of more than $102 billion.

Northwest FCS serves a diverse customer base that includes traditional, specialty, organic and diversified producers. Our customers in Washington produce more than 125 different crops and have historically been heavy users of crop insurance as a vital risk management tool.

In 2014, Whole Farm Revenue Protection (WFRP) was introduced, which expanded options for specialty crop, organic and diversified crop producers, allowing them to insure all the crops at once instead of one commodity at a time. WFRP is a risk management tool that has the ability to protect revenue from every crop in every county in the U.S.

While WFRP is a risk management tool we offer to all qualified producers, it works very well for specialty crops and highly diversified growers. Many specialty crops don't have other policies options to manage their unique risks and for diversified growers WFRP provides coverage for the entire farm and is more cost effective than purchasing individual commodity policies.

WFRP is new and complex and we have been working hard to help growers understand its provisions and benefits. We've developed a new quoting system which has made it much easier for customers to compare their options and costs. Over the past four years Northwest FCS has hosted training sessions for many other Farm Credit associations across the U.S. Last week we provided training for GreenStone Farm Credit Services, which serves Michigan and parts of Wisconsin. Michigan ranks 2nd in agricultural diversity, after only California. Washington and Michigan's diverse crop mix make WFRP an excellent tool to for producers to manage risk. In the Northwest, we insure 127 different crops/commodities with WFRP, while in Michigan and Wisconsin, GreenStone insures over 80.

We want and need to see WFRP succeed. Given the risk concentration in the Pacific Northwest it is important that we share our knowledge and encourage growth and market share across the US. The National WFRP market share is expanding with a total of 2,220 policies sold in 2016 and growing to 2,722 policies sold in 2017. While we have submitted some suggested improvements to the Risk Management Agency for consideration, overall the policy is a strong risk mitigation tool that is working well.

A viable federal crop insurance program, including WFRP, is vital to the flow of credit to farmers and ranchers, particularly young and beginning farmers and ranchers who typically have less collateral and equity. Given the trend in recent years of lower prices for commodities and declining farm net income, it is critical for policy makers to maintain a strong farm safety net that includes affordable crop insurance.

Participation by producers of all types—small and large—is vital to the safety and actuarial soundness of the crop insurance program. Impairments to the program, such as shrinking the risk pool, could make crop insurance unavailable or unaffordable to producers.

Farm Credit believes crop insurance must provide more coverage options for specialty crops, while continuing to serve its traditional commodities constituency.

Without the risk protections provided by crop insurance, agricultural lenders would have to tighten underwriting standards. The consequence of tighter credit would make it more difficult for farmers to plant crops and replace capital assets. Economic growth would slow and rural communities would suffer.

Farm Service Agency Lending
As the farm economy continues to soften, programs like the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) guaranteed and direct lending programs are important tools for producers, particularly young and beginning producers. The FSA guaranteed loan programs provide Farm Credit institutions additional flexibility to help customers survive a potentially extended economic downturn. Farm Credit participation in FSA's guaranteed loan program totals $5.1 billion and represents approximately one-third of outstanding FSA guarantees.

In addition, Farm Credit institutions and others have observed an increase in the costs associated with agricultural production. The cost of land, equipment and inputs has all increased in the past several years. As producers look to begin or grow agricultural businesses or simply sustain their current operations through this downturn, FSA direct and guarantee loan programs must have appropriate loan limits. Accordingly, Farm Credit supports increasing the FSA guaranteed loan limit. This will allow Farm Credit and other lenders to better partner with the USDA to provide needed credit to producers.

Finally, Farm Credit recognizes that increasing the loan limits could have the unintended consequence of having fewer producers served by these programs because the current level of funding does not reflect the actual costs associated with agriculture production and the need for larger loan limits. To that end, we also support increasing the level of funding for FSA guaranteed and direct loans.

Rebuilding Rural Infrastructure

American agriculture feeds the world and creates millions of jobs for U.S. workers. Our nation's ability to produce food and fiber and transport it efficiently across the globe is a critical factor in U.S. competitiveness internationally. Infrastructure that supports rural communities and links them to global markets has helped make the U.S. the unquestioned leader in agricultural production. However, our deteriorating infrastructure threatens that leadership position.

Transportation infrastructure improvement is the most obvious need in rural communities, but not the only one. Highways, bridges, railways, locks and dams, harbors and port facilities all need major investment if we are to continue efficiently transporting our agricultural products to market. For example, one-quarter of our road system's bridges require significant repair or cannot efficiently handle today's traffic. Many of the 240 locks and dams along the inland waterways are in need of modernization. In addition, critical needs exist in providing clean water for rural families, expanding broadband to connect rural communities to the outside world and enhancing the ability to supply affordable, reliable and secure power for the rural economy.

The scope of the investment needed is staggering. The federal government must continue to play an important role in providing funding. Moreover, federal investments should increase, but federal resources likely cannot fill the need entirely. Creative solutions for raising a portion of the funds necessary to close the rural infrastructure gap include combining federal investments, state and local government investments and private sources of capital.

To help address this need, Farm Credit helped organize the ***Rebuild Rural*** coalition of more than 200 organizations representing agricultural producers, rural businesses, rural communities and rural families to advocate for aggressive efforts to meet the unique infrastructure needs of rural communities and agriculture. We asked President Trump to specifically address rural infrastructure needs as part of his administration's comprehensive infrastructure renewal efforts. We have been very encouraged by the coalition's discussions with White House and USDA officials. They appear to understand what rural communities require and have indicated a willingness to seek creative solutions to those infrastructure problems.

We look forward to working with the Administration, this committee and others in Congress as the infrastructure initiative takes shape over the next few months.

Hospitals, senior care centers, walk-in clinics, schools and other community facilities are critical to the viability of rural communities and are important contributors to the quality of life for rural families. In many rural communities those essential facilities are not available or need modernization.

Federal investments, made available through USDA's successful Community Facilities Loan and Grant program continue to be necessary. Attracting private sector investment in these facilities will help speed up the progress of projects and increase the number of community facilities.

Farm Credit institutions are working to create a scalable solution for financing rural community facilities in partnership with community banks and the USDA. The partnership will focus on building, modernizing and expanding rural healthcare facilities, rural senior care facilities, rural educational facilities and others critical to creating vibrant rural communities.

Farm Credit will identify rural projects and partner with local community and regional banks to create comprehensive financing packages to include short- and long-term bond investments paired with USDA guaranteed and direct loans and grants that fund facility construction and provide stable permanent facility financing.

Previously, under a pilot program authorized by the Farm Credit Administration (FCA), Farm Credit institutions invested in bonds issued by the community developing the facility. In creating many of those bond investments, Farm Credit worked closely with community banks to include them in the financing package and then partnered with USDA's Community Facility Loan and Grant program to ensure the project's affordability for the community.

Rural Critical Access Hospital Expansion

For example, in 2016 Farm Credit institutions partnered with Grand Marais State Bank, Central Bank and Trust, CenBank, Security State Bank and the USDA to finance a $24.7 million expansion project for Cook County North Shore Hospital and Care Center in Grand Marais, Minnesota (population 1,353). The 16-bed critical access hospital and 37-bed skilled nursing facility plans to add 26,150 square feet and renovate 42,680 square feet of existing space.

Hospital Administrators, county officials and patients break ground on North Shore Hospital's expansion and renovation in 2015. Farm Credit, community banks and the USDA partnered to finance the project in Grand Marais, MN.

Under the FCA pilot program Farm Credit institutions invested $733 million in 210 rural community projects across the country. Commercial banks partnered with Farm Credit on more than 100 of those projects, generating an additional $315 million of investment.

The original pilot program at FCA ended in 2014 and now the FCA has to provide specific and individual approval for each community facility investment made by each Farm Credit institution. This approach has made the community facilities partnership non-viable.

Under current FCA procedures, Farm Credit institutions have to individually apply to FCA for permission to make each bond investment. FCA staff reviews the investment applications and prepares separate recommendations for action by the FCA Board of Directors. The FCA Board then must consider each application separately and formally vote on approval. This process is expensive, slow and does not result in the robust, sustainable business model necessary to facilitate partnerships between Farm Credit, commercial banks and the USDA that would provide communities with these vital facilities more quickly.

Congress should instruct the FCA to create a more comprehensive, efficient and programmatic approach to approving these investment partnerships. This would greatly enhance financing options for rural community facilities and result in more projects that provide jobs and offer more benefits for rural families.

Export Markets are Vital

Robust export markets are vital to a strong farm economy. Thirteen percent of the U.S. corn crop, nearly 50 percent of the soybean crop and ten percent of the cattle produced in the U.S. are shipped overseas. American farmers and ranchers are the most efficient in the world and will lead the effort to feed a planet of 9 billion people by the year 2050.

We strongly encourage continued efforts to open markets for U.S. farm products. Our producers can compete with any in the world but trade barriers in other countries often tilt the playing field against them. Farm Credit works hard to support our farmers by financing more than $5 billion in exports of U.S. agricultural products. Our private export financing for U.S. exports often competes against financing programs backed by foreign governments. The primary U.S. government export financing program, GSM-102, has been handcuffed by World Trade Organization rulings, putting U.S. farmers at a disadvantage in some markets.

U.S. Farms Need a Stable Workforce

Farming in America is a growth industry and an example of how America excels beyond any other country. The many agricultural products we produce, harvest and process comprise one of the few sectors of our economy in which the U.S. has a trade surplus with the rest of the world.

However, the lack of a reliable, stable and legal workforce threatens the economic health of food and fiber producers and the rural communities in which they live. Our farmers face growing shortages of legally authorized and experienced workers each year. Jobs in agriculture are physically demanding, conducted in all seasons and often transitory. This labor shortage negatively impacts our economic competitiveness, local economies and jobs. We need the appropriate reforms to address the agricultural labor shortage.

A common misconception is that agriculture is a low wage-paying industry. However, according to the U.S. Department of Agriculture, wages for U.S. fieldworkers increased 36 percent during the past decade through the conclusion of last year's harvest in October, compared with 27 percent wage increases for non-farm employees. Not only is agriculture competitive with other industries in terms of wages, many U.S. jobs are created for each farmworker hired and those U.S. jobs tend to be year-round positions. In fact, every farmworker engaged in high-value, labor-intensive crop and livestock production sustains two to three off-farm but farm-dependent jobs. The activities that occur on domestic farms support not only farmworkers but also an entire supply chain of transportation providers, input suppliers, processors and consumer retail functions.

Many of those off-farm jobs will be lost if agriculture's current workforce is jeopardized without providing a mechanism for future legal workers. The economic health of many rural economies is largely dependent on a strong agriculture sector. Yet the loss of the foreign-born workforce in rural communities will have the same economic impact on those communities as factories closing or relocating.

Farm Credit strongly supports legislative and regulatory proposals to create a workable agricultural guest worker program which ensures reliable sources of agricultural workers both seasonally and year-round to support the needs of all of agriculture, and that provides a means by which experienced farm workers can remain on the farm.

Conclusion

Thank you again for allowing me to testify on behalf of Farm Credit today. We look forward to working with the committee to pass the Farm Bill and I would be pleased to answer any questions you may have.

Testimony of Mr. Ken Nobis

On behalf of the
National Milk Producers Federation and Michigan Milk Producers Association

Washington, D.C.
July 25, 2017

Mr. Chairman, Ranking Member Stabenow, members of the Committee, my name is Ken Nobis and I am a dairy farmer from St. Johns, Michigan where my brother Larry and I farm 3,000 acres and milk 1,000 cows. I also serve as President of Michigan Milk Producers Association, a milk marketing cooperative serving over 1,700 dairy farmers in Michigan, Indiana, Ohio and Wisconsin. The association employs approximately 320 people in four states and is the 10th largest dairy cooperative in the United States. Milk and dairy products are Michigan's largest agriculture commodity contributing over $15 billion to Michigan's economy. In 2016, Michigan ranked as the nation's 5th largest dairy state and is growing in both milk production and processing capacity. Since the year 2000, milk production in Michigan has increased by 90 percent while cow numbers have increased about 40 percent.

Margin Protection Program

Over the last decade, the U.S. dairy industry has endured a tremendous amount of volatility in milk prices from the highest highs to the lowest lows. NMPF and other dairy leaders had spent years working with members of Congress to develop a program that was originally envisioned to ensure dairy farmers had a more stable safety net to protect them during extended downturns in the ever-volatile dairy market. Congress passed legislation in 2014 that established a new safety net under Title I, known as the Margin Protection Program (MPP). However, during the legislative process, Congress made changes to the proposed dairy program, fundamentally altering the version National Milk Producers Federation and other dairy leaders had spent years fighting for and perfecting. As a direct result of these changes, the MPP safety net has failed to deliver the appropriate protection for dairy farmers like me. I still believe the MPP is the right program for the future of our industry, but changes must be made to prevent more dairy farms from shutting down entirely.

Many dairy farmers, including MMPA members, originally supported the MPP because they felt it would finally give their farm a risk management tool to deal with the unpredictability dairy farmers experience on a daily basis, not just with milk prices, but in feed costs as well. However, we have found the program simply has not done anything to help farms during the last two years of sub-par margins. That message has been made loud and clear during member information meetings MMPA began hosting over a year ago. MMPA initiated the meetings as a result of the current economic times our industry is experiencing. The meetings are a way for us to more fully discuss the many factors influencing the current state of the dairy industry. Understandably, our members, as well as many other producers are frustrated and have lost faith in the MPP and the idea that it could serve as a viable risk management tool as it is currently implemented. The changes Congress made to the MPP as the 2014 Farm Bill was finalized rendered it ineffective when dairy farmers needed it the most.

One of the most evident concerns is the MPP has actually made the government a profit of $66 million in fiscal year 2015 and $37 million in fiscal year 2016, according to the Congressional Budget Office. In calendar year 2015, dairy farmers paid more than $70 million into the program and received payments totaling just $730,000. In 2016, those figures were $20 million and $13 million. This occurred in two years that were particularly detrimental to our industry, and support was badly needed.

I want to stress that I am not asking for a program that guarantees a profit or incentivizes excess production. I would be just as critical if that were the case. I guarantee, if Congress alters the MPP so that it more accurately reflects the actual costs of production for businesses like mine, participation in the program will increase.

All we are asking for is a program that provides a meaningful safety net for dairy farmers when they need it most. If that is to happen, this committee needs to make improvements to the program.

Understanding the challenges that producers have endured with the current iteration of the MPP, NMPF began an exhaustive review of the program in early 2016, and included the voices of dairy farmers and their cooperatives, as well as industry experts, academia and others, to craft a set of proposed changes to the program.

One issue in particular continues to rise to the surface. In determining the margin under the MPP, USDA is required to calculate two factors: the "All Milk Price" and a trio of feed costs. While the "All Milk Price" remains a fairly accurate input tool for this formula, the feed price determination is problematic. During the lead-up to the 2014 Farm Bill, NMPF worked closely with farmers, economists, veterinarians, and nutritionists to develop a model to determine the average feed costs for dairy cows. This exhaustive process was meant to ensure that participating producers were confident in the calculation, and ultimately reflect the cost of purchasing feed. However, when NMPF presented this proposal, the feed formula, though considered accurate, was cut by 10 percent to address other, broader budget concerns. I raise this point to remind you once again: the federal government has made money off of dairy farmers under the current MPP. Any concerns about budget that led to the 10-percent cut were misplaced.

There are other adjustments that should be considered. These include, but are not limited to, the feed formula calculations relating to the determination of corn, soybean, and alfalfa hay prices. We dairy farmers also want access to as many tools as possible. However, Congress arbitrarily limited dairy producers' ability to use Risk Management Agency (RMA) products and Title I programs. Almost every other commodity can utilize both RMA and Title I programs without restrictions, yet dairy farmers cannot simultaneously participate in the Livestock Gross Margin for Dairy Cattle(LGM) program and the MPP. Due to congressionally mandated restrictions in the MPP, a producer had to decide at the beginning of the Farm Bill to cover their milk under either LGM or the MPP. This restriction leaves dairy farmers without the tools that other commodity producers have in their arsenal when it comes to federal support for their operations.

We appreciate Ranking Member Stabenow's efforts to look at opportunities to expand insurance options for the dairy industry and urge USDA to utilize their authority to provide additional insurance opportunities for dairy farmers.

As you are aware, the Senate Appropriations Committee recently marked up a bill for fiscal year 2018 that included important changes to the MPP. We appreciate the leadership of Senators Cochran and Leahy, Chairman and Vice Chairman of the Appropriations committee to address some of the problems with the current safety net. We also greatly appreciate the efforts of Ranking Member Stabenow, for urging all farmers to be considered when making significant changes to Farm Bill programs and ensuring interim improvements are made to strengthen the dairy safety net.

The changes made through the appropriations bill are a step in the right direction and we are open to other ways the MPP program can be improved. Making the program more attractive for dairy farmers is vital to ensuring participation in the program, and the safety of America's dairy industry. More work is needed, and the only way to accomplish that is through a new farm bill.

In addition to the challenges we face with the MPP, we are greatly concerned over challenges to our export markets. Specifically, disputes with Canada have heightened concerns among dairy farmers in the United States. Not only is there concern over disruption in our trade relationship with Mexico, the current situation with Canada is also adding additional stress to our industry. Still, other issues including immigration, tax reform, child nutrition and sustainability continue to remain a focus for our industry, and we look forward to working with the committee to help us address them. Mr. Chairman, Ranking Member Stabenow, the U.S. dairy industry looks forward to working with you to improve federal policies that impact those that produce our country's food. I appreciate the opportunity to speak with you today and I thank you for your support of agriculture.

Dairy Market Situation

The last decade tells us that times have been tough for America's dairy farms. In 2009, following several years of expanding U.S. dairy exports, world dairy markets collapsed in the global recession, taking domestic milk prices with them. Farm income over feed costs, as measured by the MPP margin formula, fell to $2.25 per hundredweight of milk in June that year, well below the $4minimum margin coverage level–commonly referred to as "catastrophic" under the current program. The MPP margin formula averaged just $3.87 per hundredweight during the first 10months of the year. Three years later, in 2012, widespread drought drove feed prices to historic highs and sent the MPP margin back into catastrophic territory.

The margin bottomed out at $2.67 per hundredweight that year and averaged $3.63 during the six months of March through August. Many dairy farms did not survive this one-two knockout punch, and those that did are still crawling back from the brink. The year2014 was a record for milk prices and margins, but the world markets shifted again, collapsing in 2015 and most of 2016, delivering another blow to U.S. milk prices and dairy farm gross income. Revenue from milk sales dropped from $49.4 billion dollars in 2014 to $35.7 billion in 2015. Recent USDA data reports that it was down again in 2016 to $34.4 billion dollars.

This tells us that the value of the fresh milk America's dairy farmers produced in 2016 plunged nearly 20 percent from what it averaged over the five previous years. The difficult economic conditions and tighter operating margins over the last decade have resulted in the loss of more than 18,500 dairy farms in the United States. What's more, the present environment of depressed market prices could result in even more farm closures. While USDA is projecting that milk prices and margins will be better in 2017, milk production is showing signs of growing after a long period of flat production. U.S. milk production grew by 1.3 percent from 2014 to 2015. This annual growth rate expanded to 1.6 percent from 2015 to 2016, but averaged 2.4 percent during the fourth quarter. USDA is currently projecting that milk production will grow again this year at an annual rate of 2.3 percent. During 2015 and 2016, total commercial use of milk, in both the domestic and export markets, increased at an annual rate of 1.8 percent. The recent and projected expansion of milk production has the real possibility of exceeding demand, which will weigh heavily on milk prices again. And if history is any indication, farmers' bottom lines will be affected.

Dairy farmers deserve better. We need Congress to act swiftly this year and make the necessary changes so that those in our industry can protect themselves from a bad year that could arrive at any time, even when experts predict higher margins. Dairy farmers have spent generations producing safe, nutritious milk for families all over the world. If the market goes sour or our costs soar because of external factors – weather-related or otherwise – we need a program to help protect our equity and investment. Please do not leave us behind.

Farm Labor

Ninety-eight percent of American dairy farms are family-owned, and a majority are large enough to require outside help. Whether it's a pair of extra hands to assist when a family member is unavailable, or expanding the employee roster to shepherd a 3,000-cow herd, the labor needs of America's dairy farms are a critical issue. These days, few seem eager to get a job on the farm, and what interest remains continues to decrease. But agricultural jobs pay well and come with benefits. Farmers try in vain to attract American workers, but when those searches fail, dairy farmers and others in agriculture have had to look to foreign-born workers to meet labor needs.

According to a 2015 University of Texas A&M report conducted in coordination with NMPF, 51 percent of all dairy farm workers are foreign-born, and the farms that employ them account for 79 percent of the milk produced in the United States. This data illustrates that a majority of American dairies depend on a reliable, year-round workforce to operate efficiently. We cannot simply turn the cows off when there are not enough employees to do the job, as they require 24-7-365 care. As the First Vice Chairman of the NMPF Board of Directors, I have been deeply involved in urging Congress to act immediately to reform our immigration system in a manner that addresses agriculture's needs for a legal and stable workforce. If we don't, I fear that the nutritious product that helps children grow, muscles recover and bones strengthen will soon have to come from countries far from our own.

Trade

U.S. dairy trade has boomed in the past several years. In 2000, we exported less than $1 billion in dairy products. In 2014, that number shot up to record $7.1 billion, an increase of 625 percent. While low prices reduced that number down to $5 billion last year, we remain the world's largest exporter of skim milk powder and whey products, with cheese not far behind. That reflects not just a tremendous jump on a value basis, but also a dramatic increase in the proportion of U.S. milk production that's finding a home overseas.

Fifteen years ago, we were exporting roughly 5 percent of our milk production. Today we're at three times that level, even as overall U.S. milk production has continued to grow. That means the equivalent of one day's milk production from every dairy farm in the country, each week, ends up in foreign markets, making exports integral to the health of my farm and our dairy industry. This is why it is critical that Congress protects dairy industry interests as the North American Free Trade Agreement (NAFTA) undergoes the renegotiation process.

I also urge Congress to soundly reject the European Union's (EU) aggressive stance on confiscating common food names. Names like Parmesan and Feta belong to everyone in the dairy sector, not just a handful of producers in Italy and Greece. U.S. producers have spent years growing their own markets both here and overseas, and we need to protect the work they've achieved in that space. I believe we can be competitive and increase sales in markets as diverse as Latin America, the Middle East and Asia. What we need are well-negotiated agreements and the necessary tools to achieve and implement them.

The Market Access Program (MAP) and Foreign Market Development (FMD) program are some of those tools. I urge the Committee to maintain those programs, but allow for USDA to review the distribution of monies so those like the dairy sector, which has expanded exports significantly in the last 10 years and are matching with funds and efforts, are awarded by providing enough funds to continue the work.

Environmental Sustainability

Farmers are the original environmentalists. After all, they spend their entire lives tending to land to ensure its health and longevity. I can tell you that I care deeply about the land, air and water where I have my herd and my family. In recognition of our sustainability efforts, Nobis Dairy Farms received the Outstanding Dairy Farm Sustainability award by the Innovation Center for U.S. Dairy in 2015.

In recent years, federal and state regulators have applied significant pressure on the dairy sector to reduce nutrient output to improve water quality in dairy-producing regions across the country. The U.S. dairy industry has invested significant resources in response to this challenge, and continues to embrace the newest and best possible environmental practices. To prove it, in 2008, the dairy industry voluntarily set a goal of reducing greenhouse gas (GHG) emissions from fluid milk by 25 percent by 2020, and has since undertaken several projects intended to help meet that goal.

In a demonstration of continued leadership, the dairy industry is also proposing policy changes that will help turn an environmental liability like manure into a valuable asset. One such policy is the bipartisan Agriculture Environmental Stewardship Act introduced by the three leaders of this committee – Chairman Roberts, Ranking Member Stabenow and Senator Sherrod Brown to create an Investment Tax Credit to cover the upfront costs of nutrient recovery systems that farmers can use to help reduce the environmental impacts of their farms and improve water quality. We look forward to working with you to address this important challenge for our industry.

Just like in other sectors of the economy, dairy farmers are impacted by political, legal and regulatory uncertainty. We are committed stewards of a healthy ecosystem, but we need certainty about which environmental policies and regulations apply to our operations. This is why we support the bipartisan Farm Regulatory Certainty Act, which will reaffirm Congress's intent that dairy farmers and other agricultural producers not be subject to solid waste laws passed more than 40 years ago. I am proud to say that dairy farmers always strive to comply diligently with any law we are subject to, but Congress can smooth this process by providing legal and regulatory clarity.

Child Nutrition

Child Nutrition programs in schools are part of the backbone of America's education policy and our nation's commitment to a healthy population. Any mother or grandmother will tell you that when children are well fed, they are more productive, responsive and active during of time of essential development. Dairy farmers know better than anyone the nutritional advantage milk provides for such development. This is proven by the fact that milk has been a key part of school meals for nearly a century.

The benefits of milk's nutrient-dense profile also played a role in assisting the residents of Flint, Mich. during a crisis in which they were susceptible to lead poisoning from contaminated water. After discovering calcium and iron found in dairy products can help mitigate health risks of lead consumption, MMPA went into action and partnered with The Kroger Company of Michigan to donate nearly 590,000 servings of milk to those in need. The donation of milk was well received and helped provide health benefits to the residents of Flint during a time of crisis. The donation project recently received an honorable mention award for Outstanding Achievement in Community Partnerships by the Innovation Center for U.S. Dairy.

I want to commend Congress and Secretary Perdue for the actions taken earlier this year to reintroduce 1% flavored milk back into schools. This product will help ensure that children have access not only to the nine essential nutrients and vitamins that milk provides, but will also offer them a beverage that they enjoy. In recent years, when children's options were limited to only flavored skim milk and white milk, consumption in schools dropped. If our school meal programs are meant to provide nutrition, no one benefits when a healthy product ends up in the trash. While we work with USDA to implement these changes, it is imperative, Mr. Chairman, that this committee do all it can to ensure children across America have access to healthy and nutritious dairy products in our schools. As the overwhelming volume of scientific evidence continues to show the benefits of dairy fat in children's diets, we look forward to working with this committee to further expand options for school meal programs.

Mr. Chairman and members of the committee, I appreciate the opportunity to represent my industry, my Michigan-based cooperative, and NMPF by sharing my thoughts on the challenges facing U.S. dairy industry. I look forward to your questions.

Testimony

Of

Meredith McNair Rogers
Family Farm Partners
Camilla, Georgia

Southern Peanut Farmers Federation

Before the

U.S. Senate Committee on Agriculture

Washington, D.C.

July 25, 2017

Good Morning Chairman Roberts, Ranking Member Stabenow, and members of the Committee. My name is Meredith McNair Rogers. I have been farming with my family in southwest Georgia for over 20 years. I graduated from the University of Georgia in 1991 with a Bachelor of Business Administration, and later received my Masters of Accountancy from the University of Georgia. I worked for Ernst & Young accounting firm for several years after graduation and received my Certified Public Accountant certification. My husband and I decided to move back closer to our families and started farming with my family in 1996. I currently farm in a family partnership with my husband, parents, and siblings. Our partnership primarily farms row crops. This year we are farming peanuts, fresh sweet corn, cotton, and corn. We also have a herd of about 250 head of brood cattle. In addition, our family runs two peanut buying points. My grandfather farmed in adjoining Baker County and my father started farming in the 1970s after working as a county extension agent in Mitchell County. I grew up on this farm and am very pleased that I have had the opportunity to work and raise my children on the farm. My husband and I have three children.

I am the first woman to be included in the Peanut Leadership Academy which is a program for young leaders involved in the peanut industry. I completed this program in 2016.

I am testifying today on behalf of the Southern Peanut Farmers Federation (Federation), the largest peanut grower organization in the United States. The Federation is comprised of the Alabama Peanut Producers Association, the Florida Peanut Producers Association, the Georgia Peanut Commission and the Mississippi Peanut Growers Association.

I want to thank this Committee for what you have meant to peanut farm families and communities across the peanut belt for many years. You have provided a program that pushed our industry to market our products more efficiently in the domestic and export markets. You encouraged our industry to move from a supply-management program to a market program in the 2002 Farm Bill. Finally, the Price Loss Coverage (PLC) program has assured growers that a safety net program was available when farm economies struggled.

I want to be clear today that the peanut provisions of the 2014 Farm Bill have worked as a safety net for peanut producers. If the PLC program had not been in place, I am afraid many farms in the Southeast would no longer exist because of the downturn in the farm economy which has plagued us the past three years. In addition, this bill continues to assure consumers a safe, affordable food supply.

The Federation supports maintaining the current PLC program in the 2014 Farm Bill including these key provisions:

- Current Reference Price for Peanuts
- Separate Peanut Payment Limit (as established in the 2002 Farm Bill)
- Storage and Handling Provisions

The 2014 Farm Bill was drafted during a period of high prices. When we compare average prices in 2011-2012 to 2016 prices, we see a 39% decline in peanut prices. Corn, soybeans, wheat and cotton all saw significant drops in prices when comparing the years that the 2014 Farm Bill was developed to 2016 prices.
The U.S. Department of Agriculture projected 2017 net farm income in the U.S. to be $62.3 billion which translates to a 49.6% decline in net farm income since 2013. I see the real impact of these numbers in the faces of my neighbors and hear it in discussions with lenders and our suppliers.

The peanut Price Loss Coverage (PLC) program has worked but peanuts are not sufficient to carry an entire farming operation. Corn and cotton prices have been depressed and with the lack of a cotton PLC program, more pressure has been placed on growers to plant peanuts by lenders and others. For many growers, the only option to survive was to plant more peanut acreage.

Peanut growers know that rotation is critical for their cropping systems. However, during this period of a severely depressed farm economy, many farmers modified their crop rotations in order to survive.

- U.S. peanut yield has declined by approximately 13%.
- Georgia's peanut yield has declined by 14%.
- Southeast average yield has declined by 11%.

Research has shown that with reduced rotation, not only will peanut yields drop but chemical costs increase. The cost of weed control continues to rise as resistant pigweed becomes more widespread, and some of our fungicides are becoming less effective as pathogens mutate and adapt. According to the University of Georgia's National Center for Peanut Competitiveness (NCPC), we have seen a downward trend in peanut yields since 2012.

According to the NCPC, these increased costs of production could make the current reference price ineffective.

Although the increased peanut acreage has impacted yields and cost of production, peanut acreage during the life of the 2014 Farm Bill is not out of line.

- Prior to the 2002 Farm bill, U.S. peanut acreage exceeded 1.6 million acres for several years, in the early 1990's, and exceeded 2 million acres in 1991.
- After we changed the peanut program in the 2002 Farm Bill from a supply management program to a market oriented program, U.S. peanut acreage has exceeded 1.6 million acres.
- Planted acreage of 1.6 million acres is not a new phenome.
- Average planted acres during the life of the 2014 Farm Bill is only approximately 16% more than the average acres planted during the years 2002-2013.

What about the demand for Peanuts?

It is very important to this discussion to note that demand has kept pace with the supply of peanuts. First, I want to address domestic demand. According to USDA and U.S. Department of Commerce data, U.S. per capita peanut consumption has grown from 6.6 pounds per capita in 2012 to 7.4 pounds per capita in 2016 – a 12% increase.

The peanut industry took two major steps to encourage demand. First, the Peanut Institute was created to fund research on the nutrition aspects of peanuts. Second, peanut growers voted to create the National Peanut Board (NPB) through a national check-off program overseen by USDA. As a result of these efforts, consumers in the U.S. and in other countries are increasingly recognizing that:

- Peanuts are heart healthy, fight obesity, reduce the risk of Type 2 diabetes plus have key micronutrients.
- Peanuts by means of Ready to Use Therapeutic Food (RUTF) are also a widely-used tool to fight severe malnutrition in children around the world.

Domestic demand and export demand have grown significantly in the last few years. Utilizing USDA's National Agricultural Statistical Service's (NASS) Peanut Stocks and Processing reports and comparing the first 6 months of the 2016-17 marketing year to a comparable time period for previous marketing years:

- The number of peanuts used for peanut butter has grown 64.4% since 2002 and 10% since 2014.
- Total shelled peanut use has increased approximately 47% since 2002 and 11% since 2014.

When we take a closer look at USDA's Foreign Agricultural Service's (FAS) export data, comparing the average exports of peanuts and peanut butter during the 2008 Farm Bill relative to the 2014 Farm Bill, we also see strong growth.

- Peanut exports increased by approximately 71%.
- Peanut butter exports have grown by 52%.

What About the Supply of Peanuts in the U.S.?

Peanut shellers speak openly about the tight supply of peanuts. Today's peanut prices do not support the concept that the 2014 Farm Bill is causing excessive peanut acreage planting.

As peanut growers entered the 2016 crop year, USDA had published incorrect inventory numbers. Based on the incorrect numbers, the peanut industry assumed that supply significantly exceeded demand which had a negative effect on peanut prices received by farmers, ranging from a $355/ton (loan rate) to approximately $380/ton.

- Based on the reduced prices, the Southeast, the largest region of peanut production in the U.S., reduced peanut planting by approximately 11%.

Once USDA corrected the mistake during the growing season, contract prices for the uncontracted 2016 crop and any unsold 2015 crop in the loan increased significantly to the $450/ton range. Recently, any uncontracted 2016 crop peanuts have seen contracts increase even more. As one major sheller stated in their newsletter "This will continue to support 2016 crop values as the market is forced to ration supply of quality tons." As of today, demand exceeds supply. Given this economic situation, early contract prices for the 2017 crop have been reported in the $475-$550/ton.

- Peanut shellers are still offering higher 2017 crop contract prices which encourage peanut acreage.
- Shellers would not be offering these types of contracts unless signals from manufacturers and exporters clearly indicate that they need more peanuts for the marketplace.
- These actions are not being driven by the 2014 Farm Bill but instead by the markets and the rules of supply and demand.
- The shellers' actions indicate that the program has not created an excess supply of peanuts in the marketplace.

Peanuts have not seen significant forfeitures at USDA. For the 2015 peanut crop year, the latest data available to the NCPC, approximately 62 tons were forfeited. This translates into approximately .0021% of the total 2015 peanut crop being forfeited. USDA sold those tons at an average price of $363.67/ton which was above the loan rate of $355/ton translating into a profit for the government and no cost to the taxpayer. To date, according to the NCPC, there have been no peanut loan forfeitures from the 2016 peanut crop.

From the evidence we see in the marketplace, there is not an oversupply of peanuts. According to the NCPC, "The peanut program in the 2014 Farm Bill has not led to excessive peanut acreage."

What About the Impact of Generic Acres on Peanuts?

As you are aware, the cotton industry opted for the STAX program in the 2014 Farm Bill while cotton producers maintained their generic base acres. These generic base acres are available to any covered commodity in the 2014 Farm Bill.

The Congress wisely established a program allowing growers to keep these base acres. Without these base acres, the current struggling farm economy would be much worse.

The United States Department of Agriculture's (USDA) Farm Service Agency (FSA) February 2017 data examined the allocation of generic base acres and updated the program payments for covered commodities planted on these generic base acres.

- For the 2014 crop year, only approximately 58% of the generic base acres were allocated to a covered commodity.
- Approximately 7.4 million generic base acres were not utilized by cotton farmers for the 2014 crop year.
- Approximately 32% of the generic base acres assigned to soybeans.
- 26% of the generic base acres assigned to wheat.
- 19% of the generic base acres assigned to corn.
- 13% of the generic base acres assigned to grain sorghum.
- Only 7% of the generic base acres assigned to peanuts.
- Less than 53% of the 2014 peanut certified acres had generic acres attributed.

Were there significant changes in these planting ratios for the 2015 crop year? The answer is no.

- Approximately 61% of the generic base acres were allocated to a covered commodity.
- Approximately 7 million generic base acres were not utilized by cotton farmers.
- Approximately 90% of the generic base acres were assigned to soybeans, wheat, corn and grain sorghum.
- Only 8.7% of the generic base acres assigned to peanuts.
- Approximately 57% of the 2015 peanut certified acres had generic acres attributed.

Based on USDA deadlines for the 2016 crop year, it is assumed that the 2016 ratios will not differ significantly from the 2015 data. With the generic base acres attributed to the covered commodities of the 2014 farm bill, these commodities did receive payments.

- For the 2014 crop, the total payments for the covered commodities on generic acres were almost $149 million.
- For the 2015 crop, the attributed generic base acres generated approximately $444 million in payments for the covered commodities.
- Almost a threefold increase in generic base acres payments to cotton producers from the 2014 crop year to the 2015 crop year.
- Given the depressed commodity prices, the 2016 crop year payments to be received in October 2017 are assumed to be similar to the 2015 crop year payments.

For the 2014 crop, only 27% of all ARC-PLC peanut payments was derived from generic base acres attributed to peanuts. For the 2015 crop year, approximately 33% of the total payments derived from generic base acres attributed to peanuts. While these payments were attributed to peanuts, in reality, the payments were received by cotton producers who are also peanut producers. Thus, any scoring in terms of the cost of the peanut program should take into account the generic acre impact. As I stated earlier, cotton was not a covered commodity in the ARC-PLC programs. Generic acres, as part of the safety net, allowed cotton producers, who also grew other commodities like peanuts, corn, soybeans, wheat and rice, to participate in some limited manner and stay on the farm. For many farmers, generic base actually made it possible to keep planting cotton on our farms in order to maintain some level of crop rotation. Without this generic acre program, many farmers across the U.S. would have had their farm income, the safety net reduced dramatically. This program has worked at a time when prices were low.

Peanut Growers Support Viable Risk Management Tools

The Federation supports the risk management provisions of the 2014 Farm Bill. Congress approved a peanut revenue insurance program in the 2014 Farm Bill. This was a product of the peanut industry working with this Committee, USDA's

Risk Management Agency and crop insurers to develop a tool that worked for producers. Growers are participating in this program.

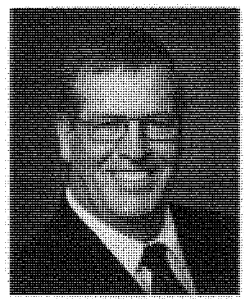
Federal Regulations

I appreciate the Committee's interest in the regulatory burdens placed on farmers by numerous federal agencies. The impact of regulatory issues on companies that produce our inputs result in higher costs of production for our crops. I hope the Committee will continue to scrutinize regulations in place today and any proposed regulations.

In conclusion, the Federation supports the peanut provisions in the 2014 Farm Bill and appreciates the opportunity to work with you as we move forward with the next farm bill.

Thank you for allowing me to testify today.

Bruce Rohwer
NCGA Corn Board Member



Bruce Rohwer, of Paullina, Iowa, serves as a member of the Corn Board of the National Corn Growers Association, a farmer-led trade association with offices in St. Louis and Washington.

Rohwer operates a corn and soybean farm with his son and daughter, in addition to owning a drainage tiling business. With a neighbor, he also runs a sow farrow-to-finish operation.

Rohwer serves as board liaison to NCGA's Risk Management Action Team, as the association's liaison to the National Pork Producers Council and as the custodian of records for NCGA's CornPAC. Additionally, he represents the association on the BNSF Railway Ag Business Council, and he serves the U.S. Grains Council on its Mideast and Africa Action Team.

Previously, he has served as the board liaison to the Public Policy Action Team and as a member of NCGA's Research and Business Development Action Team.

At the state level, Rohwer served as past president and chair of the Iowa Corn Growers Association, Past Chair of the Iowa Corn Growers Association CornPAC.

Founded in 1957, the National Corn Growers Association represents more than 40,000 dues-paying corn growers and the interests of more than 300,000 farmers who contribute through corn checkoff programs in their states. NCGA and its 48 affiliated state associations and checkoff organizations work together to help protect and advance corn growers' interests.

9/28/16

STATEMENT BY
RON RUTLEDGE
ON BEHALF OF FARMERS MUTUAL HAIL INSURANCE COMPANY OF IOWA
BEFORE THE UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

July 25, 2017

Chairman Roberts, Ranking Member Stabenow and distinguished Members of the Senate Agriculture Committee, I would like to thank you for having me here today to testify about crop insurance and the vital role it plays in providing risk management to farmers across the country.

My name is Ron Rutledge, and I am the CEO and President of Farmers Mutual Hail Insurance Company of Iowa (FMH), a post I have held since 2010. I also serve as Chairman of the Board and have been a proud FMH employee since 1981 when I joined the company full time in the Electronic Data Processing Department. I am a graduate of Drake University, and during my career I have also worked as an agent and a crop hail adjuster.

W.A. Rutledge founded Farmers Mutual Hail in Early, Iowa in 1893. From the beginning, FMH provided crop hail insurance to Midwestern farmers. In 1915, FMH entered the reinsurance market, and the Rutledge family has been proud to oversee the continued growth of the company for more than a century. FMH celebrated its centennial in 1993 and entered the multi-peril crop insurance market in 1999. Now in its 125th year, FMH writes insurance policies across the nation in 40 states and we are committed to serving our farmers and ranchers through generations of their families and ours.

I'm also Chairman of the Board of the Crop Insurance and Reinsurance Bureau (CIRB) and am on the Board of Directors for the National Crop Insurance Services (NCIS). CIRB unites crop insurance companies, reinsurers and brokers to provide a proactive voice for the industry in Washington, D.C. Its mission is to preserve crop insurance as a critical component of the farm safety net. NCIS, a non-profit based in Overland Park, Kansas, provides a unique suite of services to the crop insurance industry, from actuarial and analytical support to the development of crop loss adjustment standards and industry-wide training for both company staff and industry loss adjusters.

Over the years, and particularly since the adoption of the Agriculture Risk Protection Act (ARPA) in 2000, crop insurance has become a cornerstone of risk management for farmers and ranchers across the country. Today, more than 1.1 million crop insurance policies are sold to farmers each year by 16 private-sector crop insurance companies. Farmers Mutual Hail is proud to be one of these companies that serves America's farmers and ranchers.

Crop insurance companies, also known as Approved Insurance Providers or AIPs, underwrite crop insurance policies, which means we share in bearing the risk of crop insurance policies, so the taxpayer is not entirely on the hook for losses. We hire agents to sell policies and adjusters to assess and confirm losses. We invest in technology, training and services to ensure the integrity and efficiency of crop insurance. We also work with RMA to implement policies such as conservation compliance.

AIPs, as well as the agents and adjusters that service crop insurance policies, represent 20,000 jobs, primarily in rural America. This private sector delivery system allows the Risk Management Agency (RMA) that oversees crop insurance at the US Department of Agriculture (USDA) to be one of the smallest USDA agencies with fewer than 500 staff.

As an industry, we are proud to be an integral part of the rural economy, but often the breadth and depth of coverage provided by crop insurance is overlooked. Here are some significant facts about the industry:

- Almost 280 million acres were covered by crop insurance during the 2016 crop year. As context, there are about 300 million acres of cropland in the United States.
- Individual crop insurance policies are available to more than 100 commodities from apples to almonds and from cotton to corn. Whole farm revenue policies now make crop insurance accessible to every single commodity and to even the most diversified farms.
- Crop insurance protected almost $95 billion in liabilities during the 2016 crop year.
- After proof of loss, indemnities of more than $3.7 billion have been paid to date to farmers and ranchers to keep rural economies moving during the 2016 crop year. This is one of the lowest loss years in decades. During the devastating drought of 2012 more than $17 billion in indemnities were paid to keep rural economies from collapsing.
- Crop insurance uses current-season market prices to determine premiums, coverage, losses and indemnities. Market don't respond to crop insurance; crop insurance responds to markets.
- Crop insurance is available in all 50 states and is purchased by farmers in all 50 states.
- Some of the largest loss ratios (losses compared to premiums) in the 2016 crop year were in Northeastern states impacted by drought. New Hampshire, New York and Rhode Island all experienced loss ratios higher than 1.0 (indemnities paid were higher than premiums for the year), as well as Louisiana, Arkansas, North Carolina and Nevada.

Farm Bill

Support for crop insurance unites a broad swath of rural interests, and the organizations represented at this hearing have shown their support by being active members of a crop insurance coalition that represents farmers, ranchers, agents, lenders, ag input companies, conservation groups and crop insurance companies such as FMH. As companies, we stand united with these partners in working to protect and preserve crop insurance that is affordable and effective for producers of all sizes, crops and regions and is delivered by the private sector. Yet despite the overwhelming support for crop insurance among those most familiar with the needs of farmers and ranchers, crop insurance continues to be an ideological punching bag for some interests that fail to recognize its value to the rural economy.

Heading into the 2018 Farm Bill we know we are going to face opposition from those who wrongly believe that the nation's budget woes can be balanced on the backs of rural America and who see farm programs, including crop insurance, as a bank account to draw down at will. During the upcoming farm bill debate, we fully expect to see attacks that 1) pursue cuts to the private sector delivery system for crop insurance, 2) seek cuts to premium discounts for farmers, and 3) demand means testing for crop insurance. We oppose each of these proposals to harm crop insurance and urge the Senate Agriculture Committee to stand united with us in that opposition.

Private Sector Delivery

We are proud to deliver crop insurance to America's farmers and ranchers. At FMH we view crop insurance as a successful public-private partnership where the program is federally regulated, but delivered by the private sector. Federal regulation ensures that farmers cannot be refused crop insurance protections and that individual companies cannot raise premiums or impose special standards on any individual producers. Premium rates are set by the government and are based on actuarial soundness. Losses are shared by farmers, private sector companies such as Farmers Mutual Hail, and the government. Importantly, the government, and therefore taxpayers, also share in any gains during the good years.

Time and time again the private sector has shown its value by making it possible for farmers who have losses and have met their deductible to typically receive indemnity payments in less than 30 days. The alternative, ad hoc disaster assistance, often took more than a year to get assistance to farmers. It is this efficiency that allows rural lenders to rely on crop insurance when providing operating credit to farmers and ranchers.

Since 2008, the private sector has absorbed cuts estimated at $12 billion over 10 years, including cuts in the 2008 Farm Bill and through administrative actions taken in 2011 in the Standard Reinsurance Agreement (SRA). Despite the positive track record of the private sector in delivering crop insurance to all 50 states, supporting 20,000 rural jobs and making previous contributions to deficit reduction, various proposals have surfaced to make additional cuts to the private sector delivery system.

One such proposal aims to cut billions from private sector delivery by reducing the target rate of return for crop insurance companies from 14.5% to 8.9%. As is the case with many aspects of crop insurance, there is an abundance of misinformation about what a target rate of return is and what a cut would mean for crop insurance companies.

The target rate of return is not a floor on the rate of return for companies, it is not a guaranteed rate of return, and it does not equate to profit. Rates of return for companies fluctuate with the market based on losses in any given year. In 2012 when the country was devastated by drought and commodity prices were high, crop insurance companies – including Farmers Mutual Hail - lost money. This past year, when losses were minimal and commodity prices were low, companies such as ours were able to recover many of the losses incurred in years like 2012.

Just like with farming, there will be bad years and good years for crop insurance companies. The good years are needed to recoup losses in bad years with the hope that at the end of the day the business is able to generate profit. Reducing the target rate of return would only make it more difficult for companies to generate a profit and would encourage companies to pull out of some markets where it would simply not be financially viable to continue service. High risk areas and small markets – two areas arguably most in need of the national safety net - would likely be the first places to lose crop insurance providers, thereby reducing competition in these markets.

We urge the Senate Agriculture Committee to oppose misguided attempts to further cut the private sector delivery system for crop insurance.

Premium Discounts for Farmers

There have been numerous proposals to cut the discount that farmers receive when purchasing crop insurance. The proposals vary in the details, but are fundamentally flawed, regardless of how the cuts are structured.

First, farmers receive a bill for their crop insurance coverage, not a check. The premium discount simply reduces the size of that bill. A farmer only receives a check for their crop insurance policy if they have a verified loss above and beyond their deductible. The average deductible is approximately 25%.

The indisputable fact is that a reduction in the premium discount for crop insurance will increase the cost of crop insurance to every farmer in every single state and for every single commodity. The premium discount is what keeps crop insurance affordable for farmers.

Likewise, any increase in the cost of crop insurance will decrease demand for the product. Economists can debate how much of a decrease in demand will result from an increase in cost, but the fundamental fact remains: if you increase the cost of crop insurance for farmers, they will purchase less crop insurance. As commodity prices continue to decline and farmers' budgets tighten, the impact of higher crop insurance costs will only be more difficult for farmers to absorb. As a reference point, recent analysis has shown that a 10-percentage-point decrease in premium assistance would increase the bill of a typical Midwest grain farmer pays by 50% for a policy at the 70% coverage level. On a policy with an 80% coverage level, the farmer's bill would increase by over 30%.

History tells us that the alternative to affordable and viable crop insurance that includes investment by farmers is off-budget, ad hoc disaster assistance that is 100% paid for by the taxpayer. This is why an increase in premium discounts and types of coverage after passage of the Agriculture Risk Protection Act in 2000 coincided with the decline in ad hoc disaster assistance. Even in 2012 when this nation was faced with one of the worst droughts ever recorded, there was no ad hoc disaster assistance.

We urge the Senate Agriculture Committee to maintain the successes of the Agriculture Risk Protection Act and to oppose cuts to farmer premium discounts for crop insurance.

Means Testing

Adjusted gross income (AGI) limits and premium discount caps for crop insurance have been discussed for a number of years. Specifically, the AFFIRM Act (S. 1025) includes provisions that would apply a $250,000 AGI limit and a $40,000 premium assistance cap for farmers and entities. Some support such proposals as politically expedient under the misguided belief that they would simply eliminate government benefits for wealthy farmers who "do not need support." However, the reality is much more complicated.

Federal crop insurance is, by statute, required to be actuarially sound. Over the long-term, every dollar of indemnities (payments to producers for losses above and beyond their deductible) must be equal to the assigned premium. Crop insurance premiums, just as with other forms of insurance, are based on the attributes of the risk pool, in this case consisting of all farmers participating in crop insurance. So, <u>if you apply AGI limits that remove certain farmers from the risk pool, you change the premium rates for all farmers</u>. It might be only a small number of farmers who are directly impacted by an AGI limit, but it would be a much larger number of acres impacted and would ultimately impact every single producer in the program with a change in rates. If those farmers that leave the risk pool are less risky, then the premiums for the farmers left in the risk pool will increase.

Analysis from the Government Accountability Office (GAO) found that a premium discount cap of $40,000 would have affected 26% of all of the insured liability in the crop insurance program when the study was done in 2011. So, while such caps might not impact the majority of producers, they would put a very large portion of the crop production in this country at risk.

Even USDA has called caps on premium support "ill advised," noting that regions with high-value crops, large-scale farmers and/or regions with a higher risk of crop loss would be especially hard hit. High-value crops would include things such as fruits and vegetables and many organic crops. North Dakota, South Dakota, Texas, Minnesota, California, Arizona, Mississippi, Utah and Hawaii have all been singled out by USDA as likely to shoulder disproportionate effects under a cap on premium assistance.

Ultimately, reduced participation in crop insurance because of any type of arbitrary means testing can only lead to an increase in calls for off-budget, ad hoc disaster assistance when devastation occurs. <u>We urge the Senate Agriculture Committee to oppose misguided attempts to place means testing restrictions on crop insurance</u>.

<u>Regulatory Reform</u>

The crop insurance industry is pleased with the efforts of this Committee and the Administration to review regulations for inconsistencies and inefficiencies. As an industry, we are proud of the service we provide to America's farmers and ranchers, but as a public-private partnership we must work with the public sector to ensure that regulations serve farmers, ranchers, agents, companies and taxpayers well.

The crop insurance industry has worked collaboratively in various areas to promote the integrity and efficiency of the federal crop insurance program. A specific example of these efforts includes work by industry organizations charged with both substantive and technical responsibilities to facilitate and improve new product development (through the 508(h) submission process) and approval. Other examples include industry work to address concerns and assists in implementation of the conservation compliance requirements mandated by the most recent farm bill and to analyze and offer constructive commentary in relation to the development of the Acreage Crop Reporting Streamlining Initiative (ACRSI).

As to the latter, the industry has worked to identify impediments to RMA and Farm Service Agency (FSA) cooperation and to encourage the use of industry data and analytical resources in conjunction with ACRSI. In respect to conservation compliance requirements, the industry has worked cooperatively with RMA to implement the provision and has urged regulatory relief in relation to the problematic timing of required compliance certifications by producers. The industry also has worked with RMA and the Federal Crop Insurance Corporation (FCIC) Board of Directors to better define the appropriate role for crop insurance companies in sponsoring new product development through the 508(h) process and to assess how the concepts of marketability and viability can be efficiently utilized to realistically assess these submissions at an early stage.

We look forward to continuing to work with this Committee and the Administration to ensure that regulations make sense for the private sector delivery system as well as farmers, ranchers and taxpayers.

Battling Misinformation

At the heart of many proposals to harm crop insurance is misinformation. I understand that crop insurance can be complicated and many people aren't familiar with the role it plays. Opponents of crop insurance are happy to fill the void with messages about the program that can be extremely misleading. As we head into the 2018 Farm Bill, our industry will work diligently with the broad crop insurance coalition to bring facts to the forefront. Below I have addressed some of the most common myths we face in our defense of strong, viable crop insurance that provides a critical risk management tool to America's farmers and ranchers.

Improper Payments

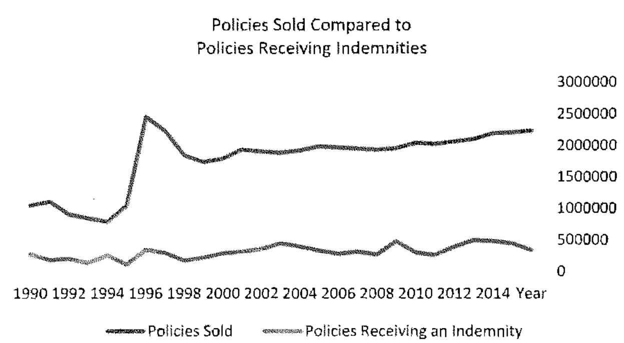
According to the Risk Management Agency at USDA the improper payment rate for crop insurance for fiscal year 2016 was 2.02%, which is almost half the average for all government programs (4.67%). Actual "fraud" rates are even lower as improper payments are defined as everything from over-payments to under-payments to simple errors such as an incorrect zip code.

Crop insurance companies are dedicated to detecting and eliminating fraud, waste and abuse in the program. Crop insurance utilizes data mining to identify potential improper payments and uses spot-checks of the work of insurance agents and adjusters to ensure an efficient, well-run program. Continued education and training are the cornerstones of these efforts at FMH. We believe possessing a sound understanding and knowledge of the policies and guidelines is critical to the successful management of the program.

Losses Required

One of the most common misconceptions about crop insurance is that it doesn't require a loss for a farmer to receive a payment. Crop insurance, just like other forms of insurance, requires farmers to meet a deductible before they receive an indemnity. The average deductible for a crop insurance policy is 25%. In other words, a farmer must lose 25% of their crop or the value of their crop before they receive any benefit from crop insurance. Even if a farmer does not meet this deductible, that farmer must still pay their premium. The vast majority of farmers who purchase crop insurance policies do not receive an indemnity payment.

On average over the last five years, 54% of our customers at Farmers Mutual Hail paid premiums out of their own pockets and received zero indemnity payments.



Source: Risk Management Agency, USDA

Availability to Many Crops

Crop insurance is not just for major row crops. Crop insurance policies are available for more than 100 crops and to farmers of all sizes in all regions. Whole Farm Revenue insurance makes insurance policies available to all farmers. In fact, the number of acres of fruit, vegetables and other specialty crops covered by crop insurance increased from 7.7 million acres in 2009 to nearly 8.3 million acres in 2015. That's an increase of 8% in just 6 years. Including Whole Farm Revenue coverage for nursery, vegetables, trees, fruits and nuts, specialty crop liabilities covered by crop insurance have increased from $7 billion in 2000 to over $18 billion in 2016. The top 10 insured commodities include specialty crops such as almonds, grapes, oranges, apples and nursery crops.

To look at it yet another way, according to USDA about 61% of the reported acreage for fruits, vegetables and tree nuts is covered by crop insurance. Most of these producers purchase coverage above the 50% level. For example, over 80% of the cherry producers in Michigan who purchase crop insurance do so above the minimum level, and over half purchase at the 70 to 75% level. In California, almond producers purchase buyup coverage on 66% of their insured acreage.

Harvest Price Option

There has been some debate around the harvest price option in crop insurance, yet very few people seem to understand the purpose behind such policies. As a crop insurance company, we see firsthand from our farmer customers the need for this type of protection. This coverage provides farmers with the replacement value of their crop when disaster strikes.

Many farmers utilize forward contracting as another way to manage the risk on their farm. If there is a natural disaster that results in a large drop in production in a given commodity, the price of that commodity is likely to increase sharply. If a farmer has a forward contract but has no crop to deliver because of a natural disaster, then that farmer will have to go to the open market to purchase the commodity to fill the contract. The farmer will have to buy that commodity at the harvest price. This is one example of the very real and practical need for harvest price policies.

The harvest price option is also critical to livestock producers who grow their own feed. If a disaster wipes out the feed production of a livestock producer, that farmer will have to enter the market and purchase feed at the going price. If the farmer has to enter the market to purchase feed at the end of the year because they lost their crop, they will need to buy feed at the harvest price.

In these scenarios, the harvest price option is not a luxury, but a tool that prevents a disaster by Mother Nature from being compounded when a farmer is forced to purchase a replacement crop at a higher price to feed their livestock or to fulfill a contract.

Of course, harvest price policies also require farmers to meet a deductible, and farmers pay an actuarial sound premium for this type of coverage.

Beginning Farmers and Ranchers

Ensuring a successful next generation of farmers is a concern to everyone involved in agriculture, including crop insurance companies. The 2014 Farm Bill addressed this issue by improving crop insurance specifically for beginning farmers and ranchers. At FMH we are now able to provide crop insurance tailored to the next generation of farmers and ranchers through higher premium discounts and the ability to build essential yield histories more quickly. According to USDA, more than 15,000 farmers utilized these benefits in 2016, and the number is growing.

The strength of our national and our ability to clothe, feed and fuel the world depends on future farm generations making the choice to keep that connection to agriculture. Promoting this through program benefits and ease of getting started is a win-win for all involved.

Ad Hoc Disaster Assistance

Attempts have been made to compare the cost of crop insurance to ad hoc disaster assistance, and in many ways, that is like trying to compare apples to oranges. Crop insurance covers more than 100 commodities and hundreds of millions of acres of farmland. Ad hoc disaster packages were often selective in the commodities or regions covered, leaving other farmers who needed assistance empty-handed. Ad hoc disaster packages also covered varying, unpredictable portions of the losses experienced by farmers and ranchers versus the predictable liabilities and deductibles in crop insurance. The bottom line is that comparing the actual cost of crop insurance to ad hoc disaster assistance is not a useful exercise because of all of these differences and uncertainties.

However, we do know that crop insurance provides farmers, ranchers and their lenders with certainty that ad hoc disaster assistance cannot provide. We also know that crop insurance provides assistance in a timely manner when disaster strikes. Once a loss is incurred and the deductible is met, farmers can often receive crop insurance indemnities within 30 days. Ad hoc disaster assistance often took a year or more to reach those in need. Farmers are always expected to pay for the protection of crop insurance, unlike ad hoc disaster assistance which is fully-funded by taxpayers. Finally, we know that ad hoc disaster assistance was often off-budget and added to the deficit in a way that crop insurance is not.

Ultimately, crop insurance is a much better deal for taxpayers, farmers and ranchers, lenders, and all of rural America.

Market-Driven

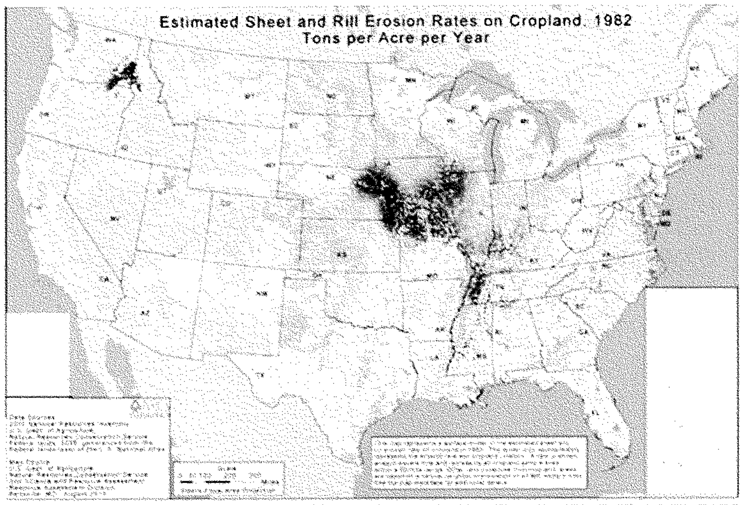
Crop insurance policies do not use an artificial price to determine coverage, losses, indemnities or premiums paid by farmers. Crop insurance uses real-time data such as various commodity exchange prices to determine coverage, losses, indemnities and premiums. As stated earlier, markets don't respond to crop insurance; crop insurance responds to market.

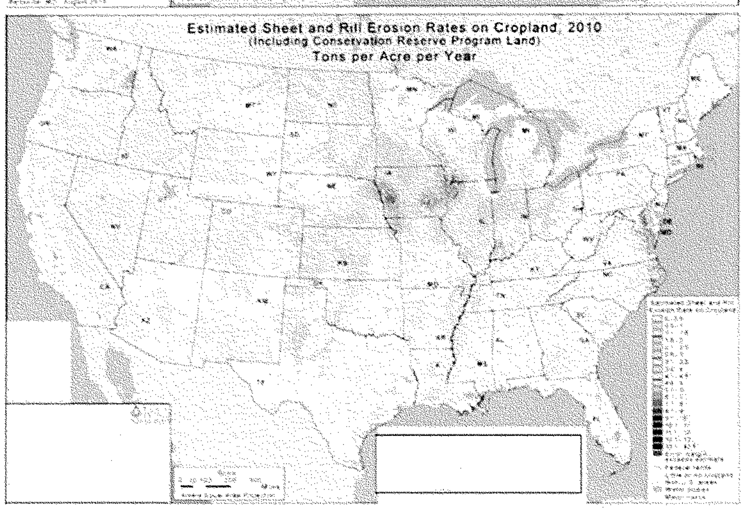
For example, if corn prices are comparatively higher than soybean prices, crop insurance will reflect that market dynamic. Crop insurance is a reflection of the market and is available for both crops.

Provisions in the 2014 Farm Bill also work to ensure that crop insurance will not distort markets. Specifically, new crop insurance products that are proposed for sale must go through a consultation process specifically to assess if there would be a detrimental impact on the marketing and production of a commodity if a new policy is approved.

Environmental Impacts

Some have claimed that crop insurance hurts the environment by encouraging farmers to tear up ground, but the data does not support this connection. Since the 1980s the acres protected by crop insurance have increased from 100 million acres to almost 300 million acres today. During that same period, USDA's Natural Resources Inventory shows cultivated cropland has actually decreased from 376 million acres to 309 million acres. In addition, erosion has also decreased in that same timeframe, as can be seen by the below maps from the Natural Resource Conservation Service at USDA.





While environmental improvements can always be made, this data makes it very difficult to blame environmental issues in agriculture on crop insurance.

Any producer who receives a discounted crop insurance premium must meet conservation compliance provisions for highly-erodible lands and wetlands as well as sodsaver provisions. These provisions make crop insurance part of the solution for environmental health on farms, not a part of the problem.

Conclusion

Thank you again for allowing me the opportunity to talk to you today about the critical importance of crop insurance. FMH is proud to be a provider for such a critical risk management tool for farmers and ranchers, and we look forward to working with this Committee on the 2018 Farm Bill to protect and preserve the program. I look forward to answering your questions and am always happy to be a resource.

U.S. CANOLA ASSOCIATION

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Statement by Robert Rynning
President, US Canola Association

before the

Senate Committee on Agriculture, Nutrition, and Forestry

July 25, 2017

On behalf of the US Canola Association, I want to thank Chairman Roberts and Ranking Member Stabenow as well as the Members of the Committee for this opportunity to represent the views of canola growers regarding the next farm bill which were developed during our annual meeting last February. I am Robert Rynning, President of the US Canola Association. I operate with my brother a 5th generation family farm in northwest Minnesota near Kennedy, growing canola, barley, wheat, and soybeans. I am also a board member for the National Barley Growers Association.

While not a large crop acreage wise, canola can and is grown in diverse regions of the country. Although the Northern Plains account for the majority of U.S. canola production, winter canola varieties have been successfully introduced in the Southern Great Plains and has the potential to become another major U.S. production area. Winter canola production can also be found in the mid-southern states, with much of this acreage supporting double cropping of soybeans or other spring-seeded crops. A fourth production area is in the Pacific Northwest, which produces both winter and spring canola varieties. In 2016, the U.S. produced a record 3 billion pounds of canola seed, but for the coming year, the U.S. will still need to import 68 percent of our expected canola oil consumption; and 75 percent of our expected canola meal consumption. For 2017, growers increased canola acreage in all regions, planting 2.16 million acres, up from the previous 5 year average of 1.7 million acres planted annually. However, the drought in western ND and eastern MT will keep actual production from expanding this year.

Commodity Title

Canola growers are generally pleased with the performance of Title 1. Although 97 percent of canola base acres were entered into the PLC program, USCA supports the continuation of both the PLC and ARC-CO programs – as well as the ARC-IC option – allowing producers a one-time choice among the three options at the start of the next farm bill. Canola is grown as a rotational crop with other crops, and many producers chose the ARC program for the other crops they produce on their farm. With regards to the problems of wide ranging ARC-CO yields between adjoining counties, USCA suggests requiring the use of RMA yields as the first option in the cascade rather than NASS yields. USCA also believes all support payments for PLC and ARC should be paid on historical base acres rather than planted acres to ensure that farmers decide their crop mixes each year based upon market signals rather than which crop would offer the highest government payment. USCA also supports providing an option to reallocate or update crop acreage bases as well as program yields, as was the case in the last farm bill.

Crop Insurance

The USCA strongly supports the program as currently authorized. Without this risk management tool, many producers would be hard pressed to receive operating loans to plant their crops. The proposed cuts in the Administration's FY 2018 budget would completely undermine the actuarial soundness of the program, and would lead to its failure. While the premium discounts producers receive are a major cost of the program, the net premiums paid by producers are still substantial. The proposed $40,000 payment limit would hit a substantial portion of family sized farms and would cause many to drop coverage altogether, setting us up for disastrous results when the next big crop failure occurs. The fact that farmers are able to plant a crop the year following a major crop failure is testament to the success of the crop insurance program.

Research Title

The USCA supports the reauthorization of the Supplemental and Alternative Crops (7 USC 3319d) competitive grant program that is administered by USDA-NIFA. This program is the primary funding source for canola research in the U.S.

Energy Title

The USCA supports the reauthorization and funding for the Biobased Market Program (Section 9002), Bioenergy Program for Advanced Biofuels (Section 9005), and Biodiesel Education Program (Section 9006). These Energy Title programs do not have baseline going forward, however we believe the relatively low cost compared to the market development opportunities they provide warrant their continuation with an increased level of mandatory funding.

Conservation Title

The USCA supports providing an incentive to include canola and/or sunflowers in cropping rotations to provide habitat for honey bees. Honey bees support $15 billion of agricultural production in the U.S. through pollination services, but a major decline in honey bee health in recent years has put these benefits at risk. This decline in bee health has been linked to a variety of factors, including the lack of suitable habitat due to increased agricultural monocultures and declining wild spaces. Canola and sunflowers provide ideal habitat and forage for honey bees when they are not being used for pollination services; and are preferred hive sites by beekeepers. Canola fields bloom for relatively long periods; some fields can provide bees with a good source of nectar for a month or longer under ideal weather conditions. Sunflowers bloom in late summer, providing habitat and forage at a time when fewer plants are blossoming. Maintaining the acreage of cropland planted annually to these two crops is essential to the continued viability of the honey bee industry; and increasing the acreage by just 2-3 million acres across the U.S. would have an immediate positive impact on honey bee health.

Wetland Easement Issues

Despite this year's drought, growers in the Northern Plains have endured in recent years excessive wet conditions that began in the early 1990s. Many have begun tiling their farmland, but this effective conservation practice for managing saturated farmland has been hampered on land that has USFWS wetlands easements. While the easements were meant to protect potholes from drainage, the excessive setback distances that USFWS imposes on adjoining farmland prevents producers from managing saturated farmland that should not be considered under control of the easement. USCA supports requiring the USFWS, when administering USFWS wetlands easements, to use NRCS easement guidelines for determining applicable setback distances from wetlands; and for mitigation options in drainage projects.

Thank you for your time and attention. I will be happy to answer questions the Committee may have for me.

National Association of Wheat Growers

415 Second St. NE, Suite 200 • Washington, D.C. 20002 • (202) 547-7800 • www.wheatworld.org

Testimony of David Schemm
President, National Association of Wheat Growers
Before The Senate Committee on Agriculture, Nutrition, and Forestry
"Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill"
July 25, 2017

Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, thank you for the opportunity to testify today. I'm David Schemm, the president of the National Association of Wheat Growers. I raise wheat, corn, and grain sorghum on my farm near Sharon Springs in western Kansas. Thank you for holding this hearing as part of a larger series of hearings to review programs ahead of the next Farm Bill reauthorization.

Wheat growers across the country have experienced a multitude of challenges the past couple of years, with unfair competition from countries like China that have support systems that distort trade and a dollar value that is relatively high making our wheat more expensive than other major wheat producing-countries, among others. Wheat prices have been on the decline for the past couple of years, and took a significant dive last year. Prices are at unreasonably low levels right now and are expected to remain low for the foreseeable future. A recent exception to this has been spring wheat on the Minneapolis Exchange. Unfortunately that's largely a result of a devastating drought that's hitting the Upper Great Plains and the resulting short harvest. Programs authorized in the Agricultural Act of 2014 (the Farm Bill), and the crop insurance program in particular, have been key tools to enable farmers to continue farming when prices collapse or disaster strikes.

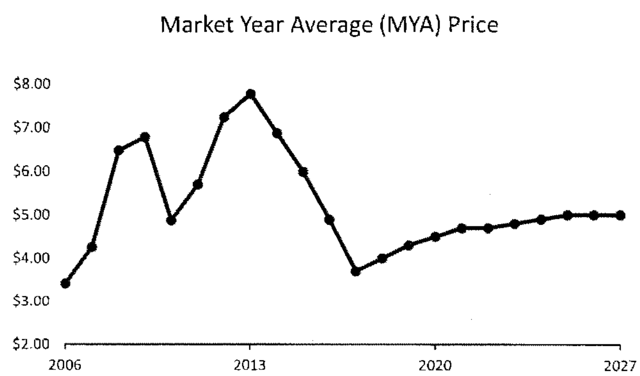
As the 2014 Farm Bill programs have been implemented, there have been some hiccups along the way. We've worked through them and have sought your help in influencing implementation, and we sincerely appreciate your help and attention to our concerns along the way. Despite those hiccups, the programs have been functioning as they were supposed to: as a safety net for producers. Through my testimony, I will highlight some key examples of how these programs have functioned effectively and some areas where tweaks would be helpful. Let me start by laying out the economic conditions in wheat country.

Economic Conditions in Wheat Country

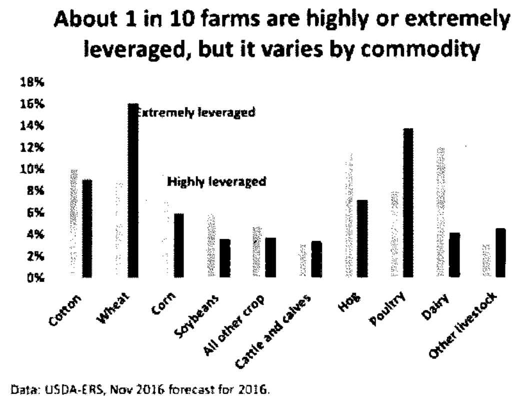
The past couple of years have proven to be particularly challenging for wheat farmers across the country. Farmers of most commodities are experiencing lower than normal prices. Wheat in particular has dipped to levels we haven't experienced in a long time. Producers of Hard Red Winter (HRW) wheat in my neck of the woods became eligible for marketing assistance loans (MALs) and Loan Deficiency Payments (LDPs) for the first time in several years because prices dropped below loan rates. When the last Farm Bill was written, loan rates were set at such a low level they were never expected to trigger. They have, but MALs and LDPs have functioned as helpful cash flow tools and have enabled farmers to hold onto their wheat until prices improved. Farmers have had to deal with a rapidly declining market, and months and years of sustained low prices that will make each passing year more difficult to get by, particularly for young and beginning farmers who couldn't build up reserves during the high price years. This is particularly relevant as the average age of a farmer is 58 and is expected to continue climbing.

There have been many different factors that have contributed to the low prices, which I will discuss throughout my testimony. One particularly important factor has been market competition from other large wheat-producing countries. Though this falls outside the scope of Title 1, I strongly believe that Congress needs to continue to aggressively pursue new markets. Along those lines, NAWG supports reauthorizing and doubling funding for the Market Access Program (MAP) and Foreign Market Development (FMD) program as part of the next Farm Bill. A study last year from Informa Economics showed that from 1977 to 2014, for every dollar spend on MAP and FMD, there was a return on investment of $28.20 in export gains. Additionally, these programs were responsible for 15 percent of total agricultural export revenue, and they have increased net farm income by $2.1 billion annually, on average. These programs work, and the value of them can be greatly expanded with additional investment.

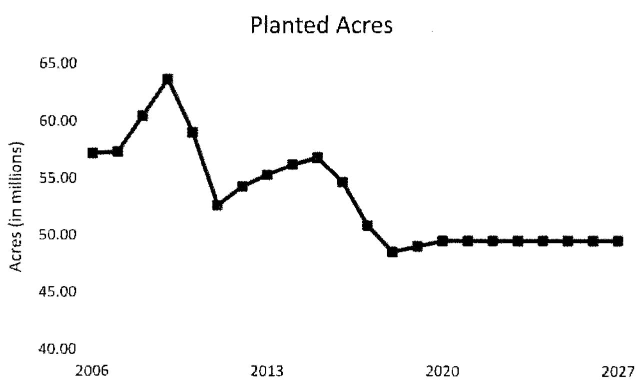
As the chart below laying out the market year average price shows, there have been some big swings over the past few years and more recently there have been significant drops in prices; the market year average price is determined by USDA and is used in setting farm program and crop insurance payments. Additionally, as I'll discuss later in my testimony, the price that farmers are actually receiving from their local elevators is often much lower than what the market year average price would show.



The data in the above chart for 2006 through 2015 shows Market Year Average Price from USDA National Agricultural Statistics Service (NASS), and from 2016 through 2027 shows the assumptions made by the Congressional Budget Office (CBO) for future Market Year Average prices. The low prices have led to farmers needing to take on more debt to continue operating. As such, producers' debt to asset ratios have grown rapidly. The chart below lays out the degree to which producers have taken on debt. Over 8 percent of wheat producers are considered by USDA's Economic Research Service to be "highly leveraged" (a debt-to asset ratio between .4-.69) and 16 percent are considered to be "extremely leveraged" (a debt-to-asset ratio over .69).



The economic conditions of the past few years have also contributed to a drop in planted wheat acreage, which is predicted to continue. Plantings for the 2016-2017 crop year is down 9 percent from the previous year and is the lowest planted acres on record since records began in 1919. The 2017 winter wheat planted acres was 32.8 million, down 9 percent from 2016. The area planted to spring wheat is estimated at 10.9 million acres, down 6 percent from 2016. Not only are planted acres down, but given widespread weather issues (late freeze, blizzard, drought, and other problems), production will be down as well.



The chart above shows the 2006-2016 actual planted acres, as published by USDA's NASS. The 2017-2027 data points show the anticipated future plantings of wheat as published in the June 2017 CBO baseline report. CBO anticipates that there will be a small swing back up in acreage, but this still exemplifies the challenging conditions facing growers when they pull back their production and shift to other crops.

Title 1 – ARC and PLC

In addition to crop insurance, which I'll discuss later in my testimony, the Title 1 programs like Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) have served as key safety net programs that are limited, and kick in for losses not covered by crop insurance.

With the reform of the safety net programs in the last Farm Bill away from direct payments to a choice between revenue protection and price protection, implementation has gone relatively smoothly and those programs have largely functioned as they were intended. There have been some hiccups along the way, and we envision several tweaks that could be made to make these programs even more effective.

Agriculture Risk Coverage Program

Wheat is grown in 42 states with very different growing conditions, and thus have different protection needs across the country. Some areas of the country experience more production variability than other areas of the country; therefore, we need to maintain revenue protection through the ARC program.

The majority of wheat base acres were enrolled in ARC-County. This program has worked well, but we have experienced several significant issues the past couple of years. Additionally, as prices continue to remain at low levels, the effectiveness of this program will decline as low prices are factored into the benchmark. Some tweaks could be made to ARC to ensure it continues to be a viable option for producers.

One option could be to increase the reference price in the ARC formula to be consistent with whatever final PLC reference price is established and use that price as a floor for setting benchmark guarantees. With the anticipation that market prices will remain at historically low levels for the foreseeable future, we urge Congress to ensure that a mechanism is in place to maintain an appropriate benchmark revenue guarantee to help farmers through these difficult times.

On the yield side of the equation, counties that experience highly variable yields from year to year, or that experience multiple years of significant drought or some other weather event, will experience significant drops in their ARC guarantee. An option that should be considered would be to cap the percentage drop in yield in any given year for the guarantee by increasing the transition yield (T-yield) that is used when a county's yield drops below a certain level. An option could be to extend the number of years that are used in setting the benchmark to smooth out the dramatic changes in yields over that timeframe.

Our producers have concern about the data that is used in the ARC program, and we believe that, where available, data from the Risk Management Agency (RMA) should be the highest priority data source that's used to set yields. As it stands now, FSA uses data through the National Agricultural Statistics Service (NASS), which is based on voluntary producer surveys. If NASS is unable to publish a yield, FSA will then utilize a cascade of other data sources. Over several years, it's certainly possible that a particular county could have a couple of years with NASS published data and a couple of years without published data because of a lack of survey responses. Without a published NASS yield, FSA would then use data from another source to set those yields. This is like comparing apples to oranges when using multiple data sources. Instead, the information that a producer reports to RMA for purposes of purchasing crop insurance is mandatory, and we believe appropriate county yields can be pulled from that information. We recognize that there will still be disparities in payment rates between counties, but utilizing more reliable data will help to instill more confidence in our producers that they are getting fair treatment from the program.

Wheat is grown in very rural areas, and in some cases there are very large counties where there is significantly different growing conditions from one end of the county to another. Farmers rightly had the option of enrolling in ARC-Individual, but as a farmer would have to experience a greater loss than under ARC-County and as it would only apply on up to 65 percent of a participants' base acres, the program was much less attractive than ARC-County. An approach that could be taken to improve the functionality of ARC-County in large counties would be to use smaller than county size geographic areas in particularly large counties that experience weather and growing variations for establishing payment rates. This approach could enable payments to be triggered at a more localized level and to be more reactive to the actual experience of producers.

Price Loss Coverage

Wheat farmers enrolled roughly 43.5 percent of the wheat base acres across the country into PLC. The recent Congressional Budget Office (CBO) baseline report, in projecting the costs of USDA programs over the next ten years, assumes that Congress will allow for a producer re-election after the expiration of the current Farm Bill and that roughly 80 percent of base acres will be enrolled in PLC. This is anticipated as lower prices of the past couple of years will begin to be incorporated into the ARC benchmark, ultimately reducing the benchmark revenue.

From our perspective, this means that it will be important to adjust the ARC formula to enable it to continue to function as a safety net when the need is there. It also means we need to ensure that PLC reference price is set at a level that provides a sufficient safety net when prices are at perpetually low levels.

While PLC has kicked in for producers that enrolled, the current reference price for wheat of $5.50 per bushel is far below the cost of production. We urge you to increase the wheat reference price that is more closely reflective of the modern cost of producing the crop. As such, we think the PLC wheat reference price should be set at a level that is closer to $7 a bushel to truly enable PLC to function as a safety net for farmers when times are tough, like they are today.

Marketing Loan Program

Last year, the Marketing Assistance Loan (MAL) program and Loan Deficiency Program (LDP) trigger for the first time in many years for Hard Red Winter (HRW) wheat producers. The Farm Bill sets statutory loan rates, ultimately meaning that the loan rates at the county level across the country have to average out to the rate set in statute. The loan rate for wheat was set at $2.96 per bushel in the last Farm Bill, and so some counties had rates lower and higher than that level to trigger the availability of MALs and LDPs. We haven't had to imagine prices dropping that low in a long time, but they did for an extended period last year. MALs and LDPs served an important role to help farmers, including my own operation, hold onto their crop until prices improved. These programs actually have relatively little cost to the government, as they are loans that farmers pay back when they do eventually sell their crop on the market. This program should be continued, and the loan rates should be increased to better reflect modern production costs and more recent price realities.

Other Title 1 Issues

In setting up a national program, it's unrealistic to establish a one-size-fits-all approach that will ensure sufficient protection for all growers. As such, we urge Congress to continue to allow a producer choice between revenue protection and price protection. With growing and marketing conditions that can vary across the country, maintaining a choice in programs is critical. Additionally, we support allowing a one-time re-election of programs at the beginning of the next Farm Bill, as well as any time at which any substantial program changes occur.

NAWG also believes that the next Farm Bill should continue the use of base acres rather than planted acres in determining farm program payments. Additionally, should you make any changes to the structure of the base acre program, we urge you to give farmers the choice as to whether to update their base rather than making it mandatory.

And finally, for both ARC and PLC, NAWG opposes any further restrictions to farm program eligibility in terms of "actively engaged" requirements. We also oppose any further tightening of payment limitations.

Crop Insurance

The federal crop insurance program has been and continues to be farmer's most important risk management tool. The program requires a farmer to pay a premium, the cost of which is shared with the federal government, and is structured in a way that the producer has to suffer an indemnifiable loss before they get any sort of payment. A farmer might go many years paying premiums for a policy and rarely get an indemnity. A farmer would much rather get a return on their commodity than becoming eligible for an indemnity.

The ability to manage risk through crop insurance is very popular with producers. For the 2015 crop year, there were 56.8 million acres of wheat grown in the United States (according to USDA's Economic Research Service (ERS)), of which 49.4 million acres (or 87 percent) were insured (according to USDA's Risk Management Agency Summary of Business document, as of March 20, 2017). This high participation rate is indicative of the effectiveness of the program.

The last couple of years have been particularly difficult for wheat farmers. Crop insurance has played an important role in helping producers get through the current low prices. Each year there will inevitably be producers in some part of the country that experience weather conditions outside of their control that could take out their crop. This year, in my parts of Kansas alone, we experienced a late-season blizzard, a freeze, hail and disease. Currently, South Dakota, North Dakota, and Montana are experiencing drought that's taken out much of their spring wheat crop. On the other spectrum, North Carolina experienced flooding last year that had a widespread impact on their wheat crop. Crop insurance is critically important to enable a producer to farm another year after an uncontrollable weather or disease event. As my fellow Kansas wheat farmer, Ken Wood, said to this Committee at your recent field hearing, "for most of us, crop insurance will not guarantee a 'good year,' but it offers the promise of 'another year.'"

NAWG opposes any efforts that would undermine the current structure of the program. Specifically, we oppose any restrictions on eligibility for program participation based on a producer's Adjusted Gross Income, any caps on the federal cost-share level, and any restrictions on a producer's ability to utilize the Harvest Price Option (HPO). Restrictions on eligibility would cause farmers to lower their crop insurance participation which would not only cause the producer to take on more risk, but it would also cause premiums for all producers, big and small, to increase. If producers lower their coverage or if fewer producers are participating, that means there are fewer acres over which to spread risk in the program, ultimately requiring premiums to increase.

In addition to supporting the current structure of the producer support component of crop insurance, NAWG opposes any cuts to the delivery system. The current public-private partnership for program delivery to producers has worked very well and has ensured that producers can get timely assistance when economic or weather disasters strike. Efforts to reduce the target rate of return or Administrative and Operating (A&O) reimbursements would negatively affect crop insurance companies and their ability to deliver programs, and would thus have a negative impact on producers. The federal crop insurance program has also performed incredibly well, with an improper payment rate of just 2.2 percent, which is about half the government-wide average of 4.39 percent. Additionally, RMA has an effective data mining system to detect and combat fraud. NAWG urges you to exclude any of these types of proposals.

With all this said, wheat producers have experienced a few issues over the past couple of years that warrant discussion.

Yield Exclusion

NAWG was very supportive of the inclusion of the Yield Exclusion provision as part of the last Farm Bill. When the Farm Bill was being written, many producers were suffering periods of prolonged drought. The Yield Exclusion provision enables producers in a county that had yields with a 50 percent or greater hit to be able to exclude that year's yield from their Actual Production History. We were, however, disappointed that USDA was unable to implement this provision for the 2015 winter wheat crop. Members of the Senate Agriculture Committee were champions of wheat during that timeframe, raising this issue with USDA officials. Though the Department was still unwilling to have the provision apply to that year's crop, the Committee's attention to this issue undoubtedly drove USDA to quickly move forward with implementation for spring-seeded crops that year and subsequently the 2016 winter wheat crop. I will note that while we are strongly supportive of YE, a disincentive to participate is that the use of YE ordinarily means that premium rates will increase for that producer.

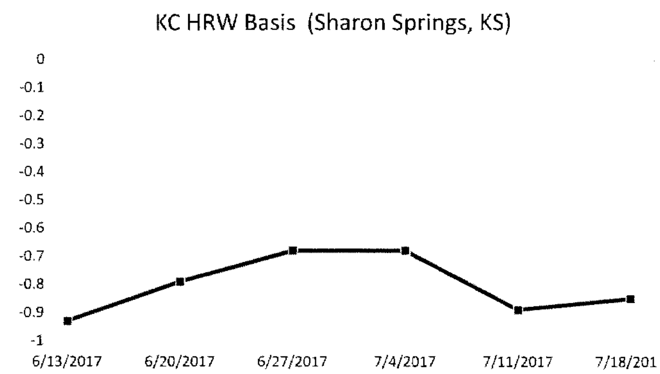
Non-convergence in the HRW futures market

I'm a Hard Red Winter (HRW) wheat producer in western Kansas. Last year, our planted acres were down but we still had a crop that exceeded our previous yield record by over 10 bushels per acre. We had a much bigger crop than expected. This had a lot of implications for the markets. Where were we going to not only ship our wheat, but where were we going to store it in the interim? There were and continue to be significant logistical issues associate with the huge crop. This was just exacerbated by big crops in other significant wheat-producing countries, like Russia which was the largest producer last year. We had significant competition in our export markets from other countries whose wheat was relatively less expensive than U.S. wheat in part because of the relatively high value of the U.S. dollar. These economic forces have been part of the cause of the depressed prices.

At harvest time, as is the case for any crop, there is generally immediate downward pressure on prices because everyone is delivering to the market right from the field at the same time. So, we'll often experience a growing divergence in the local cash price as compared to the futures market; the difference is referred to as the basis. Producers of HRW experienced a much wider basis than what we've experience in a long time. Personally, my local basis jumped from $.70 a bushel to $1.55 a bushel in just ten days. Fortunately, the CME group has stated it plans to implement variable storage rate for

Kansas City Hard Red Winter Wheat futures contracts starting next spring. We think this will have a positive impact on the market and provide an incentive for more movement of product.

Even with this, there are several potential crop insurance implications of non-convergence that you should be made aware of here. For HRW producers with revenue coverage, their contract is based on the Kansas City futures price. When the local cash price was $1.55 below the futures price, had I sold the crop and tried to pursue an indemnity, my contract would've only reflected that I was receiving the futures price rather than the actual price. My "actual" revenue was significantly inflated compared to my real experience. There are potentially similar implications for the ARC program, in that the ARC formula utilizes a market year average price, which wouldn't account for farmers experiencing a wide basis. The graph below shows the basis between Kansas City Hard Red Winter September 2017 futures contracts and the cash price received at an elevator in Sharon Springs, Kansas over the past month and shows there currently a basis of nearly $.90.



NAWG has been exploring this issue to identify whether there are components of the crop insurance program that can be adjusted to make the program more reactive to what the farmer is getting paid for their crop. As we continue with this process, I will keep in touch with you and the rest of the committee.

Quality Adjustments

Our wheat markets set strict standards for quality. Wheat tends to be more susceptible to quality problems than many other commodities. There are technologies in place to assist producers in producing the best quality of wheat anywhere in the world, but we are still dependent upon favorable growing conditions. Recently, two of the higher-profile issues our growers experienced were low Falling Numbers in the Pacific Northwest and vomitoxin in the northern Plains.

Many producers have suffered from widespread financial losses due to weather-induced problems resulting in poor end-use quality as measured by low Hagberg-Perten Falling Numbers. The Falling Number test detects starch degradation due to alpha-amylase enzyme activity and possibly other factors in wheat flour. This ultimately indicates that the flour has poorer quality for baked goods. Farmers experiencing low Falling Numbers will likely receive a discount at their elevator, often significant depending on the degree to which their load was affected. Additionally, with low Falling Numbers, though the quality has taken a hit, it isn't a yield issue. In fact, the producers in Washington, Idaho, and Oregon that experienced this problem had bigger than average yields. However, the way the statue is written, those quality discounts are applied to a producer's Actual Production History (APH); even though low Falling Numbers doesn't directly affect a producer's yield, RMA still requires that their yield be reduced to reflect that quality loss. This occurs even if the producer doesn't pursue an indemnity. From a fairness standpoint, it would be worth considering whether such quality discounts could be applied to the price side of the equation rather than the yield side so that a producer's APH isn't affected for 10 years until that year's yield is cycled out.

Conservation Compliance

NAWG remains concerned about linking conservation compliance to crop insurance. The changes that were made during the last farm bill added stress to a system that was already overloaded. The backlog of wetland determination in the Prairie Pothole region still exists. NAWG appreciates that the Natural Resources Conservation Service (NRCS) reaffirmed their process for certain wetland determinations earlier this year and we believe that farmers that went through the process to obtain a determination in accordance with the Farm Bill provisions should not be required to go through another evaluation or re-determination.

Agricultural Credit

Recent price conditions have made farm loan programs more and more important. Fortunately, interest rates have remained relatively low, particularly as compared to interest rates during the 1980s farm crisis. We have a very effective system in place now where farmers have a number of options for securing financing. Farmers should continue to have access to commercial banks, community banks, and Farm Credit institutions.

Given the tough economic conditions in recent years, there has been an uptick in demand for FSA's direct and guaranteed farm ownership and operating loans. These programs have been important sources of financing for young and beginning farmers as well as for those producers who have been unable to secure traditional financing. Last year, demand exceeded lending authority before the end of the fiscal year, which meant many farmers had to wait before they could access critical loans. We urge you to include language in the Farm Bill that would ensure demand can be fully met, no matter the economic conditions in any given year.

An issue that we expect to get more and more attention the longer prices remain low is the ability to predict and incorporate a producers' farm program payments into their cash flow for purposes of securing financing. Assistance through Title 1 programs has become a more and more important factor for producers, particularly young and beginning farmers who haven't built up capital. As payments don't go out until over a year after the wheat crop has been harvested, it's difficult to predict what the payment rate will be, and it's even more difficult for financial institutions to justify anticipated payment rates to their regulators. We recognize that moving up the timing of payments would be cost-prohibitive; however, we think Congress should explore options for enabling better predictability.

Other Key Farm Bill Programs

Though this hearing focuses on commodities, risk management, and credit issues affecting agricultural operations, I'd like to take this opportunity to address a few other important programs. Wheat growers are focused on productivity and profitability and an important element of maintaining both productivity and profitability is managing our operations for long term success, managing productive healthy soils and being good stewards of the land. For a farmer, without a successful crop each year and our long term financial viability, we cannot purchase new equipment, test new practices and experiment with new cropping systems. We don't operate on margins that allow us to take the risk of an unsuccessful crop. Farm Bill Conservation programs provide a backstop that allows us to make investments in new technology and try new conservation practices.

NAWG supports the continuation of voluntary, incentive-based conservation programs in the next Farm Bill. NAWG members have prioritized working lands conservation programs in our discussions about the next Farm Bill. We believe these programs should work with farmers to integrate conservation practices and techniques into their farming operation. Part of that conservation assistance may be a buffer or filter strip, and these practices should be taken into consideration across the entire farming operation. There must be balance in the types of programs offered and flexibility to meet local needs. Conservation programs should provide a variety of types of assistance to producers, and recognize the different needs in different parts of the country and for different crop rotations.

The Conservation Stewardship Program (CSP) helps producers adopt conservation practices across their operations. Wheat growers have been participating in the program and have integrated practices and enhancements such as variable rate application of nutrients, replacing spray nozzles to control crop protection tool application, converting to direct seeding/no till farming, irrigation water management, and stalk testing for appropriate fertilizer application. NAWG members support continuation of CSP and allowing additional opportunities to enroll in CSP and would like to allow for an additional contract renewal. The financial incentive payments provided by CSP help producers off-set the cost of adopting a new practice, purchasing new equipment and providing habitat. These practices improve soil health, improve water quality, result in more efficient irrigation water use and benefit wildlife.

The Environmental Quality Incentives Program (EQIP) is another conservation program that is important to wheat growers. EQIP provides financial incentives for growers to undertake a certain conservation practice and provides for a shorter-term contract. EQIP also helps those producers that aren't quite ready for CSP. EQIP allows them to work toward meeting the requirements for eligibility in CSP. EQIP also provides assistance to producers seeking to undertake a specific conservation project on their operation. Farm Bill Conservation Programs have also been used to help producers comply with regulations. Specifically, EQIP provides assistance for producers to come into compliance with requirements of the Spill Prevention, Control, and Countermeasure regulations for on-farm fuel storage. Conservation programs also help producers meet requirements under federal and state water quality regulations.

NAWG members are very supportive of Farm Bill Conservation Program and we encourage the committee to retain the variety of conservation programs the Farm Bill offers. Cropping systems, climate, and soils are different across the country for all of our wheat farmer members, and our conservation programs need to be able to help farmers manage their resources in a manner that is specific to their cropping and resource needs. Working lands programs are the most beneficial in helping growers manage their operations to address natural resource concerns and maintain a viable crop. The working lands programs, such as CSP and EQIP, should be balanced with CRP that can also play an integral part of a conservation plan on a farmer's operation.

Conclusion

Wheat farmers across the nation are experiencing the toughest economic conditions they have faced since the 1980s and many of the previously mentioned projections don't show potential for a quick upturn in the farm economy. This next Farm Bill will be critically important to farmers. The political and policy dynamics facing Congress this year are much different than the process to write the last Farm Bill. A strong safety net and risk management system is needed now more than ever. Each year, farmers face unpredictable risk when they plant crops in the ground and they rely on an effective risk management system and safety net to offset the inevitable weather disaster or price drop. Crop insurance and Title 1 programs have proven to be effective and good policy in general.

As our discussions continue with what the next Farm Bill will look like, I look forward to working with you. I also encourage you to move quickly in this process to ensure a full reauthorization bill can be completed prior to the expiration of the current Farm Bill on September 30, 2018 so that producers have certainty about the structure of the safety net moving forward.

With that, I'll be happy to answer any questions.

Senate Agriculture Committee
Farm Bill Hearing
Washington, D.C.
July 25, 2017

Testimony by
Ervin Schlemmer
Schlemmer Farms Inc.
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On Behalf of
The American Sugar Alliance

Introduction

My name is Ervin Schlemmer and I, with my wife Julie and son Greg, his wife Rachel and his four children, grow sugarbeets, corn for grain and silage, alfalfa hay and malt barley on 1,200 acres of irrigated land. We, along with 1,000 growers in four states (Colorado, Montana, Nebraska and Wyoming) are shareholder owners of the Western Sugar Cooperative that processes our beets and markets our sugar. We also own two feedlots that handle 20,000 cattle a year. I am a third generation farmer, and want my son and grandsons to continue our family farming tradition. I have served on my local sugarbeet grower Board of Directors for the past 25 years and have held various leadership positions at the national level.

I am proud to testify today on behalf of the American Sugar Alliance – the national coalition of sugarbeet and sugar cane growers and processors, generating 142,000 jobs in 22 states. The U.S. sugar industry is the economic lifeblood for many of the small towns throughout the growing regions, generating $20 billion in annual economic activity.[1]

U.S. Sugar Industry and Policy

American sugar policy can work well for American consumers, food manufacturers, and taxpayers, can provide an adequate economic safety net for sugar producers, and help to respond to Mexican subsidizing and dumping.

In 2014 and 2015, the U.S. International Trade Commission agreed unanimously that the Mexican government and sugar industry had injured the U.S. sugar industry. The Department of Commerce calculated subsidy and dumping margins totaling more than 80%. Rather than imposing those duties, the U.S. and Mexican governments negotiated Suspension Agreements (SAs) to resume duty-free trade, with the objective of eliminating harmful dumping.

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[1] LMC International, "*The Economic Importance of the Sugar Industry to the U.S. Economy – Jobs and Revenues*," Oxford, England, August 2011.

Those SAs proved to be ineffective. The dumping continued, and U.S. refined sugar prices were hovering near loan-forfeiture levels. Hawaii has ceased cane sugar production. Many other American sugar producers are financially vulnerable.

Today, only about 70% of U.S. sugar consumption is supplied by domestic production, with the balance coming from imports. Twenty years ago, 85% was supplied by domestic production (*Figure 1*). Growing dependence on foreign suppliers is an alarming trend that must be reversed. The sugar policy's focus must be to put American beet and cane farmer interests first. An adequate response to foreign subsidies and dumping is essential to our survival.

Background

Food security. Sugar is a strategic commodity and plays an important role in the security of our nation's food system. We are already heavily dependent on foreign suppliers for about 30% of our domestic needs. We cannot become more dependent on foreign imports because they have been proven to be unreliable in times of global shortages. The U.S. sugar industry is a key supplier, and food manufacturers and retail businesses depend on us to provide them with a high quality, safe, dependable and on-time supply of sugar.

The U.S. sugar industry is a major player in the world sugar market, the world's fifth largest sugar-producing country, and among the most efficient.

The U.S. is the 20th lowest cost producer among the 95 largest sugar-producing nations. Most of these are developing countries with far lower government-imposed costs for worker, consumer, and environmental protections. U.S. beet sugar producers, mostly in northern-tier states, are the lowest-cost beet producers in the world.[2]

U.S. beet and cane producers are among the most efficient in the world because we have reduced costs by vertically integrating. We have formed cooperatives and growers now own all of the nation's 22 beet factories, and cane growers have purchased most of their refineries.

The United States is also the world's fourth largest sugar-consuming country and the third largest sugar importer. We provide guaranteed and essentially duty-free access to 41 countries. This makes the U.S. one of the world's most open markets to foreign sugar. The amount of duty-free access is determined under the World Trade Organization and other trade agreements to which the United States is a party.

We have reduced costs through research and innovation. The adoption of modern biotechnology has raised beet sugar yields by 30% and provides 26 environmental benefits that include dramatically reduced energy, crop protection products, and water use. The sugar from genetically engineered beets is the same as sugar from conventional beets or cane. Our sugarbeets are now one of the most sustainable sugar crops in the world.

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[2] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking*," Oxford, England, August 2011.

American food manufacturers and consumers depend on a reliable, dynamic, geographically-dispersed domestic sugar-producing industry to provide safe, high-quality, responsibly-produced sugar at a reasonable price. Despite a well-designed sugar policy in the 2014 Farm Bill, the low prices caused by Mexican subsidies and dumping threatened the economic viability of American sugar producers.

Justification for U.S. Sugar Policy

Since U.S. sugar producers are among the lowest cost in the world, one might ask why the industry requires a sugar policy at all. The answer is found in the distorted, dump nature of the world sugar market.

Foreign governments subsidize their producers so egregiously that many of these countries produce far more sugar than their markets demand. Rather than store these surpluses, or close mills and lose jobs, as the U.S. has done, these countries dump their subsidized sugar onto the world market for whatever price it will bring. This subsidized dumping threatens further harm to American farmers.

As a result of these dumped surpluses, the so-called "world price" for sugar has been rendered essentially meaningless. The world price has rarely reflected the actual cost of producing sugar – a minimal criterion for a meaningful market price.

The world price is so depressed by subsidies and dumping that, over the past 28 years, the world average cost of producing sugar has averaged nearly 50% more than the world price *(Figure 2)*.[3]

One European market expert noted: "The world market price is a 'dump' price…(it) should never be used as a yardstick to measure what benefits or costs may accrue from free trade in sugar."[4]

Researchers at Texas A&M University's Agricultural and Food Policy Center wrote:

"Policymakers in the United States have long recognized that the world sugar market is heavily distorted by foreign subsidies and market manipulations and have provided U.S. sugar farmers with some form of safety net for more than 200 years. Major exporters of sugar do not respond to the signals of the world market but rather to the policies of their governments that enable them to export sugar below their costs of production and their own domestic prices."[5]

How can a world sugar industry exist if the price received for the product is just a fraction of the cost of producing it? The answer is twofold:

1. Only about 20-25% of the sugar produced each year is actually traded at the so-called "world price."

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[3] LMC International, *"World Sugar Prices vs Costs of Production,"* Oxford, England, March 2017.

[4] Patrick Chatenay, "*Government Support and the Brazilian Sugar Industry*," Canterbury, England, April 2013.

[5] Dr. Joe Outlaw and Dr. James Richardson, "*Analysis of the Coalition for Sugar Reform Amendments to U.S. Sugar Policy: Potential Effect on Policy and Industry*," Agricultural and Food Policy Center, Texas A&M University, May 2016.

2. The other 75-80% of sugar is consumed in the countries where it is produced, at prices considerably higher than the world price and higher than production costs.

The International Sugar Organization (ISO) surveyed 78 countries to learn actual wholesale prices – the price producers in those countries receive for their sugar. The ISO documents that, globally, actual wholesale refined sugar prices have averaged 46% higher than the world price over the past decade. Prices in developed countries have been nearly double the world dump market price – averaging 94% higher *(Figure 3)*.[6]

This, then, explains how we can have a vast world sugar industry: governments shield their producers from the world dump market sugar and maintain prices high enough – above the dump market and above production costs – to sustain their subsidized domestic industry and generate and defend jobs.

Further, this explains why we require a sugar policy – even with American sugar producers among the lowest cost, and most responsible, in the world. Generous domestic pricing encourages over-production in many countries, and governments then seek to export their surplus. Absent this policy, those subsidized and dumped surpluses would wreck the U.S. market and displace efficient American sugar farmers.

Recent exposure of the U.S. sugar market to Mexican subsidies and dumping provides a disconcerting case in point. And Mexico is by no means unique. Its behavior is typical of foreign sugar exporters who subsidize their exports and shift the burden of their surpluses from their domestic markets onto the world market.

Damage from Mexican Subsidized Dumping

When the NAFTA went into effect in 1994, the Mexican sugar industry was struggling financially and was an occasional exporter of small volumes of sugar. In 2001, the Mexican government expropriated half of all its country's sugar mills, rather than allowing them to go out of business. With government help, Mexican sugarcane plantings increased dramatically – up about 60% since NAFTA was signed – though Mexican sugar demand was flat or declining *(Figure 4)*.

Mexico became one of the world's largest sugar exporters, with the group of Mexican government mills by far the country's leading sugar producer and exporter. Virtually all those exports have been aimed at the U.S. market, which opened fully to Mexican sugar in 2008 under NAFTA rules.

Though the Mexican government recently "officially" divested itself of its mills, the government remains closely involved in its sugar industry. In addition to government ownership, Mexican growers and processors have benefitted from federal and state cash infusions, debt restructuring

[6] International Sugar Organization, "*Domestic Sugar Prices - a Survey*," MECAS (15)06, May 2015.

and forgiveness, government grant programs to finance inventory, exports, and inputs, and a cane-grower payment system that effectively subsidizes exports.[7]

In 2013, Mexican sugar production soared to an all-time high – a stunning 38% higher than the previous year's production. Yet despite the huge domestic market surplus, Mexico was able to sustain sugar prices higher in their domestic market than in the United States. How did they manage to balance their market? By dumping their subsidized surplus on the U.S. market. Mexico doubled its exports to the U.S., shipping about 1 million more tons than our market could bear (*Figure 5*). Those sugar exports in 2013 and 2014, at 2 million tons each year, were about 250 times greater than their pre-NAFTA levels.

The subsidized and dumped Mexican surpluses collapsed the U.S. sugar market and caused the first government cost for sugar policy in a dozen years, as American farmers struggled to repay loans they normally repay fully – principal plus interest.

The U.S. sugar industry filed antidumping and countervailing duty cases against Mexico in 2014, and won. The ITC ruled unanimously that Mexico had injured the sugar industry, and the Department of Commerce calculated subsidy margins of 6-44% and dumping margins of 41-42% *(Figure 6).*[8]

U.S. producer prices plummeted by more than half from 2010 to early 2014, recovered somewhat in late 2014, and have fallen by a fourth since then. Subsidized Mexican imports continued to harm the sugar industry, despite SAs the U.S. and Mexican governments implemented in late 2014 with the intention of preventing further damage. Much of American sugar production could not survive under those market conditions.

Unfortunately, the SAs were not working as intended. Mexico, basically, has sent too little raw sugar and too much refined sugar to the U.S., relative to market needs. Cane refiners have been starved for raw sugar to process, and refined beet sugar prices are so low that loan forfeitures are a serious threat.

The U.S. and Mexican governments signed amendments to the SAs on June 30, 2017 that should address the major problems undermining sugar policy. It was a very difficult negotiation for all parties, but we are hopeful that this will restore the proper balance to the market and allow the sugar policy to operate as it was intended. We would like to express our deepest appreciation to Commerce Secretary Ross and Agriculture Secretary Perdue for negotiating these amendments. And we thank members of this Committee who supported that difficult process. We are optimistic the amended agreements will be effective, but that will only happen with close monitoring and enforcement. We will work closely with the Departments of Agriculture and Commerce and Customs and Border Protection on implementation, and we will keep the Committee informed of any problems.

[7] https://sugaralliance.org/mexican-export-subsidies-injuring-u-s-sugar-producers/4990

[8] U.S. Department of Commerce https://www.usitc.gov/publications/701_731/pub4577.pdf

How U.S. Sugar Policy is Working

U.S. sugar policy has had the same structure since the 2002 Farm Bill. With the elimination of Mexican dumping, it can continue to be a successful policy.

- American consumers and food manufacturers continue to have access to high-quality, safe, affordable, and responsibly-produced sugar supplies.

- American taxpayers benefit from a policy than has run at zero cost in all but one of the past 15 years and is projected to remain zero cost for years to come if the Mexican dumping problem is resolved.

- American sugar farmers have retained an economic safety net that has helped many, though not all, to survive an extended period of low prices and the catastrophic effects of Mexican dumping.

American Consumer Benefits. With U.S. wholesale prices at or below world average levels, one would expect American consumer prices, too, to be low. They are. World average retail sugar prices are 20% higher than U.S. prices; developed-country prices are 29% higher *(Figure 7)*. With a stable sugar policy and industry, American consumers get a great deal on high-quality, safe, and responsibly-produced sugar.

American Taxpayer Benefits. Farm bills have long instructed the USDA to operate sugar policy at no cost to taxpayers by avoiding sugar loan forfeitures, and language in the 2014 Farm Bill requires USDA to administer sugar policy to ensure that sugar processors can repay their operating loans at principal plus interest.

U.S. sugar policy has operated at zero cost to taxpayers thirteen of the past fourteen years and is expected to operate at zero cost this year. The only exception was 2013, when Mexico dumped subsidized sugar onto the U.S. market. USDA took action, as directed by law, to minimize loan forfeitures, taxpayer costs, and long-term harm to American sugar producers. USDA and FAPRI project zero cost over the next 10 years *(Figure 8)*.

In its June 2017 baseline, before the U.S. and Mexican governments amended the SAs, the Congressional Budget Office projected a negligible cost over the next several years, with the possibility of a small number of sugar loan forfeitures, and projects modest future costs in the unlikely event the SAs, and/or duties, are terminated and Mexican dumping resumes *(Figure 8)*. With the amended SAs, however, we are confident sugar policy will run at zero cost the next few years and well into the future.

Sugar policy opponents, led by major sugar-containing product manufacturers, have urged opening the U.S. market to greater quantities of subsidized foreign sugar. Additional, unneeded sugar, however, would threaten USDA's ability to administer a zero-cost policy. The Texas A&M researchers wrote:

> Our analysis leads us to conclude that food manufacturers' reforms would undermine the no cost requirement of the law, resulting in taxpayer costs, jeopardizing the viability of U.S. sugar farmers and processors, and leading to higher sugar costs for consumers as domestic suppliers are lost and the volatile world sugar market is increasingly relied upon to meet domestic demand. Meanwhile, food manufacturers may benefit in the short term from depressed domestic sugar prices but, in the long-run, they would suffer from the loss of what they say they need: a viable, healthy, and geographically diverse supply of domestic sugar.[9]

Sugar Producer Safety Net; Low Sugar Market Prices. With the exception of the year of excessive Mexican dumping, when prices fell below loan forfeiture levels, sugar policy has provided an economic safety net for American sugar producers. But not for all producers, and there have been numerous casualties.

Since the loan support price was established in 1985 at 18 cents per pound of raw cane sugar, the loan rate has risen only 4%, to 18.75 cents. General price inflation since 1985 has been 123%. Real producer prices, corrected for inflation, have fallen 43% since the 1980s.

Producers who could not reduce production costs enough to keep pace with falling real prices for their product have gone out of business. We have lost 56 beet and cane operations – more than half of all those operating in 1985. Hawaii has ceased growing sugarcane after nearly 140 years of high-yielding production that was at the core of Hawaii's economic and social development. Another beet factory, in Wyoming, is expected to close permanently this year *(Figures 9-12).*

More closures would certainly have occurred over time if not for vertical integration by beet and cane growers and investment in biotechnology and other breeding and processing advancements.

With current low refined sugar market prices, payments to growers have dropped significantly, essentially putting some of our young growers out of business and jeopardizing the ability of established farms to acquire operating loans for the coming crop year.

Current low refined market prices are also reducing sugarbeet cooperatives' financial resources for maintenance and efficiency updates in our factories. Significant yield improvement – through advanced technology combined with high beet yields, high sugar content, improved storage techniques and minimal factory interruptions – is the only way we are surviving. Our cane growers face the same challenges. When we are already right on the economic "edge," problems in any of these areas would make it hard for the industry to survive.

Crop Insurance

Crop insurance is an essential risk management tool for beet growers and is usually a requirement by their bankers. With a higher investment in growing sugarbeets than most other commodities, agricultural lenders are evaluating their lending risk and basing their loan approvals on the availability of an adequate safety net, which most crop insurance coverage

[9] Outlaw and Richardson, op. cit.

provides. Historically, crop insurance has served beet growers with minimal but adequate coverage. This past year, however, many growers were plagued by low sugar contents in their beets that insurance needed to cover, but did not. We are meeting with RMA to address several issues that will make coverage more attractive and effective for growers.

Cane farmers have worked with RMA to make important improvements to the risk management tools available to growers in Florida, Louisiana and Texas. Because of the unique cropping cycles and growing conditions of cane, growers continue to seek more effective risk management tools.

Research

The U.S. sugarbeet and sugar cane industries are dependent on ARS research funding for staffing of USDA research across the country. The advances in yields and disease control that we have seen in recent years are the direct result of ARS research shared with industry seed development specialists. Even with these advances, we continue to be challenged with disease, insect and parasite issues which, if left unaddressed, would seriously threaten the future of our industry. Continued adequate funding of ARS research is, therefore, critically important.

U.S. Sugar Policy in the Next Farm Bill

As long as there is an adequate response to Mexican subsidies and dumping, U.S. sugar policy can continue to be effective for American consumers, food manufacturers, taxpayers, and sugar producers.

Zero-for-Zero

Sugar producers recognize that subsidies and other market-distorting polices must be addressed in order for the world dump market to recover and better reflect free market principles. Therefore, American producers have publicly pledged to give up their policy when foreign producers agree to eliminate their subsidies.

The American Sugar Alliance has endorsed a congressional resolution (H.Con.Res. 40) [10] that was introduced by a member of the House Agriculture Committee, Representative Ted Yoho of Florida. This "zero-for-zero" resolution explicitly calls for the U.S. to surrender its sugar policy when other major producers have done the same.

To weaken or surrender sugar policy without any foreign concessions, as some critics of the policy have called for, would amount to foolish unilateral disarmament. We would sacrifice good American jobs in a dynamic, efficient industry in favor of foreign jobs in the countries that continue to subsidize.

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[10] https://www.congress.gov/115/bills/hconres40/BILLS-115hconres40ih.pdf

Conclusion

U.S. sugar policy has worked well for American consumers, food manufacturers, and taxpayers. It can continue to operate at zero cost to taxpayers and provide a genuine economic safety net for American sugar farmers as long as Mexican dumping on the U.S. market does not continue.

Sugar producers across the country will work hard for an effective 2018 Farm Bill for all American farmers. Our future depends on the Congress passing strong sugar provisions that allow our growers to achieve an adequate return and on the Administration's implementation of that policy, including trade policy that complements our domestic sugar provisions.

Thank you.

Figure 1

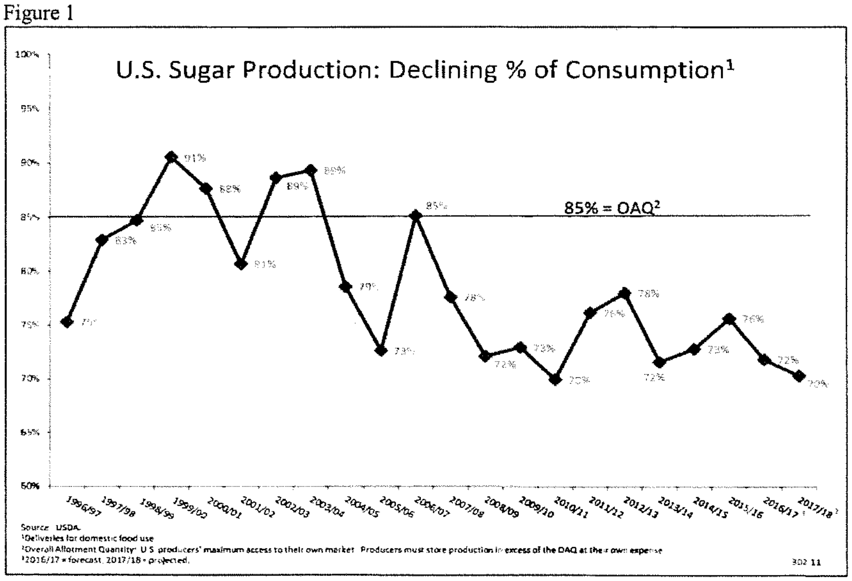


Figure 2

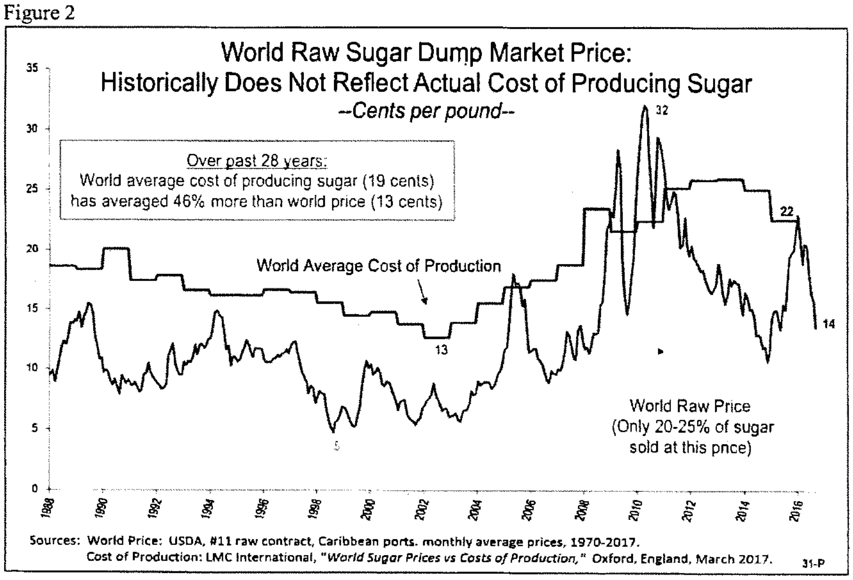


Figure 3

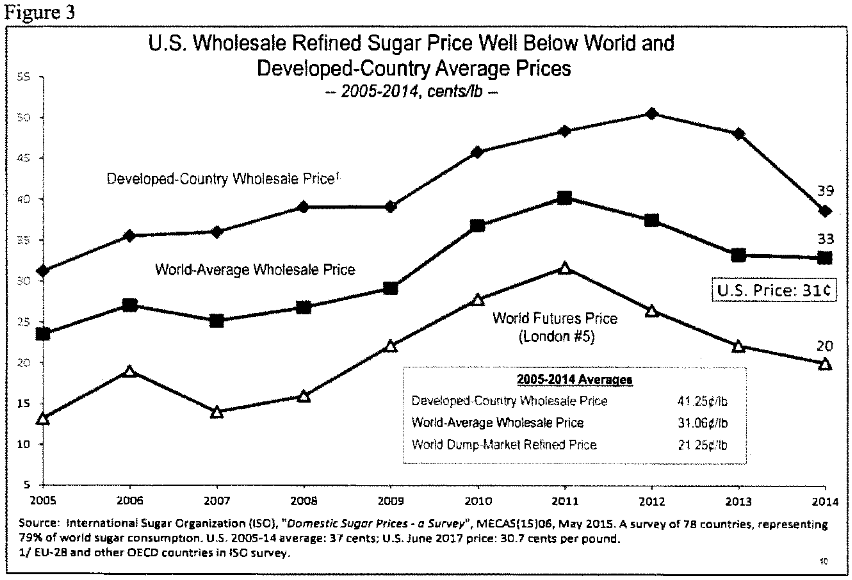


Figure 4

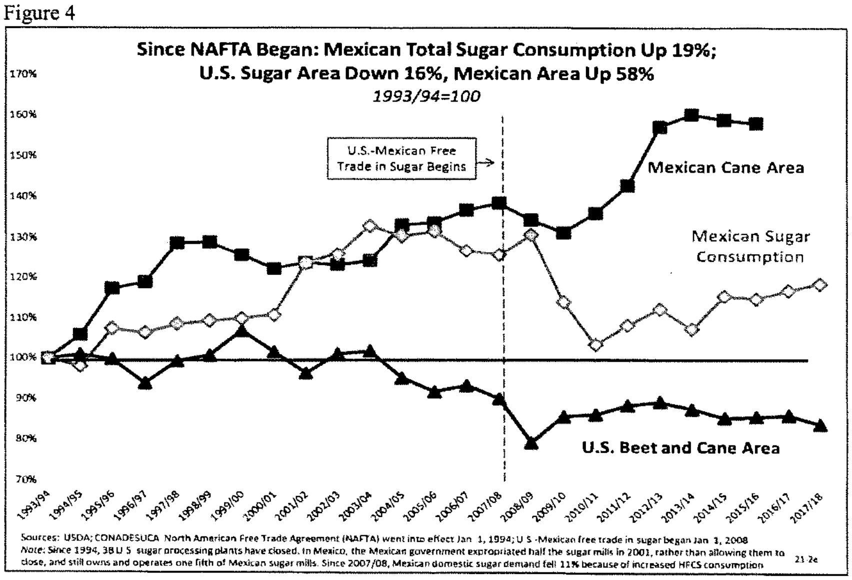
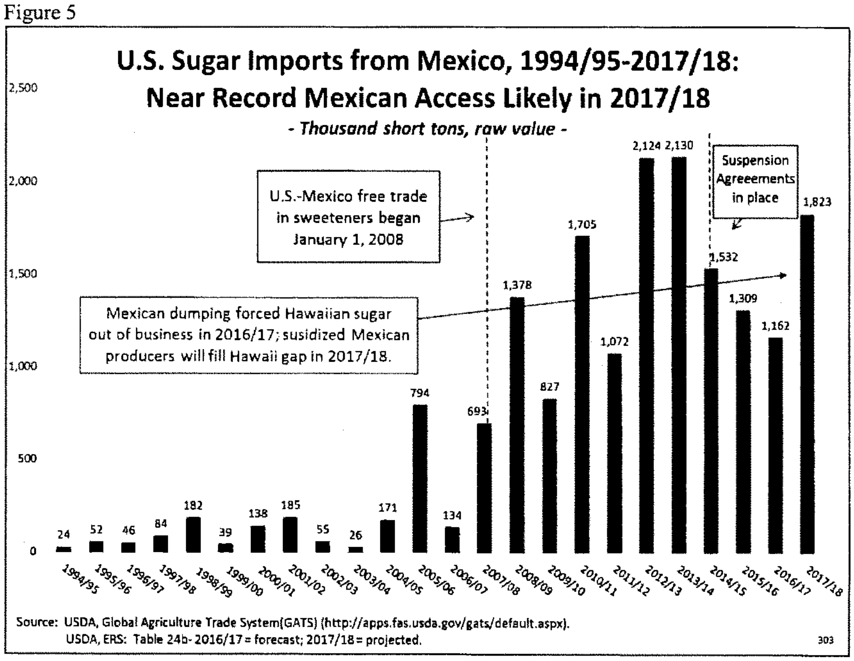


Figure 5


U.S. Sugar Imports from Mexico, 1994/95-2017/18:
Near Record Mexican Access Likely in 2017/18
- Thousand short tons, raw value -
U.S.-Mexico free trade in sweeteners began January 1, 2008
Suspension Agreeements in place
Mexican dumping forced Hawaiian sugar out of business in 2016/17; susidized Mexican producers will fill Hawaii gap in 2017/18.
2,500
2,000
1,500
1,000
500
0
24
52
46
84
182
39
138
185
55
26
171
794
134
693
1,378
827
1,705
1,072
2,124
2,130
1,532
1,309
1,162
1,823
1994/95
1995/96
1996/97
1997/98
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2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
Source: USDA, Global Agriculture Trade System(GATS) (http://apps.fas.usda.gov/gats/default.aspx).
USDA, ERS: Table 24b- 2016/17 = forecast; 2017/18 = projected.
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Figure 6

	U.S. Anti-Dumping (AD) and Countervailing-Duty (CVD) Cases vs. Mexican Sugar
2012/13	Mexican sugar production rises by 38%; Mexican sugar exports to the U.S. double (to 2 million tons); U.S. sugar price collapses.
2014	
March	U.S. files AD/CVD cases vs. Mexican sugar.
May	U.S. International Trade Commission (ITC) preliminary finding, by 5-0 vote, that Mexico has injured the U.S. sugar industry.
August	U.S. Department of Commerce (DOC) finds that Mexico has been subsidizing and imposes preliminary CVDs at 3-17%.
October	DOC finds that Mexico has been dumping (selling below domestic cost of production or prices) and imposes preliminary ADs at 40-47%.
	U.S. & Mexican governments announce draft Suspension Agreements (SAs) to suspend duties and resume duty-free sugar trade, with Mexican exports to the U.S. no longer to exceed U.S. needs.
December	U.S. & Mexican governments sign the SAs. Mexico may fulfill 100% of U.S. import needs above trade commitments; reference prices and limit on refined share of imports set.
2015	
September	DOC finds final dumping margins of 41-42%.
October	DOC finds final subsidy margins of 6-44%. Combined final subsidy and dumping margins total 48-84%.
	ITC final finding, by 6-0 vote, that Mexico injured U.S. sugar industry.
2016	
December	DOC preliminarily determines in an administrative review of the SAs, covering 2015, that some companies may not be in compliance with the SAs and that not all statutory requirements for the SAs are still being met.
2017	
May	DOC May-1 letter to Government of Mexico states that the SAs will be terminated and duties imposed unless the U.S. and Mexican governments can reach a new agreement by June 5, 2017.
June	U.S. and Mexican governments agree to amendments to improve operation of the SAs.

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Figure 7

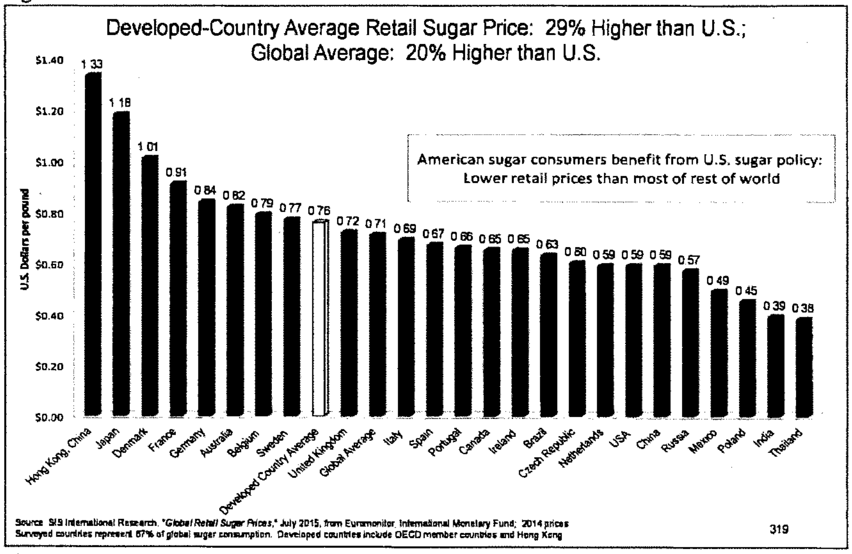


Figure 8

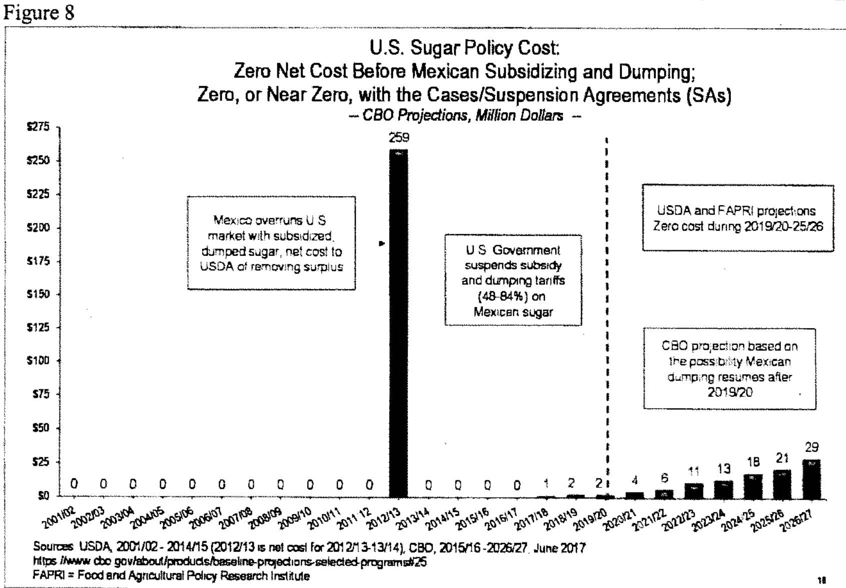


Figure 9

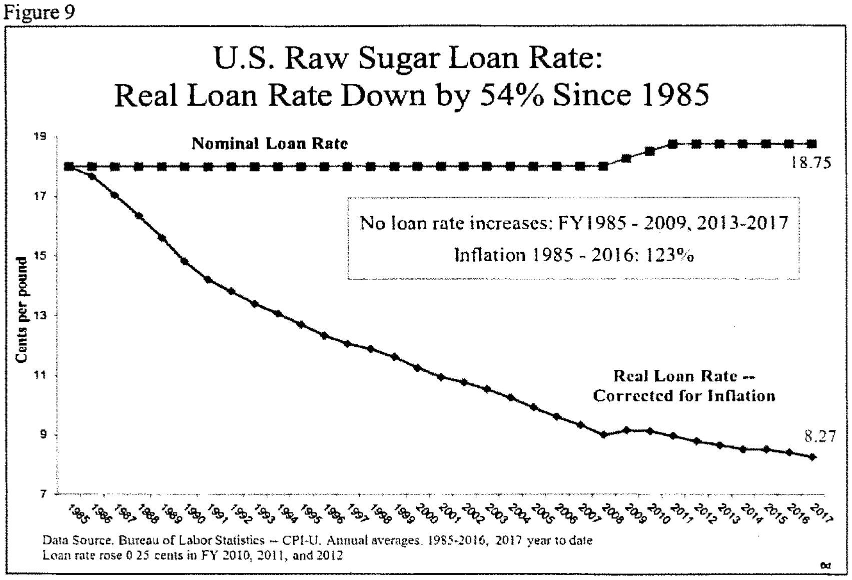


Figure 10

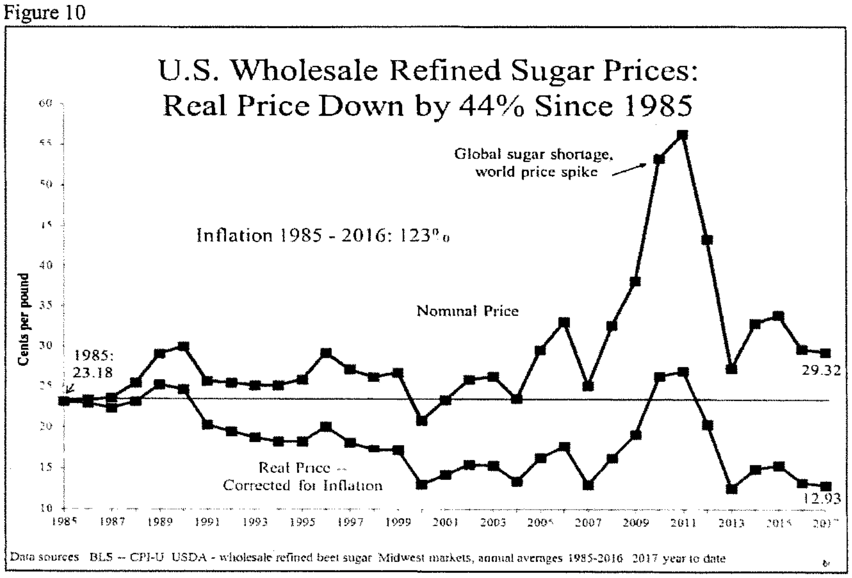


Figure 11

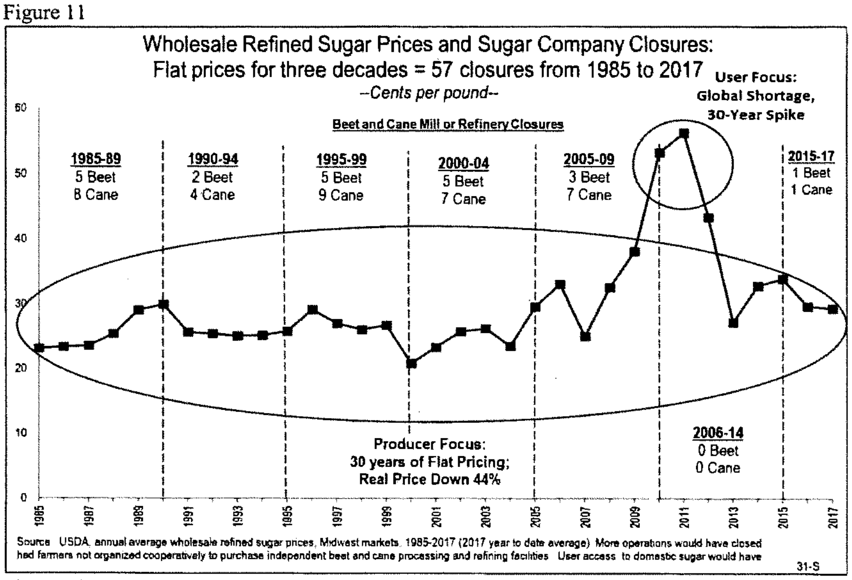
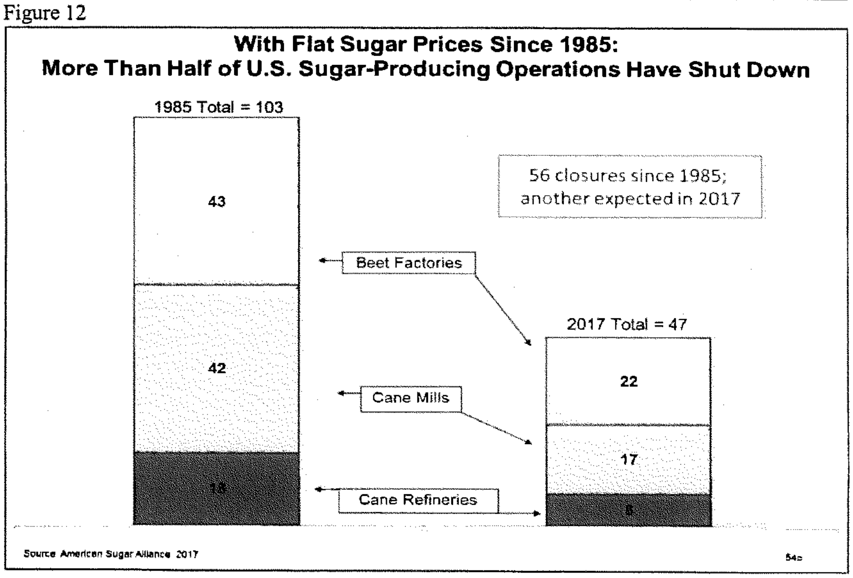


Figure 12



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Statement by Kevin Scott
Member, Board of Directors and Governing Committee
American Soybean Association

before the

Committee on Agriculture, Nutrition and Forestry
United States Senate

July 25, 2017

Good morning, Chairman Roberts, Ranking Member Stabenow, and Members of the Committee. I am Kevin Scott, a soybean and corn farmer from Valley Springs, South Dakota, and a Member of the Board of Directors and Governing Committee of the American Soybean Association. ASA represents U.S. soybean producers on domestic and international policies, including trade. We commend you for holding this hearing on agricultural risk management programs in advance of development of the 2018 Farm Bill.

ASA's policies on current Title 1 programs and crop insurance were approved by our Voting Delegates at Commodity Classic in February, and presented by the Presidents of the Kansas and Michigan Soybean Associations at the listening sessions your Committee held earlier this year. I would like to briefly summarize those positions, and then describe some personal experience I have had with wetland determination regulations on my farm.

Title 1 Programs

ASA believes that Title 1 programs have worked as intended, and supports reauthorizing ARC and PLC as choices on a farm-by-farm and crop-by-crop basis. We also support offering an option to reallocate crop acreage bases or to update bases to reflect recent planting history, and to update program payment yields, if funding is available to do so. Payments under these programs should continue to be based on average planting of covered commodities in recent years, rather than on current-year plantings. Decoupling encourages farmers to follow market signals rather than prospects for receiving government payments.

With regard to the county ARC program, yield data from RMA should be used, where available, rather than the current policy of using NASS data. For counties that lack RMA data, RMA yields from similar or adjacent counties should be used or averaged to reduce discrepancies in yields and payments in neighboring counties.

Due to the steep decline in farm prices since 2013, the revenue protection provided under the ARC program has also declined. While 94 percent of soybean producers signed up for county ARC under the 2014 Farm Bill, CBO projects that only 25 to 30 percent will choose ARC if it is reauthorized in its current form next year.

ASA believes the Committee should look at ways to strengthen county ARC in order to make it a more attractive program option, and might be done without increasing the combined cost of ARC and PLC. Adjusting the ARC benchmark revenue guarantee or lengthening the year span for the Olympic average price could improve the choice given producers between these two programs.

Crop Insurance

Regarding crop insurance, ASA strongly supports the current program as an essential tool for managing risk. Crop insurance is now widely acknowledged as the most valuable part of the farm safety net. However, farmers in some regions choose not to purchase policies, showing us all that there is still work to be done.

The cost of crop insurance is paramount for Congress; it is also top of mind for farmers. For most of us, the cost of crop insurance is among the top expenses in growing a crop, along with land, seed and fertilizer. The idea of capping crop insurance subsidies is perennial. I want to draw your attention to recent work by Kansas State University showing that, in Kansas last year, farms would have hit a $40,000 payment limit at just 1,166 acres. If such a payment limit were imposed, farmers would pay 100% of the premium for any covered acres above that level. It is important for the Committee to recognize the high cost of crop insurance premiums to farmers, and that many family farm operations would easily hit such payment limits.

Wetland Determinations

I would like to comment briefly on some experience I've had with regulations governing wetland determinations. Conservation and ensuring that, as farmers, we are good stewards of our environment is paramount to ASA. One of the ways we do so is by conserving our wetlands. However, the process at NRCS for determining the existence of wetlands has become slow and burdensome to producers, particularly in the prairie pothole region where I am from. There is such a backlog of applications waiting on NRCS in our area that producers can wait years before they know what they can or cannot do on their land. Not only that, the appeals process is burdensome and can it can take years to get a definitive outcome. This is unacceptable. We urge the Committee to find ways to reduce this backlog and reform the process for wetland determinations so that producers can get a fair and timely process.

Some thoughts on how to reform the regulations include: (1) allowing a 3rd party to make the determination; (2) making a determination a final agency action therefore allowing producers to go straight to District Court rather than exhausting the agency appeals process first; (3) Giving NRCS deadlines to complete a determination; and, (4) making USDA move NRCS resources between states to where there is the most need.

That concludes my statement, Mr. Chairman. I'll be pleased to respond to any questions you or Members of the Committee may have.

Statement by

Ms. Lindsey Lusher Shute

Executive Director of the National Young Farmers Coalition

before the

Senate Committee on Agriculture, Nutrition, & Forestry

July 27, 2017

Chairman Roberts, Ranking Member Stabenow, Members of the Committee, I am honored by this opportunity to discuss with you the importance of federal farm credit and safety net programs to our nation's young farmers and ranchers. Thank you for giving young farmers a voice here today, and for considering the needs of the next generation within the next farm bill.

My name is Lindsey Lusher Shute. My husband and I own and operate Hearty Roots Community Farm in New York's Hudson Valley. Hearty Roots was started in 2004 on a half-acre of land that was rented to us by retired dairy farmers. Since then, we've grown our farm to serve 900 families with organic vegetables, pastured eggs and pork. We now own and manage 70 acres of conserved farmland and employ 10 farmers.

I am here today to represent the National Young Farmers Coalition (NYFC), an organization that I co-founded in 2010, and where I serve as Executive Director. NYFC represents, mobilizes, and engages young farmers and ranchers to ensure their success. We tackle the most critical structural and economic barriers that prevent motivated young people from starting and growing farm businesses.

In seven years, we've launched 36 farmer-led chapters in 26 states and built a grassroots base of more than 120,000 people. We help young farmers become leaders in their communities, creating strong social networks and ensuring young farmers have a seat at the table within all levels of government. NYFC also provides business services to young farmers-- offering tools, resources, and technical assistance to help them seize market opportunities and navigate challenges. In short, we are young farmers fighting for the future of American agriculture.

Helping young people enter farm careers is critical as America's farm population ages. Farmers over the age of 65 now outnumber farmers under 35 by a margin of 6-to-1, and U.S. farmland is overwhelmingly concentrated in the hands of older farmers, with nearly two-thirds of farmland currently managed by someone over 55. The National Agricultural Statistics Service (NASS) estimates that over the next five years—the lifespan of the next farm bill—nearly 100 million acres of U.S. farmland are expected to change ownership,[1] and will need a new farmer.

Many young Americans want to farm. For only the second time in the last century, the 2012 Census of Agriculture registered an increase in the number of farmers under 35 years old. These millennial farmers are increasingly conservation-minded, more likely to sell directly to consumers, and are minimizing risks by diversifying products and market channels. Young farmers are entrepreneurial and tough, but they are finding that talent and hard work alone may not equate to farm success.

Farmers and ranchers entering the field today face new and heightened challenges, unlike more established farmers and ranchers, and generations past. To begin with, farmland values have increased and continue to be driven up by non-farmer buyers and development pressure, particularly in areas near growing urban markets. Over the past 15 years, farmland real estate values have risen by 150%, and in the period between 2004 and 2013, farmland real estate values more than doubled. According to the Economic Research Service, in 1951, if agricultural rents were the sole source of return from farmland, the farm could pay for itself in 14 years; in 2007, it would have taken 33 years—an indication that our nation's farmland is increasingly being valued for purposes other than agriculture.[2]

As our prime agricultural soils become ever-scarcer and more expensive, young farmers and ranchers also struggle with student loan debt, limited access to health care, and systemic barriers that disadvantage the growing number of women and people of color who are eager to farm. Furthermore, many young farmers like Ben and I are first-generation—meaning we are not inheriting the land, equipment, or network of mentors that are invaluable to launching a farm career. As a result of all of these factors, too many of our most promising young people are unable to meet their family and life goals in farm careers.

The good news is that federal policy and USDA programs are making a difference. Actions by Congress, the USDA, service providers, and business leaders have improved access to training, credit, risk management, conservation opportunities, and even affordable farmland. There are changes that young farmers need in the next farm bill, but my main point is really this: keep going. There is significant momentum toward supporting young and beginning farmers, and we must build on it to overcome the many obstacles ahead for rural America and our food system.

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[1] U.S. Department of Agriculture, Economic Research Service. U.S. Farmland Ownership, Tenure, and Transfer. 2016.

[2] Nickerson, Cynthia; Morehart, Mitchell; Kuethe, Todd; Beckman, Jayson; Ifft, Jennifer; and Williams, Ryan, "Trends in U.S. Farmland Values and Ownership" (2012). Publications from USDA-ARS

IMPROVE CREDIT ACCESS FOR BEGINNING FARMERS

Access to credit and capital are critical to any farmer, and particularly to those just beginning their careers. Rarely do aspiring and beginning farmers have enough liquid assets to purchase or lease all the equipment, inputs, and land they need to launch their operation. Young farmers are less likely to have robust credit histories, and more likely than any previous generation to carry student loan debt into their careers in agriculture. Loans through the Farm Service Agency (FSA), therefore, are critical for young and beginning farmers, and are often the only credit option available to them.

Support beginning farmers with specially trained agents and flexible rules. With that in mind, we have advocated for FSA's outreach to new farmers. FSA's new beginning farmer coordinators are an important way that FSA is learning more about new farm business models and helping young people use federal programs. FSA should be encouraged to continue these activities, and Congress should maintain the flexible FSA experience requirements that were added in the 2014 Farm Bill.

Support FSA cooperative agreements with service providers. Despite these improvements, still too many young farmers are simply unaware of USDA programs, even those programs specifically designed to support them. In 2016, to help bridge this gap, NYFC entered into a cooperative agreement with FSA to educate our network of young farmers on the opportunities offered by FSA loan programs. Within this agreement, we authored a forthcoming guidebook on the history, structure, and options within the FSA loan program, aiming to encourage and embolden young farmers to apply. In addition to the guidebook, we've facilitated eight workshops around the country and have more planned. In these workshops, attendees tour a farm to discuss credit needs, young farmers share their experiences using FSA credit, and a local FSA loan officer presents an overview of loan products. These workshops demystify credit options and introduce FSA staff to local beginning farmers. Our joint outreach efforts with the agency are having a significant effect, and we strongly encourage FSA to continue offering cooperative agreements to improve its communications and reach a new generation of customers.

Fully fund FSA loan programs. The downturn in the U.S. farm economy has placed increased importance on FSA loan programs, and has significantly increased demand. In this environment, any shortfall in funds would be disastrous for farmers, as it was in 2016, when many farmers were waiting on loan funds that either never came, or came late. Financial planning and cashflow management are critical for farmers, and a delay in loans for even a few months can put a farm under. As this Committee looks toward the next farm bill, NYFC strongly recommends, first and foremost, additional funding for loan programs and adequate administrative and personnel funding to implement them and streamline services.

Increase FSA Direct Farm Ownership loan limits. Multiple national surveys conducted by NYFC have indicated that access to farmland is the number one challenge young and aspiring farmers face, regardless of geography, background, or scale. FSA's Direct Farm Ownership loans can put the dream of farm ownership within reach for many of these farmers. Current statute limits these loans at $300,000, however, which makes them insufficient for many farmers in areas of high real estate prices and volatility, and unable to keep pace with real estate inflation. Overall, farmland real estate values have increased by nearly 40% since the cap was last adjusted in 2008.[3] Although Direct Farm Ownership loans have met their statutory participation rates for beginning farmers (75%) in recent years, they're the only loan program at FSA that has not exhausted its funding, and for which the average loan is the highest relative to its cap. There are undoubtedly a number of reasons this program hasn't spent down its full funding, including a lack of landowners putting farmland on the market and the competition from buyers with private financing, but the high average loan indicates that the cap is also an impediment that can easily be solved. NYFC recommends adequately funding this program, and increasing the loan limit in the next farm bill to $500,000 with a peg to inflation.

Keep FSA microloans. FSA's microlending program is a major success for the agency, and we urge Congress to support it in the next farm bill. In 2011, we called for micro-lending at the USDA to help get young farmers in the door, and in 2013, FSA did just that. With a faster application process and more flexible eligibility and payment terms, the program has made over 20,000 microloans. Microloans are the most popular option for our farmers, and support for the program should be continued in the next farm bill.

Keep FSA operating loan limits in place. Demand for all other FSA loan programs continues to outpace availability, and in FY 2016, all but the Direct Farm Ownership loans expended more than their originally appropriated funds. At the same time, the average loan size across all programs remained well below the statutory caps, particularly among direct and guaranteed operating loans. This indicates a high demand for relatively smaller loans, and that few farms would benefit from an increase in the limit. At the same time, FSA's target participation rates among beginning farmers are currently not being met across all loan programs, most notably within operating loans. In FY 2016, amidst much higher demand from all farmers, beginning farmers received a smaller portion of overall loan funding than the previous year. While NYFC supports access to credit for all farmers, we believe raising the loan limits across the board will primarily benefit larger, more established farms—for whom traditional financing options are more available—while putting young and beginning farmers at a competitive disadvantage.

Continue to serve specialty crop growers with the Farm Storage Facility Loan Program. Our farm holds loans with Farm Credit East, as well as FSA. Needing to be in full compliance with the Food Safety Modernization Act (FSMA), our farm leveraged the Farm Storage Facility Loan (FSFL) program to build an updated wash, pack, and cold storage facility in 2015. The loan process was straightforward and timely, and the FSA staff we worked with were highly supportive. Because we manage our risk through crop diversity and community-supported agriculture (CSA), our state committee provided an exemption from the crop insurance

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[3] U.S. Department of Agriculture, National Agricultural Statistics Service. Land Values 2016 Summary.

requirement. This new facility is making our produce safer and fresher, and our employees are happy with the improved systems and new loading dock. The use of FSFL for our vegetable operation was a major success for our farm, and the use of this program for this purpose should be continued in the next farm bill. Cooperative agreements with service providers like NYFC will continue to increase the number of farmers utilizing the program.

Modernize FSA services to reach the next generation of customers. For many young farmers today, use of technology and the internet are second nature. Too many USDA services, however, remain out of reach or out of touch for millennial farmers, and must be modernized to keep pace with new customers and the rapidly changing industry. In competitive real estate markets, for example, the FSA loan-making process often takes too long for growers to purchase land. Non-farmers with pre-approved mortgages and cash bids can easily outbid working farmers for farmland. The current application process can take longer than 30 days, and funds may not be available for months. Likewise, the current process requires farmers to turn in application forms in person or by mail, which can compound the time and expense required of farmers, particularly in rural areas. To address these barriers, NYFC encourages the Agency—and the USDA as a whole—to improve its business model. FSA must move its loan application and servicing systems completely online, and streamline the application process by creating a system for farmers to pre-qualify for loans. Creating a full-service online portal would give FSA staff more time to work directly with farmers and, most importantly, put FSA on a path to attract the customers of the future.

In his first major farm policy address since taking office, Secretary Perdue told a crowd in Nevada, Iowa, that "if Amazon operated the way USDA does, technology-wise, they'd be out of business." We are very encouraged by Secretary Perdue's emphasis on customers, streamlining programs, and modernizing the way the USDA does business.

Invest in financial training for new farmers through BFRDP. For multi-generation young farmers and those from non-farming backgrounds, the importance of financial planning and business training cannot be overstated, nor can they be separated from policy considerations related to credit. Increasing opportunities for young farmers to access training and mentorship will make their startup businesses more viable, make those farmers more credit-worthy, and open up additional avenues to capital. One such program, the Beginning Farmer and Rancher Development Program (BFRDP) provides competitive grants to nonprofits and universities to develop education, extension, outreach, and training initiatives directed at helping new farmers and ranchers. BFRDP funding has been used to develop incubator farm programs, provide business planning and food safety training services, promote innovative farm and ranch transfer strategies, and establish on-farm apprenticeship opportunities to train future farmers and farm laborers. NYFC is a recipient of this funding, and with it we built an online calculator to help farmers compare public and private options for farmland finance. NYFC strongly recommends increasing mandatory baseline funding for BFRDP.

A FARM SAFETY NET FOR THE FUTURE

Farming is a risky enterprise, and uncertainty is part of the business. Young farmers are entering their careers during a significant decline in commodity prices; they also face a changing climate. Here in New York, last April's snow led to nearly total crop loss for many apple growers, and just last month, three of the farmers in our local Hudson Valley chapter were seriously injured due to a microburst. In 2011, Hurricane Irene led to a complete crop loss for many vegetable growers in our region who suffered flooding from nearby streams. Although farmers are diversifying their businesses and farming in a way that increases their resilience to extreme weather, no farmer or policy can completely eliminate the risks. We stand behind risk management tools and a strong safety net that works for all farmers. We encourage the Committee to continue the progress made in the 2014 Farm Bill to improve beginning farmer access to crop insurance and disaster assistance programs, to help farmers save money and manage their own risk from year to year, and to be mindful of program impacts on sector health.

Continue beginning farmer crop insurance discounts and improvements to the Noninsured Crop Disaster Assistance Program (NAP), and reauthorize NAP buy-up coverage. Congress made a number of improvements to NAP in the 2014 Farm Bill, including the option for farmers to pay a premium for coverage up to 65% of the approved yield at 100% of the average market price—so-called NAP Buy-Up. Congress also included administrative and premium discounts for beginning and historically underserved farmers. According to the USDA's Economic Research Service, NAP applications doubled in the year after these changes were implemented. For many young farmers in our network, NAP is one of the only risk management products that is applicable to their operations, and in some cases is the coverage they would need in order to secure a loan with FSA. We encourage the Committee to reauthorize these buy-up provisions to keep this important program working. We also encourage FSA and Members of Congress to improve the process and administrative efficiency of NAP, particularly for small-acreage farms growing high-value specialty crops.

Support Whole Farm Revenue Protection (WFRP). Most young farmers today start at a smaller scale, grow a diversity of crops and livestock, sell directly to consumers, and are more likely than previous generations to use organic farming practices. For these reasons, farmers in our network struggled to find a crop insurance option that was a good fit for their farms. We were encouraged when Congress directed RMA to create a new revenue-based crop insurance product for diversified farms. With its coverage based on revenue rather than acreage or yield, WFRP holds strong possibilities for young farmers, and it's now available in every state and county in the country. We urge the Committee to fully support this program in the next farm bill, and continue to improve its functionality and accessibility for farmers.

Support saving as a risk management tool. As Congress and the USDA continue to expand crop insurance and disaster assistance options to a broader range of farmers and crops, they should also consider other straightforward ways to help farmers prepare for difficult times ahead. For CSA farms like ours, for instance, where our customers pay for their membership before each season and receive weekly shares of farm goods throughout the year, even the most flexible crop insurance models can be difficult to work with, and may not make sense.

While traditional farm safety net programs are critical, NYFC recommends that Congress explore new ways to help farmers save for bad times. The creation of special tax-free or tax-deferred savings accounts for farmers would incentivize year-to-year financial management, and create a low-cost safety net for farmers to manage risk and invest in the future during seasons of high prices and high yields. For many farmers, even a small cushion can make a big difference in a difficult year. We recommend that farmers have an option similar to a Health Savings Account, where they could save up to a specified amount on an annual basis. We encourage Congress to make such a program also available to farm workers, as a means to save for future farms.

Examine the significant sector-wide risk of farmland transition and program impact. We must also be holistic in our assessment of risk management beyond insurance products. Risk must, ultimately, be managed across the agricultural sector. Because nearly two-thirds of farmland in the U.S. is going to need a new farmer in the coming decade, we see the issue of farmland transition as a significant, looming risk to the farm economy and rural America. The challenge of farmland access is shared among all farmers: farmers who rent, farmers ready to buy, and even farmers from multi-generational farm families. We urge Members of the Committee to continue to examine this significant risk to our economy and food system in full, including the impact that federal programs may have on the availability and price of farmland. Programs like the Agricultural Conservation Easement Program (ACEP) that protect farmland and support transition to the next generation should be prioritized and greatly expanded. We must keep our farmers in business today while promoting opportunities for future generations.

I thank the Chairman and Ranking Member for the opportunity to testify today, and I look forward to answering any questions that you may have.

DOCUMENTS SUBMITTED FOR THE RECORD

JULY 25, 2017

STATEMENT
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

July 25, 2017

The Independent Insurance Agents & Brokers of America (IIABA or the Big "I") is the nation's oldest and largest national trade association of independent insurance agents and represents a network of approximately 250,000 agents and agency employees nationwide. Independent agents offer all lines of insurance – property, casualty, life, health, employee benefit plans, retirement products, and crop insurance. IIABA represents independent insurance agents and brokers, who present consumers with a choice of policy options from a variety of different insurance companies. The Big "I" strongly supports the Federal Crop Insurance Program (FCIP) and the critical role that agents play as the exclusive sales force of this program.

2014 Farm Bill and Beyond

The Big "I" strongly supports the FCIP and the current Farm Bill, and we urge Congress to reject any attempts to cut or cap the budget for crop insurance as Congress considers updates to the 2018 Farm Bill. The association is also working to ensure that the private sector remains the primary distribution force of crop insurance. Accordingly, the Big "I" opposes S. 1025, "Assisting Family Farmers through Insurance Reform Measures Act" or (AFFIRM Act), by Sens. Jeff Flake (R-AZ) & Jeanne Shaheen (D-NH), which would cap the annual crop insurance premium incentives that farmers may receive to purchase adequate insurance coverage for their farmland and crops. This bill may lead to farmers buying down coverage and leaving more farmland without insurance. This legislation also attempts to cut the reimbursement rate for administrative and operating expenses (A&O) of crop insurance providers. This cut will have a direct impact on independent agents, who are the distribution force of the program. Reducing participation from any group of farmers will change the premiums for all farmers because it will change the risk pool. It is important to increase participants and acres in the program, which will spread more risk – keeping premiums and costs down for all participants.

Significant cuts to the A&O reimbursement would also impact private sector delivery of crop insurance. In other lines of insurance, A&O costs – such as agent commissions and claims adjustments – are factored into customers' premiums, but this is not the case for crop insurance. The government requires that these costs be excluded to make premiums more affordable. In return, the government provides insurers a direct A&O payment to deliver the program. This payment was capped in the 2011 Standard Reinsurance Agreement (SRA), and additional cuts to A&O would have a direct impact on the sales force of the FCIP.

The FCIP is an indispensable financing tool, and not just for corn, wheat and soybean farmers in the Midwest. Since the passage of the 2014 Farm Bill, the Big "I" has heard from many agents in "non-traditional" agricultural states about the benefits of insurance for crops in their region. Farmers in New York, Vermont and Maine rely on their insurance agents to help them purchase crop coverage for their farms. Program diversity is the key to success for the FCIP, especially because crop insurance treats all farmers equally, regardless of operation, size, region, or crop.

Below is an excerpt from Big "I" agent E.J. Dorsey. *Mr. Dorsey is a crop insurance agent with United Insurance in Fort Fairfield, ME. He has more than 22 years of experience in the crop insurance field.*

"Diversify, diversify, diversify." This is the mantra of most financial advisors—a popular approach to protect investors in the face of volatile market swings. The same strategy also has served agriculture—another unpredictable market—quite well. Here in Maine, we have established one of the most diverse agriculture "portfolios" in the nation. Growing everything from potatoes to apples and plenty of things in between, our farmers contribute to our state's economy every year." (See Addendum 1)

Agent Workload and Program Complexity and Integrity

Crop insurance agents are uniquely skilled and knowledgeable about the complexities of the FCIP, and a crop agent's responsibilities require a hands-on approach. The typical agency employs not only the writing agent, but also licensed support-staff who help in servicing the products. They have considerable overhead – computers with high-speed internet connections, office space leases, advertising costs, auto expenses, payroll, their own insurance (e.g., liability, workers' compensation, health), taxes, and other expenses that are drawn directly from the agent's commissions collected from selling insurance products.

Specifically regarding crop insurance, today an agent does more work per crop policy than ever before. (See Addendum 2). Agents do all of the data entry, and they keep the yield records per unit – not per policy. The reality is that agents require an extraordinary amount of expertise in servicing this insurance product per acre. On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately seven hours on a policy during the sales window alone. A transaction typically begins with the agent quoting the wide variety of different plans of insurance available, then explaining production reporting and supporting record requirements to the farmer. The agent explains different date requirements by crop and coverage for application, the actual production history (APH), the acreage report, and the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields, reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent must also review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide the farmer with a copy.

Additionally, the agent is responsible for implementing procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, or any of the other technical policy provisions. All of the preceding goes into writing the policy – and does not even factor in the consequences and the time spent in the event of a potential loss, which occurs more often than any other line of insurance. The sale of crop insurance is indeed extremely complex and challenging.

The 2014 Farm Bill reinforced the important role crop insurance plays in farms across the country, and IIABA and crop insurance agents are proud to be partners in the successful expansion of this invaluable program for farmers.

On that note, in 2011 the Risk Management Association (RMA) included an "Anti-Rebating Certification" clause in the Federal Crop Insurance Program Handbook. The certification is included on the form in which liability is established for the policy (e.g., acreage reporting time). In a strong attempt to preserve the integrity of the crop program, the inclusion of this certification was spearheaded by the IIABA Crop Insurance Task Force. Rebating undermines consumer confidence in agents, the companies and the crop insurance program as a whole. It is important to address and halt any future manipulations of the program. (See Addendum 3)

Conclusion
The Big "I" thanks the Committee for allowing us to present this written testimony at today's hearing, and we would be happy to work with the Committee at any time to further explain the vital role that crop insurance agents play in the FCIP. The Big "I" urges Congress to continue its commitment to farmers and ranchers across the country and to preserve and expand the role of the FCIP for America's cropland.

E.J. Dorsey, Maine crop insurance agent
Bangor Daily News, December 13, 2016

Crop insurance treats all farmers equally, regardless of operation, size, region, or crop. For Maine farmers, in particular, it is crucial that we protect this safety net that does not discriminate.

Maine farmers know crop diversity is key to success. Our farm policies should reflect that.

George Danby

By E.J. Dorsey, Special to the BDN
Posted Dec. 13, 2016, at 11:09 a.m.

"Diversify, diversify, diversify." This is the mantra of most financial advisors—a popular approach to protect investors in the face of volatile market swings.

The same strategy also has served agriculture—another unpredictable market—quite well.

Here in Maine, we have established one of the most diverse agriculture "portfolios" in the nation. Growing everything from potatoes to apples and plenty of things in between, our farmers contribute more than $825 million to our state's economy every year.

It's exciting to see the potential that this diversified approach holds for the future of farming.

But those in agriculture face challenges that are simply incomparable to other industries. Farmers certainly can't control the weather, which is often unforgiving, and they also have no sway over markets or the moves of foreign competitors. So it is essential that we have a safety net that protects the small percentage of individuals we enlist to feed and clothe our nation.

Unfortunately, the kind of crop diversification in Maine has not always been reflected in farm policy discussions. Farm policies of the past often focused primarily on a few crops commonly grown in the South and Midwest, while leaving others, such as specialty crops like blueberries, for example, with little support.

That's no longer the case thanks to improvements to crop insurance. Now, crop insurance is available for more than 130 commodities and has more than 62,000 county-crop programs. Premium support discounts are the same across commodities for each plan of insurance.

This has translated into more farmers from outside the traditional farm country purchasing risk protection. Here in Maine, for example, there has been a more than 20 percent increase in acres insured over the past decade, providing the state's farmers *nearly $30 million in additional protection*, according to U.S. Department of Agriculture data. Overall, almost 90 percent of farm acres in the U.S. are covered by crop insurance.

For many farmers, crop insurance offers peace of mind. A crop insurance check will never come close to what a farmer will reap from a good harvest, but it does help them keep farming year after year. And for our beginning farmers, crop insurance is even more critical. It would be almost impossible to receive the needed credit from financial institutions without some assurance that beginning farmers would be able to pay it back if a natural disaster struck.

Taxpayers have benefited as well. Prior to the emergence of crop insurance as the top risk management tool for farmers, natural disasters regularly resulted in very expensive, unbudgeted ad hoc disaster bills from Congress. Now, when disaster strikes, farmers receive an indemnity check.

But just to be clear, crop insurance is not a handout—it's far from it. To gain coverage, farmers have to put skin in the game. In fact, since 2000, farmers have spent $48 billion out of their own pockets to purchase crop insurance protection. They only collect an indemnity after they have suffered a verifiable loss and fallen below their guarantee.

It's a win-win for both farmers and taxpayers, yet some farm policy critics would like to send us back to the days of unbudgeted, taxpayer-funded and after-the-fact disaster aid. Legislative proposals like those presented during the last Farm Bill negotiations to limit participation and cap insurance benefits to some farmers would disproportionately affect specialty crop growers and organic farmers whose crops tend to have higher values and therefore are more likely to have higher premiums for coverage. That's a really bad idea, especially when you consider how important crop insurance is to allowing our producers to stay competitive with the rest of the world.

Crop insurance treats all farmers equally, regardless of operation, size, region, or crop. For Maine farmers, in particular, it is crucial that we protect this safety net that does not discriminate.

E.J. Dorsey is a crop insurance agent with United Insurance in Fort Fairfield. He has more than 22 years experience in the crop insurance field.

Steve Van Voorhis, New York crop insurance agent and farmer
The Buffalo News, May 31, 2017

Sometimes folks are quick to criticize crop insurance because they don't realize that, like agriculture, the program touches every state in the nation. It has proven itself to be our most effective risk-management tool.

Let's allow this program to keep working, not just for the farmers who put everything on the line year after year, but for the solvency of our state and national agriculture economies as well.

Another Voice: Crop insurance protects New York's farm economy

By Another Voice *| Published May 30, 2017 | Updated May 30, 2017*

By Steve Van Voorhis

If you ask someone outside of the agriculture community to describe the typical American farm, chances are they will paint a picture of the amber waves of grain so prominent in the Midwest. And while this is certainly a critical component, U.S. agriculture is much more diverse, and stretches far beyond our nation's breadbasket.

Here in New York, for example, the agriculture industry pours in nearly $6 billion annually to our state. This is a major economic contribution that we couldn't do without.

But, as we all know, farmers face challenges that most others do not. As a fourth-generation farmer myself, I have witnessed the wrath of Mother Nature on numerous occasions.

So it is critical that we have a risk management plan in place to help us deal with the many things we can't control.

Crop insurance is at the heart of this effort. This cost-sharing, public-private partnership operates very much like other insurance policies. In total, farmers pay between $3.5 billion and $4 billion in premiums every year. We do so because you can't put a price on peace of mind.

Part of the reason so many farmers have confidence in the crop insurance program is because many improvements have been made in recent years. The last farm bill, for example, took steps to make crop insurance more affordable and available to specialty crop growers, organic producers and young farmers.

Today, crop insurance is available for more than 130 commodities and has more than 62,000 county crop programs.

This is especially important to states with unique agriculture offerings like ours.
New York farmers – who, like our crops, are a diverse bunch – also appreciate the flexibility of the crop insurance program. Policies can be tailored to each farm's crops, production methods and risk, and each farmer's risk tolerance.

Farmers work closely with their crop insurance agents, many of whom are farmers like myself, to find the right fit for their needs.

Despite the effectiveness of the crop insurance program – or perhaps because of it – the program still has its critics.

As we begin to consider the next farm bill, and continued funding, I would remind these misguided critics that in the days before crop insurance, Congress had to deal with passing costly disaster relief, and taxpayers footed the bill.

Sometimes folks are quick to criticize crop insurance because they don't realize that, like agriculture, the program touches every state in the nation. It has proven itself to be our most effective risk-management tool.

Let's allow this program to keep working, not just for the farmers who put everything on the line year after year, but for the solvency of our state and national agriculture economies as well.

Steve Van Voorhis is a fourth-generation farmer in Monroe County and a crop insurance agent.

Randy Odell, Vermont crop insurance agent
Agri-Pulse, November 4, 2016

No, a crop insurance check will never come close to what a farmer can get from a good harvest. Like homeowner's insurance, farmers don't collect a dime without a verifiable loss and paying a deductible. But crop insurance does offer farmers some peace of mind, which allows them to focus on producing higher-yielding, better-quality crops.

Connecticut River Valley farmers are inventive and hardworking businessmen and women and it has been an honor to work with them for the past 40 years. Given their ingenuity, and the important safety net crop insurance provides, the next 40 years should be exciting to watch.

Opinion - Crop insurance: What a difference four decades make

11/04/16 1:31 PM By Guest Author

By Randy Odell, crop insurance agent, Odell Insurance Agency, Bradford, Vermont

For nearly four decades I have worked with Connecticut River Valley farmers to help protect their livelihoods. Over that time, I've seen many changes, both in the make-up of farms and the tools farm families have to manage uncontrollable risk.

As our population has grown, the amount of available farmland has gotten smaller. This means our farmers have had to adapt to survive. More and more local farmers today also work jobs off the farm to help support themselves, meaning we have more part-time farms. We've also seen an increase in diversified farms here. Many of our dairy farmers, for example, are growing their own crops for feed to help improve their bottom lines.

Our farmers—those with a passion for the land often stretching back generations—have proven to be amazing innovators in the face of challenges. But even for the best agricultural innovators, there is one thing that always remains out of their control: Mother Nature.

Here in the Connecticut River Valley, we know this all too well. We've seen spring seasons that have been too dry or too wet for planting. We've seen hailstorms come through the Upper Valley like tornadoes, bringing destruction to one area, while miraculously sparing another area just a few miles down the road. We've even seen hurricanes, like Irene in 2011, and blizzards in recent years.

Thankfully, as a crop insurance agent, I have also witnessed positive changes to the crop insurance system, enabling many of our farmers to protect their operations against circumstances beyond their control.

During the 1980s, which marked the beginning of the public-private partnership between the U.S. government and private insurance companies, I was among the first crop insurance agents in the region. And the program experienced plenty of growing pains.

Participation was lacking due to high costs, spotty service and slim margins. Congress was spending considerably more each year cleaning up messes after disaster struck than beforehand on protection. Lawmakers also paid far more attention to traditional Midwest crops than those specialty products more prevalent in New England.

Even as late as the early 1990s, crop insurance participation rates nationwide hovered in the 30 percent range.

Things began to change in the mid 1990s, with the passage of the Federal Crop Insurance Reform Act of 1994, which dramatically restructured the program by strengthening the partnership between the federal government and private insurers. Through premium discounts we also started to see increased participation.

Then in May 2000, Congress approved another important piece of legislation: the Agricultural Risk Protection Act (ARPA). The provisions of ARPA made it easier for farmers to access different types of insurance products including revenue insurance and protection based on their own historical yields.

All of this has resulted in more crop insurance participants than ever before, but there was still work to be done. The Farm Bill of 2014 made crop insurance a cornerstone of U.S. farm policy and took steps to make it more affordable and available to specialty crop growers, organic producers and young farmers.

Today, crop insurance protects more than 90 percent of planted acres nationally. And it's so popular that farmers are willing to collectively contribute about $4 billion a year from their own pockets to purchase protection and help remove some degree of risk from a very volatile business. That cost-sharing structure makes it a good investment for taxpayers as well, replacing expensive disaster bills of the past, while ensuring a safe and plentiful food supply.

No, a crop insurance check will never come close to what a farmer can get from a good harvest. Like homeowner's insurance, farmers don't collect a dime without a verifiable loss and paying a deductible. But crop insurance does offer farmers some peace of mind, which allows them to focus on producing higher-yielding, better-quality crops.

Connecticut River Valley farmers are inventive and hardworking businessmen and women and it has been an honor to work with them for the past 40 years. Given their ingenuity, and the important safety net crop insurance provides, the next 40 years should be exciting to watch.

Randy Odell is a Vermont crop insurance agent who has been in the industry for four decades.

Independent Insurance Agents & Brokers of America, Inc.

WHAT DOES AN INSURANCE AGENT DO TO ASSIST FARMERS IN THE PURCHASE OF CROP INSURANCE FOR THEIR FARMS?

STEP 1: (December/January): Meet with farmer to evaluate exposures for the upcoming year. Provide explanation of changes to Crop Insurance Handbook from RMA/FCIC.

STEP 2 (January): Discuss FSA Programs such as ARC, PLC, SCO, STAX, and others. Aid the farmer in identifying updates to FSA programs, implementation/timeline of the programs, and analyzing impacts of those programs within their own operations.

STEP 3 (February): Provide explanation along with pricing for each insurance product available. Pricing can fluctuate immensely based off of crop, producer history, coverage level, coverage plan type, physical field location, and more. Examine cropping intentions for the year to effectively manage coverage options.

STEP 4 (February/March): Analyze and determine with grower what product or products most effectively manage risk in their operation. Evaluate what portion of their expenses can be covered by crop insurance (and more importantly what's not), and at what cost (lender may become involved at this time).

STEP 5 (March 15th): Final "Sales Closing Date" for spring crops. All applications/transfers /cancellations need to be signed and submitted by this date.

STEP 6 (April): Provide farmers/lenders with confirmations of coverage and material to record actual planted acreage for the year.

STEP 7 (April 29th): Final "Production Reporting Date" for spring crops (previous crop year). All production reports need to be signed and entered/keyed into the company database by April 29th.

STEP 8 (April/May): Agent sends out "Acreage Report" letters. Hail applications/cancellations need to be made final by June 1 (date varies by region and company). Agents receive notice of losses from farmers, document, and turn in potential losses to the farmer's "Approved Insurance Provider" in accordance with the agent's role in the Crop Insurance Handbook

STEP 9 (July 15th): Final "Acreage Reporting Date" for spring crops. Agent needs to report, key, and obtain a signature on all acres by this date. Accuracy is most crucial in this stage. If the wrong crop or acre amount is unintentionally reported this will result in forfeiture of coverage, additional premiums, or loss of indemnity. Report any applicable replant/prevent plant acres on the "Acreage Report" and facilitate applicable loss paperwork.

STEP 10 (July/August): "Schedules of Insurance" are verified by the agent, and then sent out to the farmer/lender to review guarantee. Crop Insurance invoices are sent out at this time. Farmers are contacted to see if they will have any fall crops (i.e., wheat). If fall crops apply repeat Steps 1-4.

Step 11 (September/October): Agents begin fielding premium invoice questions. Agents also send out production reporting letters at this time. Agents receive notice of losses from farmers, document, and turn in potential losses to the farmer's "Approved Insurance Provider" in accordance with the agent's role in the Crop Insurance Handbook.

Step 12 (November): Agents consult farmers on guidelines of implementing cover cropping and conservation compliance after harvest.

Step 13 (November/December): Agent provides the farmer with a production reporting form. If at this point the farmer recognizes that they are short of their guarantee they notify their agent of a potential loss. Agent then documents, and turns in a notice of loss to the farmer's "Approved Insurance Provider" in accordance to the agent's role in the Crop Insurance Handbook. If farmer does not have a potential loss agent collects all production information. Agent then keys all production information into the farmer's Approved Insurance Provider's software system.

ANTI-REBATING CERTIFICATION

J109 Date ____________ Page ____ of ____

APPLICANT/INSURED NAME:	CROP YEAR:	POLICY NUMBER:
AGENCY NAME:		AGENCY CODE NUMBER:

APPLICANT / INSURED STATEMENT: I certify, for the crop year indicated, that I have not directly or indirectly received, accepted, or been paid, offered, promised, or given any benefit, including money, goods, or services for which payment is usually made, rebate, discount, abatement, credit, or reduction of premium, or any other valuable consideration, as an inducement to procure insurance or in exchange for purchasing this insurance policy after it has been procured. I understand that this prohibition does not include payment of administrative fees, performance based discounts, and any other payments approved by FCIC that are authorized under sections 508(a)(9)(B) and 508(d)(3) of the Federal Crop Insurance Act (Act) (7 U.S.C. §§1508(a)(9)(B) and 1508(d)(3)). I understand that a false certification or failure to completely and accurately report any information on this form may subject me, and any person with a substantial beneficial interest in me, to sanctions, including but not limited to, criminal or civil penalties and administrative sanctions in accordance with section 515(h) of the Act (7 U.S.C. §1515(h)) and all other applicable federal statutes.

Applicant/Insured's Printed Name | Applicant/Insured's Signature | Date

AGENT STATEMENT: I certify, for the crop year indicated, that I have neither offered nor promised, directly or indirectly, any benefit, including money, goods, or services for which payment is usually made, rebate, discount, credit, reduction of premium, or any other valuable consideration to this person either as an inducement to procure insurance or in exchange for obtaining insurance after it has been procured. I understand that this prohibition does not include payment of administrative fees, performance based discounts, and any other payments approved by FCIC that are authorized under sections 508(a)(9)(B) and 508(d)(3) of the Federal Crop Insurance Act (Act) (7 U.S.C. §§1508(a)(9)(B) and 1508(d)(3)). I understand that a false certification or failure to completely and accurately report any violation may subject me, and all agencies/companies I represent, to sanctions, including but not limited to, criminal or civil penalties and administrative sanctions in accordance with section 515(h) of the Act (7 U.S.C. §1515(h)) and all other applicable federal statutes.

Agent's Printed Name | Agent's Signature | Code Number | Date

COLLECTION OF INFORMATION AND DATA (PRIVACY ACT) STATEMENT
Agents, Loss Adjusters and Policyholders

The following statements are made in accordance with the Privacy Act of 1974 (5 U.S.C. 552a): The Risk Management Agency (RMA) is authorized by the Federal Crop Insurance Act (7 U.S.C. 1501-1524) or other Acts, and the regulations promulgated thereunder, to solicit the information requested on documents established by RMA or by approved insurance providers (AIPs) that have been approved by the Federal Crop Insurance Corporation (FCIC) to deliver Federal crop insurance. The information is necessary for AIPs and RMA to operate the Federal crop insurance program, determine program eligibility, conduct statistical analysis, and ensure program integrity. Information provided herein may be furnished to other Federal, State, or local agencies, as required or permitted by law, law enforcement agencies, courts or adjudicative bodies, foreign agencies, magistrate, administrative tribunal, AIP's contractors and cooperators, Comprehensive Information Management System (CIMS), congressional offices, or entities under contract with RMA. For insurance agents, certain information may also be disclosed to the public to assist interested individuals in locating agents in a particular area. Disclosure of the information requested is voluntary. However, failure to correctly report the requested information may result in the rejection of this document by the AIP or RMA in accordance with the Standard Reinsurance Agreement between the AIP and FCIC, Federal regulations, or RMA-approved procedures and the denial of program eligibility or benefits derived therefrom. Also, failure to provide true and correct information may result in civil suit or criminal prosecution and the assessment of penalties or pursuit of other remedies.

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IDFA
INTERNATIONAL DAIRY FOODS ASSOCIATION

July 24, 2017

The Honorable Pat Roberts
Chairman
Senate Committee on Agriculture, Nutrition, and Forestry
328A Russell Senate Office Building
Washington, DC 20510

The Honorable Debbie Stabenow
Ranking Member
Senate Committee on Agriculture, Nutrition, and Forestry
328A Russell Senate Office Building
Washington, DC 20510

Dear Chairman Roberts and Ranking Member Stabenow:

Thank you for holding this important hearing on "Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm." I appreciate the opportunity to share our organization's perspectives on these topics and I respectfully request that this letter be made a part of the hearing record.

The International Dairy Foods Association (IDFA) represents nearly 525 dairy manufacturing and marketing companies and suppliers within a $125-billion a year industry. The dairy processing industry employs nearly one million Americans and supports an additional two million U.S. jobs.

IDFA members are manufacturers, marketers and retailers of milk and dairy products, including beverage milk (Class I), yogurt (Class II), ice cream (Class II), cheese (Class III), and butter and dry products (Class IV). Our members range from the nation's largest farmer-owned dairy coops to multinational corporations to family-owned, single-plant operations. We also have member companies that supply the dairy industry with everything from ingredients to packaging and equipment.

IDFA members include national and regional grocery retailers that make their own dairy products, international foodservice chains and innovative processors that produce ultra-filtered, high-protein, lactose-free, fat-free and low-sugar milks with extended shelf life. We represent every kind of ice cream company you can imagine, yogurt companies, infant formula companies and cheese makers – all supplying customers around the globe. Other members are pioneers in providing innovative dairy ingredients that offer health and nutritional functions in foods, which are increasingly in demand. And speaking of increasing demand, we also have members in the rapidly growing organic dairy sector.

IDFA is governed by board members who represent leaders across the spectrum of the dairy industry. We are fortunate that this diversity provides our organization with a very broad view of the overall dairy industry. We know that to continue our success, we must innovate to keep up with the market, and to innovate, we must collaborate along every stage of the supply chain, from producer to processor to retailer to consumer.

Consumers Crave New Products

Listening to consumers is a good place to start, and we know they crave new products. That is why American consumers today have far more choices in the dairy aisle and on grocery shelves than ever before. Greek-style yogurt, string cheese, shelf-stable milks and high-protein beverages and snacks have become consumer favorites in the past few years, and these products are just the tip of the iceberg.

When you think of traditional dairy, the terms "wholesome," "good for you," "most perfect food," "does a body good," "nutritious," "affordable" and "tasty" all come to mind, but we are far more than a gallon of milk today. In fact, milk contains protein as well as eight other essential nutrients, like calcium and potassium. These milk components can be used to make an ever-increasing range of specialized dairy products and ingredients for infant formula, protein drinks and many other specialty products.

How did we move from a gallon of milk to powerful protein beverages and more? A brief overview of the U.S. dairy industry and its evolution over the years will help answer that question.

Evolution of the U.S. Dairy Industry

Before World War II, the dairy industry was dominated by more than 4.5 million small, widely scattered farms and 22,000 processing plants. With the growing use of refrigeration and cross-country transportation, the U.S. agricultural sector realized that local production was not a necessity and economies of scale were a good thing. Today the dairy industry has approximately 47,000 dairy farms and slightly more than 1,500 processing plants that are much larger and serve a broader market.

Where does all this farm milk go? More than 40% is used to make cheese and just over 20% is used for beverage milk and cultured products like yogurt. That is a significant change from 1960, when just 10% went into cheese production and almost half was used for fluid milk products. As U.S. cheese production has increased, so has production of dairy ingredients from whey (which is a protein-packed cheese by-product) and other milk components.

Cheese production reached a record high in 2016, as per capita consumption of cheese kept growing. Americans, on average, are eating 35 pounds of cheese annually, which is twice the amount we ate in 1980. Per capita consumption of yogurt has increased even more dramatically during this time period, growing from 2.5 pounds in 1980 to almost 15 pounds in 2015.

Overall, domestic demand for dairy products is growing, but the growth is not as high as it should be when you consider that the 2015 Dietary Guidelines for Americans state that "intakes of dairy foods are far below recommendations." Per capita consumption of fluid milk products has been on a downward trend for decades as Americans have shifted to other beverages. The U.S. Department of Agriculture (USDA) estimates that Americans, on average, drink 37% less milk today than they did in 1970. Forty years ago, per capita consumption was nearly one and a half cups per day; now, it is closer to three-quarters of a cup. Per capita production of frozen dairy products was 23.4 pounds in 2015 and has also trended downward for more than 20 years.

While our companies will continue to innovate, providing new products, new packaging and a variety of portion sizes to gain the attention of American consumers, we are increasingly looking to the global market for additional growth opportunities, and here is why.

The United States is the single largest cow's milk producer in the world. U.S. farm milk production has grown from 170 billion pounds in 2003 to 212 billion pounds in 2016, and more than 52% of that additional farm milk is exported to other countries in the form of various finished products. In addition, USDA projects that total U.S. milk production will reach nearly 260 billion pounds by 2026. Indeed, exports are driving growth in demand for U.S. farm milk, and the potential for further global demand is huge.

As the world population grows by another two billion people by 2050 and continues to develop economically, the demand for protein and improved diets will increase the demand for dairy products. Dairy foods are uniquely positioned to meet the nutritional needs of a growing world with more disposable income and an appetite for higher-protein products. This will mean increased opportunities for global trade in dairy.

The International Dairy Federation estimates that world demand for milk and dairy products would double by 2030, if dairy consumption grew to match the actual nutritional needs of all global diets. That number would triple by 2050. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that dairy consumption in the Asia-Pacific region alone – driven by China, India and Japan – should double by 2050.

Those estimates represent an amazing opportunity for American dairy processors, American dairy farmers and members of Congress to collaborate to bring enhanced nutrition to a growing world, as well as new opportunities and prosperity to our industry. Ensuring that the U.S. dairy industry is globally competitive to capture this growing demand is imperative.

We are well positioned to achieve export growth: We have industry and regulatory standards to assure consumers that our products are safe, the technology to innovate and the infrastructure to deliver to our customers. Most importantly, we are blessed with the natural resources to expand milk production. On the milk supply side, we know the United States is incredibly competitive. According to USDA, milk production in pounds per cow has increased by more than 20% since 2004. To emphasize this point, the average cow in 1950 produced 5,500 pounds of milk per year, while today it is nearly 23,000 pounds per year. Moreover, USDA projects that this number will rise to 27,585 pounds per cow by 2026 – an increase of more than 23%. American agriculture has a tremendous capacity to produce.

As these facts demonstrate, globalization provides important opportunities for the U.S. dairy industry. At the same time, global demand has also increased volatility in dairy markets. The question is: What do we do about it?

First and foremost, the dairy industry needs better mechanisms for risk management on both the producer and processor side. The 2014 farm bill overhauled the producer safety net, replacing the Milk Income Loss Contract program (MILC) and the Dairy Product Price Support Program (DPPSP) with the Margin Protection Program, a margin insurance program, in recognition of this new global environment. Farmers are now looking to improve the Margin Protection Program and the Livestock Gross Margin-Dairy (LGM-Dairy) insurance program to provide them with access to effective risk management tools in this farm bill. We are looking forward to reviewing the details of their proposal but are supportive of increasing the funding limits for LGM-Dairy to make it more accessible and fine-tuning the producer safety net so that it functions effectively and is not market distorting.

At the same time, the 2018 farm bill should provide better mechanisms for processors to manage price volatility through the extension and expansion of the current forward contracting program. Both domestic and international demand is negatively impacted by price volatility. Global customers are accustomed to buying dairy products at fixed prices that cover multiple months of deliveries and are reluctant to take on the price volatility generally associated with the U.S. dairy industry. Domestic buyers, whether food formulators for consumer packaged goods or foodservice or restaurant menu designers, also prefer to use ingredients for which prices are less volatile or for which they can better manage the price risk. If dairy cannot meet that need, the industry loses that demand, and we risk permanently losing retail consumers who migrate away from fluid milk and dairy products during high price cycles. In addition, the inability to hedge fluid milk inhibits innovation in this category because processors are more likely to invest their innovation budget on dairy products in Classes II, III and IV where price risk can be effectively managed under the existing forward contracting program.

The minimum regulated milk price provisions of the Federal Milk Marketing Orders (FMMO) translate the price volatility of the dairy commodities directly into the regulated milk prices. The establishment of the forward contracting program for manufacturers of dairy products other than fluid milk has provided an important mechanism for manufacturers to directly contract with individual farmers or their cooperatives at a fixed price, but the periodic expiration of the program challenges its use as we approach the end of each farm bill. This program should be made permanent and the same opportunity should be afforded to fluid milk manufacturers so that they, too, can curb the negative demand impacts of price volatility.

The current forward contracting program allows farmers and cooperatives to voluntarily enter into forward price contracts with handlers for Class II, III or IV milk. The program allows handlers regulated under the FMMO and farmers to agree on the terms of the contract, without having to pay the minimum federal order blend price. However, regulated handlers are still required to make payments or distributions from the producer settlement fund into the federal order pool. To ensure that the forward contract is voluntary, the producer or cooperative is required to file a disclosure agreement with the FMMO market administrator.

In addition to allowing all classes of milk to establish forward price contracts, many other aspects of the current milk pricing regulatory system should be reviewed in the context of today's consumer trends and global marketplace. The system's underlying assumption that beverage milk can bear a significantly higher price burden may no longer be accurate in today's highly competitive beverage market in which fluid milk sales continue to decline.

Many of the milk pricing issues that are negatively impacting my members flow through in the form of decreased demand, which negatively impacts farmers as well. We have begun a dialogue with the National Milk Producers Federation (NMPF) and other producer stakeholders about these concerns in an attempt to develop a consensus proposal. Although my hope is that we can work constructively through that process, I would be remiss not to highlight to the committee that this consensus needs be achieved in a timely fashion. We pledge to keep this committee apprised of our progress to develop a comprehensive solution to these issues that advances the interest of the entire dairy industry.

I would also like to briefly mention some additional policy areas that we are looking to you for support.

SNAP and USDA Nutrition Programs
In both the 2008 and the 2014 farm bills, Congress authorized pilot programs to increase fruit and vegetable purchases by participants in the Supplemental Nutrition Assistance Program (SNAP). The 2008 farm bill authorized $20 million for the Healthy Incentives Pilot, and the 2014 farm bill authorized $90 million for the Food Insecurity Nutrition Incentive (FINI) grant program to test incentives at the point of sale to increase purchases of fruits and vegetables among SNAP participants.

Given that only 1 out of 10 Americans consumes the recommended three servings of dairy a day, according to the 2015 Dietary Guidelines, we believe adding voluntary incentives to encourage SNAP participants to increase their consumption of milk and dairy foods would be nutritionally sound and a wise use of taxpayer dollars. As part of the 2018 farm bill, we would like to work with Congress to explore options to provide SNAP participants with additional incentives to choose milk and dairy products. In order to function properly, such incentives should not hamper a shopper's check-out experience and would need to be practical for retailers to administer.

Milk is not only under consumed in all U.S. households but also in schools. Since 2012, when restrictions were put on types of school milk to allow only fat-free flavored milk along with low-fat and fat-free plain milk, consumption dropped 4.4%. To reverse this trend, we need to offer milk choices that students want to drink. The good news is that with the strong support of the chairman and other members of this committee, Congress and USDA have recently taken steps in this direction. In early May, the president signed the fiscal year 2017 omnibus appropriations bill into law. Included in the bill was language allowing states to grant special exemptions from current USDA regulations to schools that would like to offer low-fat flavored milk in the school meal program and a la carte during the 2017-2018 school year.

In addition, Secretary of Agriculture Sonny Perdue signed a proclamation in May that directs USDA to change the existing regulations to provide schools with the discretion to serve low-fat flavored milk in the school meals program without a waiver. An interim final rule is currently under review at the Office of Management and Budget, and it is our hope that this rule can be finalized by October 2017 so that processors and participating school districts will have sufficient lead time to provide students with low-fat flavored milk during the 2018-2019 school year.

Product Labeling Changes

Product labeling for the entire food and beverage category is currently undergoing significant change, and multiple compliance deadlines are placing a massive regulatory burden on the industry. Approximately 400,000 new products have been introduced since the original Nutrition Labeling and Education Act rules were established more than 20 years ago. To change essentially every food package in the United States requires adequate time, careful planning, significant resources, testing and analysis of products, entering of ingredient information into databases, new label and packaging designs, new printing plates and queuing up with printing companies. This process requires coordination among software vendors, ingredient suppliers, graphic designers, printing companies and others on a magnitude of scale never before executed.

For these reasons, IDFA and the entire food and beverage industry had asked that the compliance deadline for FDA's new Nutrition Facts and Serving Size rules be extended from July 2018 to May 2021. Last month, FDA announced that it would grant our request to extend the compliance deadline for these new rules. However, FDA has not yet announced a new compliance deadline. IDFA hopes that the administration will ultimately align the compliance dates for the Nutrition Facts label changes with the U.S. Department of Agriculture's disclosure standard for bioengineered foods, which is required by law to be issued by July 2018. By harmonizing these compliance deadlines, our member companies will be able to avoid the confusion and extra cost incurred by changing their product labels twice – first to comply with the changes to the Nutrition Facts label and again when USDA specifies how genetically engineered foods and ingredients need to be labeled.

Organic Dairy Products

Dairy foods represent the second-largest and fastest-growing category of organic foods sales, totaling about $6 billion, or 15% of all organic sales, according to the Organic Trade Association. The National Organic Program (NOP) at USDA has provided a consistent and reliable platform for the organic industry to grow and thrive. We believe maintaining the NOP program as it is currently managed will ensure that consumers have access to organic dairy products that meet their expectations. We also support the current structure and functions of the NOP and the allocation of resources necessary to ensure that the program accommodates continued growth of the US organic dairy industry.

Trade

IDFA and our member companies look forward to working with the administration and Congress to achieve trade policy goals that will preserve and grow dairy exports. As I stated earlier, global trade represents the single most significant demand growth opportunity for our members and the dairy men and women who supply them.

Mexico is the number one export market for U.S. dairy, accounting for one-fourth of our total dairy exports. The United States has a 73% market share of Mexico's dairy imports, and we need to ensure that a renegotiation of the North American Free Trade Agreement (NAFTA) preserves this important market.

In March, I traveled to Mexico City with Jim Mulhern, the president and CEO of NMPF, and former USDA Secretary Tom Vilsack, the president and CEO of the U.S. Dairy Export Council, to meet with Mexican dairy farmers, processors and government officials. NAFTA has been a success for both the United States and Mexican dairy industries; it provides exactly the type of "win-win" business opportunities each country needs. We found support to preserve the current market relationship from the dairy farmers, processors and the government of Mexico.

Unfortunately, we have not had the same success with our trading partner to the north. The Canadian government is violating its trade commitments with the United States under NAFTA and the World Trade Organization with respect to dairy. Recent Canadian efforts to create a new class of milk effectively prevent U.S. exports of ultra-filtered milk from Wisconsin and New York and will cost the industry at least $150 million, while threatening U.S. jobs on farms, in processing plants and throughout the supply chain. In addition, this new pricing regime has resulted in more Canadian skim milk powder (SMP) being offered on the world market at prices below the cost of production. Canada recently expanded this new pricing initiative, and we need to address this issue immediately before further damage is done.[1] Moreover, we hope that the NAFTA renegotiation process will enable us to reduce or eliminate existing Canadian tariffs on U.S. dairy products, some of which are nearly 300%. To that end, our members are encouraged to see that several key priorities for the U.S. dairy industry are reflected in the administration's objectives for renegotiating NAFTA, and we look forward to working with the U.S. Trade Representative and others in the administration to preserve the critically important dairy export market in Mexico and improve our market access in Canada.

Finally, the United States must also forge new trade agreements, starting with the emerging economies of the Asia-Pacific region, where dairy consumption is rising rapidly. While we understand that the administration has prioritized the launch of NAFTA talks, gaining access to new markets is critical for U.S.

[1] Domestically, FDA should make it easier for U.S. cheesemakers to use ultra-filtered milk in their products. Existing ingredient labeling requirements need to be clarified and simplified for all cheeses so that U.S. cheesemakers have an incentive to use more ultra-filtered milk sourced from U.S. dairy processors.

agriculture and cannot wait until after NAFTA negotiations are complete. By that time, we may already be too far behind in critical markets.

Other dairy exporting countries are aggressively gaining access to some of the most lucrative dairy markets. The completion earlier this month of the Japan-EU Free Trade Agreement is the latest example of the United States falling behind with a critical trading partner. The European Union is one of our primary competitors in dairy and it uses free trade agreements to not only gain preferential access to new markets, but also to prevent other countries from entering those markets in the future, through the creation of overly broad protection for geographical indications (GIs). The GI provisions in the EU-Japan FTA look ominous for U.S. dairy, appearing to foreclose the opportunity for the United States to sell certain cheeses to Japan.

The EU has also completed free trade agreement negotiations with Vietnam, and it is actively negotiating agreements with India, Indonesia and Malaysia, as well as updating its FTA with Mexico.

Other key dairy exporters are also expanding their global reach. Australia is negotiating bilateral agreements with India and Indonesia and, along with New Zealand, is engaged in the Chinese-led multilateral Regional Comprehensive Economic Partnership (RCEP) agreement. High-quality U.S. dairy products can be competitive in any market around the globe, provided they have access to the same tariff rates and rules as our competition. However, when other countries receive tariff advantages or duty-free quotas through free trade agreements, U.S. dairy products are much less attractive. As consumers in these countries join the middle class and add dairy to their diets, we cannot afford to have U.S. dairy products absent from their grocery store shelves.

Conclusion

In summary, IDFA represents a broad cross section of the U.S. dairy industry. Our views are based on what is good for all our members and our entire dairy industry, from producer to processor to input provider to wholesaler to retailer to the consumer. With our policy goals, we aim to ensure that our industry remains competitive and strongly positioned for growth, both domestically and internationally, to meet the demand for our nutrient-rich products in a way that benefits all our stakeholders and contributes so importantly to the health of Americans and our nation's economy.

There is a common thread to all the issues I have outlined: enhancing demand for U.S. dairy products. The opportunities are clearly out there, and the U.S. dairy industry is poised to take full advantage.

With the proper policies and tools - such as allowing more types of milk to be offered in school cafeterias, obtaining greater market access in Canada and preventing further sales of Canadian SMP at unfair prices, opening new markets in Asia, maintaining our top export market in Mexico, offering incentives to purchase more dairy foods through SNAP and providing better mechanisms for risk management for both farmers and processors – I'm confident our industry will meet and increase the demand for milk and dairy products, providing economic prosperity and stability to American dairy companies and dairy farmers, as well as their communities throughout the country.

We look forward to working with the committee on the various programs and policy recommendations under the purview of the farm bill, and we appreciate the opportunity to provide our views on these important topics.

Sincerely,

Michael D. Dykes, D.V.M.
President and CEO
International Dairy Foods Association

Statement for the Record

On Behalf of the

American Bankers Association

before the

Agriculture, Nutrition and Forestry Committee

of the

United States Senate

American Bankers Association

Statement for the Record

On behalf of the

American Bankers Association

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of the

United States Senate

July 25, 2017

Chairman Roberts, Ranking Member Stabenow and members of the Committee, the American Bankers Association (ABA) would like to thank you for holding this hearing on Commodities, Credit and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill.

The American Bankers Association is the voice of the nation's $17 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend over $9 trillion in loans. ABA is uniquely qualified to comment on agricultural credit issues as banks have provided credit to agriculture industry since the founding of our country. Nearly 5,000 banks –83% of all banks nationwide– reported agricultural loans on their books at year-end 2016 with a total outstanding portfolio of more than $175 billion.

Banks continue to be one of the first places that farmers and ranchers turn to, when looking for agricultural loans. Agricultural credit portfolios typically finance a wide array of customers, including large and small farms, urban farmers, beginning farmers, women farmers and minority farmers. To bankers, agricultural lending is good business and credit is available to all, who can demonstrate they have a sound business plan and the ability to repay.

In 2016, farm banks – banks with more than 15.65 percent of their loans made to farmers or ranchers – increased lending by 5.3 percent to meet the rising needs of farmers and ranchers, and now provide over $103 billion in total farm loans. Farm banks are an essential resource for small farmers, holding more than $48 billion in small farm loans, with $11.5 billion in micro-small farm loans (loans with origination values less than $100,000). Farm banks are healthy, well-capitalized, and stand ready to meet the credit demands of our nation's farmers large and small.

In addition to our commitment to farmers and ranchers, thousands of farm dependent businesses – food processors, retailers, transportation companies, storage facilities, manufacturers, etc. – receive financing from the banking industry as well. Agriculture is a vital industry to our country, and financing it is an essential business for many banks.

The agricultural economy has been slowing, with farm sector profitability expected to decline further in 2018. However, farm and ranch incomes have been some of the best in history. With the 2014 Farm Bill in place, farmers, ranchers, and their bankers achieved a level of certainty from Washington about future agricultural policy. Interest rates continue to be at or near record lows, and the banking industry has the people, capital and liquidity to help American farmers and ranchers sustain through the turbulence in the agricultural economy.

Banks work closely with the USDA's Farm Service Agency to make additional credit available by utilizing the Guaranteed Farm Loan Programs. The repeal of borrower limits on USDA's Farm Service Agency guaranteed loans has allowed farmers to continue to access credit from banks as they grow, ensuring credit access for farmers across the country.

Our nation's farmers and ranchers are critical resources to our economy. Ensuring that they continue to have access to adequate credit to thrive is essential for the well-being of our whole nation. America's banks remain well equipped to serve the borrowing needs of farmers of all sizes. An important step in ensuring credit availability is to review entities, such as the Farm Credit System, and ensure that they stick to their charter of helping young, beginning and small farmers.

ABA would like to elaborate on the following points:

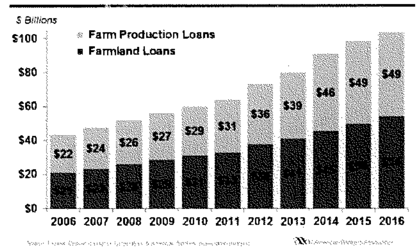
- Banks are a primary source of credit to farmers and ranchers in the United States;
- Banks believe changes are necessary in the next Farm Bill to help the rural economy;
- Banks work closely with the USDA to make additional credit available through various credit programs, but some changes are needed to help these programs;
- The Farm Credit System has become too large and unfocused, using taxpayer dollars to subsidize large borrowers and there is a real need to level the playing field with the Farm Credit System.

I. Banks Are a Primary Source of Credit to Farmers and Ranchers in the U.S.

For many of our members, agricultural lending is a significant component of their business activities. ABA has studied and reported on the performance of "farm banks" for decades and, we are pleased to report that the performance of these highly specialized agricultural lending banks continues to be strong. ABA defines a farm bank as one with more than 15.65 percent farm or ranch loans (to all loans).

At the end of 2016, there were 1,912 banks that met this definition. Farm lending posted solid growth during 2016. Total farm loans at farm banks increased by 5.3 percent to $103.4 billion in 2016 up from $98.3 billion in 2015. Approximately one in every three dollars lent by a farm bank is an agricultural loan.

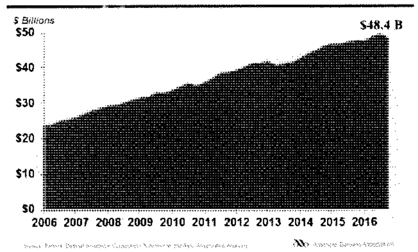
Farm Banks Exhibit Solid Farm Loan Growth



Farm real estate loans grew at a faster rate than farm production loans. Outstanding farm real estate loans grew at a pace of 9.2 percent, or $4.5 billion, to a total of $54.1 billion. Farm production loans rose by 1.3 percent, or $640.5 million, to $49.4 billion. Farm banks are a major source of credit to small farmers – holding more than $48.4 billion in small farm loans (origination value less than $500,000) with $11.5 billion in micro-small farm loans (origination value less than $100,000) at the end of 2016. The number of outstanding small farm loans at farm banks totaled 766,762 with the vast majority – over 495,600 loans – with origination values less than $100,000. Farm banks are healthy, well capitalized, and stand ready to meet the credit demands of our nation's farmers large and small.

Equity capital —often thought of as the strongest form of capital—at farm banks increased by 3.7 percent to $48.4 billion in 2016. Since the end of 2007, farm banks have added $20.9 billion in equity capital, building strong high-quality capital reserves. These capital reserves will enable flexibility amongst farm banks, as the agricultural sector adjusts to lower commodity prices — allowing bankers to work with and serve the needs of our nation's famers — and will also act as a buffer, proving insulation from the risks associated with any downturn in the agricultural sector.

Farm Banks Increase High-Quality Capital



One area of concern for farm bankers and their customers has been the rapid appreciation in farmland values in some areas of the country. The run up in farmland values has not been a credit-driven event. Farm banks are actively managing the risks associated with agricultural lending, and underwriting standards on farm real estate loans are very conservative. The key consideration in underwriting any loan is the ability of the customer to repay regardless of the collateral position in the loan. To further manage risk, we regularly stress test our loan portfolios to judge repayment capacity under different scenarios.

After several years of large increases in farmland values, the consensus view among bankers is that the increase in farmland values has slowed. ABA watches the farm real estate market very closely. In recent years, over four-fifths of the agriculture sector's asset values were held in real estate. USDA projects a slight depreciation in the value of farm real estate in 2017 likely a response to expectations of lower farm earnings due to declines in crop and livestock receipts.

II. The Agricultural Act of 2014 Had Many Successful Components

One success of the 2014 Farm Bill was the continued support of crop insurance programs. Agricultural lenders use crop insurance as a guarantee to help secure financing for operating credit. With crop insurance, a lender has the ability to provide support based on individual producers' proven crop yields. This allows lenders to tailor a loan to a producer's operation and allow for year-to-year adjustments within that operation. Without crop insurance acting as a safety net, producers would be in a much more challenging financial situation in the event of disaster. Crop insurance has allowed lenders to provide the best possible terms for operating loans because it helps to lower the risk for the lender. ABA has been a long-time supporter of crop insurance programs and would like to see the programs expanded to help as many producers as possible.

Another success of the 2014 Farm Bill was the continuation of the Conservation Reserve Program (CRP). CRP is vital in rural areas as it provides another use for land that may be otherwise unsuitable for farming. From a lender perspective, CRP is another tool in the toolbox for landowners to use when they are trying to diversify their holdings. Additionally, CRP can provide a steady stream of income for producers, especially older producers.

ABA would like to thank Congress, especially the Agricultural Committees, for repealing borrower term limits on USDA Farm Service Agency guaranteed loans in the 2014 Farm Bill. Term limits restricted farmer access to capital, and with the expansion of the farm economy over the past ten years, there are some farmers who are not able to obtain credit from banks without a guaranty from USDA. The USDA's Farm Service Agency guaranteed loan program has been a remarkable success. Today, nearly $12 billion in farm and ranch loans are made by private sector lenders and are guaranteed by the USDA. There are nearly 43,000 loans outstanding – some farmers do have more than one guaranteed loan, so this number is not to be confused with the number of individual farmers and ranchers - but the numbers of individuals accessing credit under this program is very significant.

This program has grown over the past five years, with less than $9 billion outstanding at the close of FY 08 to nearly $12 billion today. The loans made by banks under this program are modest in size. The average outstanding guaranteed real estate loan is $439,000 and the average outstanding guaranteed non real estate secured loan is $250,000. Clearly, banks are reaching customers who have modest-sized operations, who are in the process of starting their farm or ranch operation, or who are recovering from some sort of financial set-back. Despite the fact that these customers do not have either the earnings or collateral to qualify for conventional credit, losses in the program have been extremely small. Over the last five fiscal years losses have ranged from a high of 0.6% in FY10 to a low of 0.3% in FY13. These are extremely low losses – especially for customers who are perceived to be a higher risk than other customers, hence the need for the USDA credit enhancement. Bankers who utilize the guaranteed farm loan programs offered by USDA know what they are doing and work very closely with their farm and ranch customers to properly service these loans. The Farm Service Agency deserves a great deal of credit for administering such a successful public/private partnership. ABA urges you to continue to support this very worthwhile program.

III.Changes Needed in the Next Farm Bill from a Banker's Perspective

ABA wants to reiterate that the 2014 Farm Bill was very successful from a lender's perspective. However, there are some substantial changes that need to be considered as Congress starts working on the next Farm Bill.

The most important change that should be made to the next Farm Bill is an increase to the current loan limit on FSA Guaranteed Loans. The formula for indexing the programs has not kept up with the increasing costs of agriculture. It is much more costly for a young, beginning or small farmer to get into agriculture, and the guaranteed loan programs need to reflect that reality. ABA has endorsed H.R. 831, the Beginning Agriculturist Lifetime Employment Act of 2017 (BALE Act), introduced by Representative Mike Bost. This legislation would increase the cap on GFOs and GOLs to $3.5 million. We believe this increase is necessary for lenders to be able to help as many producers as possible going forward. The BALE Act would also increase the size of Direct Operating Loans and Direct Ownership Loans from $300,000 to $600,000. This legislation is an important first step to modernizing FSA loan programs.

With any increase to Guaranteed Loan Programs, there will need to be an increase in funding for the programs. It is vital that the necessary funds are appropriated for the programs because there has been a shortage of funds for the past three years. These programs continue to create a great public-private partnership between lenders and USDA, and future funding should reflect the strength of programs.

Another step in modernizing loan programs would be upgrading and improving technology. This would create a more efficient and responsive USDA. As mentioned before, ABA is very involved in FSA Guaranteed Loan Programs, but the lack of basic upgrades to technology has greatly delayed the industry's ability to process loans at an efficient rate. Without simple updates, such as better functioning websites to check on loan balances, we are creating unnecessary work for FSA staff. As banking industry has learned, updating technology can create greater efficiency across an organization, which ultimately benefits our customers.

Along with the changes to the loan programs and upgrades to technology, there needs to be serious consideration for increasing staff levels at FSA. As veteran staff retires, there isn't enough new staff being trained to take over their loan portfolios. This is creating a knowledge gap within FSA loan programs and is making it much harder to turn around loans in a timely fashion. When it comes to financing agriculture, especially operating loans, loans need to be made as quickly as possible so farmers can get back into the field. As the agriculture committee is aware, windows for planting or harvesting can close very quickly and our loan programs need to keep pace.

ABA believes FSA should consider bringing back their interest assistance program. This program helps to buy down the cost of interest for young and beginning farmers, which is timely considering the rising interest environment we are entering. In the past, the program allowed FSA to buy down as much as four percent of all guaranteed operating loans. If this program were to be reinstated, ABA suggests that the program would be no more than two percent, would be eligible for only beginning and young farmers, and would be eligible for all FSA guaranteed loan programs.

Another issue that should be further examined by the Agriculture Committee is the National Environmental Policy Act (NEPA) regulations that have been put in place for Confined Animal Feeding Operations (CAFO) for FSA loan programs. ABA fully understands why the regulations have been put in place, but there needs to be serious examination on potential changes to the regulations. Additionally, the regulations can vary from state to state and county to county, making it very difficult to properly put together the loan. The Agriculture Committee should consider offering changes to the NEPA regulations on CAFOs so lenders can better serve this constituency into the future.

In addition to FSA loan programs, ABA believes the guaranteed loan programs within Rural Development need to remain in place for the future. These programs are not duplicative and help a different class of individuals than Small Business Administration loans. ABA is especially supportive of the Business and Industry Guaranteed Loan Program as it provides protection for lenders, making them more willing to extend credit to rural businesses. These loans are used to provide much-needed financing for economic development projects for rural businesses to purchase machinery and pursue business modernization. The USDA Business and Industry (B&I) Guaranteed Loan Program, and all programs of the USDA Rural Business Cooperative Service that complement the lending activities of private sector commercial banks are of vital importance to our nation's rural communities. The B&I program has historically realized full utilization and the program's delinquency rates are at an all-time low. In short, the program works and should be strengthened, not ended. By having a government guarantee, this program is particularly useful for helping start up business or non-traditional businesses in rural America. However, lengthy delays are commonplace due to the lack of modernization in the program which is still hurting the ability for banks to produce more B&I guaranteed loans. Without Rural Development loan programs, innovative businesses in rural America may be left behind.

Another important Rural Development loan program, is the Community Facilities Guaranteed Loan Program. This program relies on a partnership between the USDA and private lenders who provide vital capital for projects involving critical infrastructure and essential services in rural America such as hospitals and public safety services. The current over-emphasis by USDA on the Community Facilities Direct Loan program has become a very real threat to the continued viability of the Community Facilities Guaranteed Loan Program. The Direct Loan program excludes rural lenders in the private market because USDA completely assumes the role of the lender with all risk and exposure assumed by the U.S. taxpayer. Today, only a fraction of program authority is allocated to the Guaranteed Loan Program compared to the Direct Loan Program ($146 million versus $2.2 billion; a 6%/94% split)[1]. We urge your support for strengthening the Community Facilities Guaranteed Loan Program to increase the participation of the banking industry in these types of loans.

ABA believes the Rural Energy for America Program (REAP) Guaranteed Loan Program needs to remain strong into the future. However, there should be consideration for increasing the current cap of $25 million on REAP as the cap is often too low for larger projects. Additionally, there needs to be better coordination with B&I as that will create more opportunities for combination loans.

When the 2014 Farm Bill was written and approved, commodity prices were considerably higher than after implementation of the programs. As you are aware, the 2014 Farm Bill required that the producer make a one-time election between Agriculture Risk Coverage (ARC) and Price Loss Control (PLC). This became problematic because while producers were making the election in July 2013, corn futures were over $7 per bushel, with wheat futures being over $9 per bushel. Now, corn is less than $4 per bushel, and wheat is $4.50 per bushel. This dramatic drop in prices could not be foreseen by any producers.

Coupled with the drop in prices, the decision to use county yields instead of state yields should have provided assistance to the individuals most in need when yields were low, but this was often not the case. Instead, due to the variability in National Agriculture Statistics Service (NASS) data, two fields on each side of a county line, may have drastically different payments, with my

[1] United States Department of Agriculture Fiscal Year 2017 Budget Summary. Page 44.

customers seeing the difference as high as $90 per acre. Additionally, from a lender's point of view, NASS data has not been as accurate as data from the Risk Management Agency (RMA), which led to problems on yield calculations.

While crop prices and a one-time program election were both issues, the timing of payments greatly affected lenders. Payments could not be calculated until the final county yield was determined and the marketing year was complete. This means producers do not receive their payments during the same year in which they planted their crops, and lenders had to deal with the fallout of this timing issue. For example, bankers look at their customer's financial progress for 2016 and set their operating lines for 2017. However, banks cannot calculate 2016 payments until October of 2017. From a lender perspective, this has caused a real problem with our regulators, as banks cannot use a payment that may be received a year later in the profits calculation for this year. Lastly, we should not be making educated guesses on what payment may be received. Instead, there should be certainty within the programs to allow for an accurate calculation.

IV. FarmerMac is a Valued Partner for the Banking Industry

FarmerMac is a valuable tool in the toolbox for agricultural bankers because it provides another avenue for banks to increase credit availability. By purchasing guaranteed loans from banks, FarmerMac allows banks to lower interest rates for their customers and provide better loan products. With the agricultural economy potentially going through some stressful times in the near future, FarmerMac will need legislative changes. ABA believes the most needed change is the removal of the current 1,000 acre limitation. The 1,000 acre limitation was put in place in the 1987 Farm Credit Act and has become outdated with the increasing size and scope of modern agriculture.

ABA also believes there should be a serious discussion about FarmerMac being able to buy all guaranteed loans from USDA. This flexibility would encourage more banks to be involved in guaranteed loan programs across USDA. It should be noted, that these proposals would not only benefit banks, but also the Farm Credit System, who is our biggest competitor. ABA believes that we need to do everything in our power to help finance all of agriculture, and we are all in this together.

V. The Farm Credit System is a Large Government-Sponsored-Enterprise That Primarily Serves Large Borrowers at the Expense of Taxpayers

As mentioned earlier in this statement, the market for agricultural credit is very competitive. Banks will compete with several other banks in their service area, finance companies from all of the major farm equipment manufacturers, several international banks, credit unions, life insurance companies and finance companies owned by seed and other supply companies, to name a few. The most troublesome competitor banks face is the taxpayer-backed and tax-advantaged federal Farm Credit System (FCS). The FCS was chartered by Congress in 1916 as a borrower-owned cooperative farm lender at a time when banks did not have the legal authority to make long-term farm real estate loans. Over the ensuing 100 years the FCS has received numerous charter enhancements, and has ventured into areas that are not appropriate for a farmer-owned farm lending business.

Today ***the FCS is a large and complex financial services business with $320 billion in assets.*** If it were a bank, it would be the seventh largest bank in the United States. It is tax-advantaged and enjoyed a combined local, state, and federal tax rate in 2015 of only 4.0 percent (a significant decrease from the effective tax rate of 4.5 percent in 2014). The tax advantages enjoyed by the FCS in 2015 was worth $1.296 billion or 28% of the Farm Credit System's net income in 2015[2].

The Farm Credit System is a Government-Sponsored-Enterprise

In spite of their size, profitability, and tax advantages the Farm Credit System presents the same kind of potential threat to the American taxpayer as Fannie Mae and Freddie Mac. As a government sponsored enterprise (GSE) like Fannie Mae and Freddie Mac, the American taxpayer is the ultimate back stop should the Farm Credit System develop financial problems. This reality was formalized in 2013 when the Farm Credit System Insurance Corporation (FCSIC) arranged a $10 billion line of credit "with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury – to which the Federal Financing Bank would advance funds to the [Farm Credit System] Insurance Corporation. Under its existing statutory authority, the [Farm Credit System] Insurance Corporation will use these funds to provide assistance to the System Banks in exigent market circumstances which threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2014, unless otherwise extended."[3]

We believe the farmers who own stock of the Farm Credit System—and the American taxpayers who back it—deserve a better understanding of what transpires between the Farm Credit System and the U.S. Treasury, but very little information is available to the public. Unlike the

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[2] Federal Farm Credit Banks Funding Corporation; 2015 Annual Information Statement of the Farm Credit System; March 7, 2016. Page F-3

[3] Federal Farm Credit Banks Funding Corporation; 2013 Annual Information Statement of the Farm Credit System; February 28, 2014, page 23

housing GSEs which are subject to reform efforts to lessen the taxpayer's exposure, the Farm Credit System seems to be increasing its dependence upon the U.S. Treasury.

Congress created the Farm Credit System as a public option for farm finance when farmers were having trouble getting the credit they needed from non-government sources. The conditions that led to the creation of the Farm Credit System nearly 100 years ago no longer exist, and yet we continue to have a government-assisted, tax-advantaged farm lender providing credit to customers who would be able to easily borrow from taxpaying institutions like mine. In fact, the heavily subsidized credit that FCS lends goes to those who need it least. Despite amendments to the Farm Credit Act of 1980 requiring each FCS lender to have a program for furnishing credit to young, beginning and small farmers and ranchers (YBS), the share of new YBS loans to total new FCS loans continues to be dismal—even as the assets of the System have expanded enormously. Loans to small farmers have steadily dropped over the past several years, with small farm loans declining from a high of 30 percent of total new loan volume in 2003[4] to just 14.1 percent in 2015. Clearly, those who would benefit the most from the highly subsidized credit made available by the FCS are not receiving the benefits that Congress intended them to receive.

Conclusion

The banking industry is well positioned to meet the needs of U.S. farmers and ranchers. U.S. agriculture has begun to adjust to lower commodity prices after enjoying one of the longest periods of financial prosperity in history. USDA projected that at year-end 2016, farm and ranch solvency ratios — debt-to-asset and debt-to-equity ratios — would rise to 13.23 and 15.25 percent, respectively. Even as these measures have increased, each remains low relative to historical levels. During the past few years, while farmers experiences unprecedented high commodity prices and rising farm profits, farmers used their excess cash profits to retire debt and to acquire additional equipment and land. As a result, farmers and ranchers today have the capacity to tap their equity should there be a decline in farm profitability resulting in diminished cash flows. While no farmer or rancher wants to take on additional debt, the strength of the U.S. farm and ranch balance sheet gives producers options to do so if the need arises.

The banking industry remains cautious as it looks forward to the next Farm Bill. There is a very real concern that declining commodity prices will negatively affect the farm economy and make credit situations tighter. This is why the banking industry will continue to be involved in the

[4] "FCA's Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance: 2013 Results". Office of Regulatory Policy, June 12, 2014 Board Meeting

Farm Bill process and will offer assistance to Congress as it writes the next Farm Bill. With the changes that have been outlined earlier, the banking industry will continue to help producers be strong into the future. Bankers still see great opportunities in agriculture and they will stand with their partners in agriculture to develop the best Farm Bill for all.

Thank you for the opportunity to express the views of the American Bankers Association.

U.S. Senate Committee on Agriculture, Nutrition & Forestry
Hearing: Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill (July 25, 2017)

Statement of
Thomas Wynn, Partner, M&W Farm & Ranch (Egypt, TX)

Submitted for the Record

Mr. Chairman and members of the Committee, thank you for the opportunity to submit this statement. My name is Thomas Wynn. I'm a sixth generation farmer and grow rice on my family's diversified farming operation in Egypt, Texas. Although I am currently in the middle of harvesting corn, this opportunity to provide testimony on behalf of rice farmers and in my capacity as Vice Chair of the US Rice Producers Association and member of the Texas Rice Council was too important to forego.

The US Rice Producers Association, representing rice producers in Arkansas, California, Louisiana, Mississippi, Missouri and Texas, is the only national rice producers' organization comprised only of producers, elected only by producers and representing only producers in all six rice-producing states.

USRPA strongly supports reauthorization of the farm bill. Producers need to be able to rely on long term certainty in farm policy in order to obtain financing, make investment decisions, and generally run a farm.

U.S. rice producers are facing historic downturns in price, averaging ten-year lows for the industry with a forecast of $10.50 per hundredweight for 2016/17 prices. Exacerbating this difficulty, farm costs for production are also forecast to reach some of the highest levels on record -- $1,000 per acre for rice – for costs such as labor, weed and grass control, equipment, irrigation infrastructure, and conservation activities.

The safety net of price protection provided through the farm bill is critical to farmers in times like these. Price Loss Coverage (PLC) has proven an effective tool to protect farmers during multi-year price declines. Long grain producers like myself saw drops in prices below the reference price after the 2014 and 2015 crop years. USRPA strongly supports maintaining the current farm bill PLC commodity programs.

Generally, PLC is working as intended, but two issues should be examined. The timing of PLC program payments needs to be improved in order to assist producers securing financing. USRPA supports authorizing a partial advance PLC program payment. This would alleviate some of the problems delayed payments have aggravated, such as input costs ahead of the planting season and difficulty in determining cash flow and securing operating loans. In addition, my fellow rice producers in California have discussed the need to examine and update the reference price for their specialized Japonica rice.

Crop insurance has not been as effective a risk management tool for rice as it has been for other crops and regions. Rice yields are generally consistent because rice farms are irrigated. Rice farmers face higher production costs from risks such as increased irrigation costs or bad weather that affects rice quality. However, we support efforts to improve crop insurance coverage and are hopeful that an effective policy option will be developed.
USRPA strongly opposes any efforts to further lower or tighten requirements relating to payment limits and program eligibility. Imposing additional eligibility requirements based on a producers' adjusted gross income or other factors would only diminish growers' ability to weather bad times. Many producers are still struggling with the time consuming paperwork and legal expense to comply with the current requirements. Given the countercyclical nature of farm programs, large payments are not windfalls but critical support provided during hard times. From a risk management standpoint, it is hard to understand imposing a $125,000 limit if a producer qualifies for more during hard times considering that is when it is needed the most. "Actively engaged" requirements should be revisited, refined, and expanded. The original concepts on which payment limits and eligibility requirements are based originate back in the late 1980's with "3 entities" consisting of a father and two sons farming together. This structure is so far removed from existing current family farming operations with daughters, cousins, and extended families that a critical examination is very much warranted.

International food aid programs also enjoy much support from rice producers. Unfortunately, USDA and the U.S. Agency for International Development international food aid programs continue to be a target for cuts and ill-advised changes which would greatly reduce the current support from across the rice industry, shippers, and food-aid organizations. Rice farmers strongly support the provision of commodities bearing the USA logo. Efforts to increase cash at the expense of commodities should be rejected.

Trade is extremely important to the U.S. rice industry, which exports annually approximately half of the crop. A 2015 International Trade Commission study on the global competitiveness of the U.S. rice industry determined that rice, when compared to other crops, faces the highest level of foreign government protection—we are the poster child for unfair trade practices. Further, to add insult to injury, the importation of foreign rice has been increasing often coming from our competitors that are frequently in violation of their WTO obligations. USRPA supports the careful scrutiny and re-examination of all of our trade agreements (proposed or enacted) to ensure that they are in the best interest of the United States. However, we urge caution in any re-negotiation to ensure that any gains the rice industry has achieved—which in most trade agreements are extremely limited – are maintained. For rice the current trade status with Mexico illustrates the possibilities contained in trade agreements for specific sectors. Our neighbor and the largest rice importer in the Western Hemisphere, Mexico averaged rice imports in recent years of 885,000 tons. USRPA urges policymakers to carefully consider and implement/follow actions that ensure we preserve, maintain, and expand the most important market for U.S. rice. I would also mention other important efforts, such as allowing access to the Cuban market, establishing regular and transparent tenders for US rice to Iraq, and having access to the Chinese market. Before the war Iraq was our largest rice market. In regard to opening China, this is an effort that USRPA staff and members started and have been working on for quite some time. We are on the verge of opening this market, and the original outreach and development was from our participation and use in the Foreign Market Development program. We also participate in the

Market Access Program which is crucial to our efforts to expand our export markets for all types of US rice—including rough rice which is often neglected.

Finally, I must mention one of the most significant market enhancements that has occurred as a result of rice farmers dissatisfaction with the price they were receiving for their rice. In southern Louisiana rice producers collaborated and established a rail export loading facility and ship loading facility which has been solely responsible for exporting over 200,000 MT of rough rice in the past year. This market improvement has demonstrably increased the cash market to producers by as much as $3.00 per hundredweight over existing market bids at key points in time. These facilities have not only benefitted producers in Louisiana, but also have drawn Texas rice allowing farmers to particularly focus on missing export market opportunities existing in the current export rice trade such as rough rice and identity preserved rice.

As farm bill reauthorization proceeds, we look forward to working with the Committee to bring the negotiations to a swift and successful conclusion and would welcome the opportunity to answer questions or provide additional information.

QUESTIONS AND ANSWERS

JULY 25, 2017

Senate Committee on Agriculture, Nutrition, & Forestry
Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill
Tuesday, July 25, 2017
Questions for the Record
Mr. Dan Atkisson

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

   NSP appreciates your commitment and leadership. We believe the commodity programs should act as a safety net to help farmers weather periods of prolonged low prices for their commodities or systemic revenue declines caused by forces beyond the individual farmer's control. We believe these programs should be reliable and predictable, thus helping the farmer mitigate risks and helping them operate more efficiently. As a matter of efficiency, we think the commodity programs should focus on mitigating risks that cannot be covered by federal crop insurance.

2) I understand that to be successful your business needs to manage risks. To help you do so, Congress tries to help provide certainty for your operations. How would regulatory reform or changes help provide the certainty you need as you manage and make decisions for your business? Please provide specific examples if possible.

   Minimizing the uncertainties is a goal of every business, including farming. Growers prepare each year for the certainty that they will face pest and disease challenges from endemic and, periodically, new invasive species. However, we are increasingly uncertain if we will have the necessary tools to protect our crops. We have seen a number of products that have had their registrations either vacated or threatened with vacature due to federal court decisions. In May of this year a federal court decided that EPA did not meet the consultation requirements under the Endangered Species Act (ESA) when registering 59 pesticides, including neonicotinoids, despite meeting all of their Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) obligations.

   There are currently hundreds of products, including insecticides, fungicides and herbicides, that NGO groups are suing EPA on the grounds of not meeting their ESA consultation obligations. If past is prologue, we are at significant risk of losing these products and uses. Now that environmental groups have identified a successful path in challenging the registration of products we expect to see more lawsuits and continue to lose products unless the conflict between these statutes is addressed.

The only winners in our current situation are the attorneys. U.S. agriculture needs Congress to provide clarification to EPA, USFWS and NMFS on how the consultation process should work. If we lose these products, it will increase our cost of production and hurt our competitiveness compared to other exporting countries around the world.

Ranking Member Debbie Stabenow

1) Currently, the Congressional Budget Office projects that if the ARC and PLC programs were reauthorized without changes, and farmers were given another one-time choice between the programs, then most farmers would choose the PLC program given the current price environment and the current floor prices set for PLC. Would you support changes to improve the ARC formula calculations so that it remains a viable option for producers going forward?

   NSP believes PLC provides the more reliable and cost-efficient safety net. From our polling of producers, those who chose ARC did so because of a very high likelihood of generous payments in the first two to three years of the program. If improvements to ARC were made at the expense of PLC or Federal crop insurance, then we would not support such changes. If new money is found for the farm bill, we think it would better be invested in PLC, or some combined program with a revenue component that also maintains the true safety net of PLC.

2) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

   NSP appreciates your concern for this important issue. We feel like all we do as an organization is meant to make farming viable for the next generation of independent, entrepreneurial family farmers. There will be fewer if we are creating and adopting technology to feed an ever-growing world, but they need to be empowered to do their work with even greater care for the resources and land, and with greater efficiency than the generations before. We believe a strong Title 1 that helps the producer mitigate financial risks is key. We believe a strong conservation title with adequate resources for voluntary incentive based practices is smart. We think crop insurance is absolutely vital for young farmers. We believe research and extension activities are critical. We believe rural development focuses on energy, communication, water and sewer and healthcare infrastructure are all critical.

NSP is not opposed to special incentives for new producers, but would urge this be done carefully so as not to upset the competitive balance in local communities. We must make sure our 40, 50 and 60 year old farmers can hang on too. NSP would also urge you to consider ways that expiring CRP acreage or other unfarmed base acreage could be incented to come back into production giving young farmers more options.

3) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

   Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

NSP supports raising the individual loan limits to meet the needs of commercially viable operations in all regions. NSP also supports raising the overall loan authority to meet increasing demand.

Senate Committee on Agriculture, Nutrition, & Forestry
Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill
Tuesday, July 25, 2017
Questions for the Record
Mr. William Cole

Chairman Pat Roberts

1) I have said several times that we intend to examine programs across the board to see if they are functioning as intended. I'm concerned that the RMA Education Outreach Program may not be getting the results intended and promised from the dollars spent. In your opinions, does this program significantly help program delivery of crop insurance?

William Cole

Agents are the key to education and outreach because agents are the boots on the ground for crop insurance. Agents are the trusted advisors of their farmer customers and, as such, the relationship extends well beyond assisting farmers with the crop insurance products into the broader context of risk management. I am not very familiar with the RMA education outreach program and would encourage such programs to involve agents to ensure that farmers receive the benefit of any program designed for their benefit.

Senate Committee on Agriculture, Nutrition, & Forestry
Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill
Tuesday, July 25, 2017
Questions for the Record
Mr. Mark Haney

Ranking Member Debbie Stabenow

1) Nearly half of the returning veterans from Iraq and Afghanistan come from rural communities. In the last Farm Bill, we created a new Military Liaison position and provided priority funding for returning veterans that are interested in transitioning into farming. Can you describe how your organization is working with veteran farmers? Are there any Farm Bill programs in particular that you see as most helpful to veterans interested in farming, and is there anything we can do to build on that success?

Patriot Project

The Farm Bureau Patriot Project is a national mentorship program that connects military veteran beginning farmers with experienced farmers and ranchers in their local area. The American Farm Bureau Federation (AFBF) operates the Patriot Project and works with state Farm Bureau staff to implement the program in their states.

In 2015, AFBF piloted the Patriot Project in partnership with Texas Farm Bureau and Arkansas Farm Bureau. Farm Bureau staff served as the leads to implement the pilot in their states. Through the pilot, best practices were identified to help create successful mentorship relationships. The Patriot Program has now been expanded to additional states.

The Patriot Project is organized as a six-month program that focuses on relationship building and business development. The program is based on the mentorship research of Dr. Lindsay Hastings, Clifton Professor of Mentoring Research at the University of Nebraska-Lincoln. Dr. Hastings' research explains that successful mentorship occurs when a friendship is developed first. As a result, the Patriot Project focuses on relationship building between the mentor and mentee for the first few months and then focuses on business development after trust has been established. AFBF works with the state leads to adapt the Patriot Project to the unique conditions and needs of their states. AFBF also provides state leads with a Patriot Project toolkit that includes guides, forms, recruitment materials and promotional materials to help state leads launch the program in their state.

Partnership with Farmer Veteran Coalition (FVC)

In 2013, FVC entered into an agreement with the American Farm Bureau Federation. This agreement was a commitment to firmly put Farm Bureau behind the efforts of FVC. Our new national Board of Directors of FVC included representatives of these our organization.

Some state Farm Bureau leaders participated in the Farmer Veteran Stakeholders Conference. This is the third year AFBF has partnered with the FVC in sponsorship and support of the conference that brings together national and regional organizations to discuss issues facing veteran farmers across the country.

Farm Bureau believes the Military Liaison position has been very useful and would be supportive of keeping that position active at USDA. We are also very supportive of the various beginning farmer and rancher programs authorized under the 2014 farm bill.

Senator Amy Klobuchar

2) Over the past few decades, we have made progress in increasing access to credit for new and beginning farmers, yet I still hear about difficulties they face. I want to make sure that any changes to the Farm Service Administration (FSA) lending programs we consider as a part of the next Farm Bill preserve access to FSA financing for new and beginning farmers. Do current USDA loan programs meet the needs of new and beginning farmers who rely on FSA lending programs? If not, how should we address this issue and what precautions can we put in place to ensure that funding remains available for new and beginning farmers?

The Farm Service Agency has received more requests than usual over the past few years as credit conditions in the farming sector have declined.

While we certainly support streamlining programs to benefit young and beginning farmers, we generally believe USDA lending programs do indeed meet the needs of new and beginning farmers who rely on FSA lending programs. Making credit available to beginning farmers and ranchers as well as socially disadvantaged farmers is a priority for the Farm Service Agency (FSA). Under the direct loan program, 75 percent of farm ownership loan funding and 50 percent of operating loan funding is reserved for the first 11 months of the year. Under the guaranteed loan program, 40 percent of funds are reserved for both ownership and farm operating loans for the first six months of the fiscal year. Congress made the following changes in FSA loan programs in the 2014 Farm Bill: 1) Gave USDA discretion to allow alternative legal entities to qualify for farm ownership loans. 2) Granted USDA discretion to allow alternatives to meet the three-year experience requirement for direct loans. 3) Created a microloan program for direct and guaranteed loans. The maximum loan is $35,000, with a total microloan indebtedness of $70,000 for any borrower. 4) Eliminated term limits on guaranteed farm operating loans. 5) Increased the maximum down payment loan under the farm ownership loan program to 45 percent or $667,000. 6) Authorized appropriations of $150 million each year through FY 2018 for conservation loans.

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Questions for the Record
Mrs. Jennifer James

Chairman Pat Roberts

1) **I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.**

The commodity programs that were introduced in the 2014 Farm Bill created a safety net that has ensured that farmers are able to stay in business through up and down markets. The Price Loss Coverage (PLC) especially provides farmers with a reliable and steady guarantee. While the programs are largely working as intended, that is not to say that they are without their flaws.

Within Title 1 of the 2014 Farm Bill, growers were able to choose between PLC and ARC. Some rice farmers chose ARC because it looked attractive up front during relatively good times. Now that safety net has eroded and provides no reliable protection. Thankfully, the majority chose PLC as their primary safety net. The program has been tested as prices settled below the reference price, and while it is not making anyone whole or providing windfalls, it is providing reliable and consistent and fair assistance to all the producers who enrolled.

For both ARC and PLC, one shortcoming we note is on the timing of assistance. In the South, payments are made nearly 18 months after the crop has been planted. The time period is further extended for rice growers in California who are not issued their assistance until February, nearly two years after the crop was planted. Another challenge is the fact that the reference price set in statute, while sturdy for now, has not and will not keep pace with rising productions costs. Indexing or otherwise increasing reference prices could improve both PLC and ARC. Any assistance to increase the reference price for rice along with accelerating the payment of Title 1 assistance would be appreciated by the rice industry.

We strongly oppose adjusted gross income (AGI) requirements. The farming industry goes through good and bad times and we feel that AGI limits a farmer's ability to build up necessary reserves to weather this cycle. Limiting a farmer from receiving necessary assistance due to success in prior years can significantly affect their productivity and profitability is subsequent years.

Finally, we feel that the $125,000 payment limit does not adequately address the needs of rice farmers in the current market. Capping the payment limit does not help farmers who often exceed $125,000 in losses and need assistance to recover their losses. It is critical to have a policy that provides farmers with assistance when they experience small and large losses.

Ranking Member Debbie Stabenow

1) **As business men and women, most farmers understand the importance of reducing input costs while at the same time maximizing yields. Many conservation practices – like conservation tillage, cover crops and nutrient management – can help farmers do both. Can you share whether you consider conservation activities like this as tools in your risk management toolbox and should the next Farm Bill continue to support these types of conservation activities? What could be done through the Farm Bill to make conservation work for more farmers?**

Conservation practices are a critical component of the operations on my farm and are a large part of the work that I do with USA Rice. In 2015, a joint USA Rice, Ducks Unlimited partnership was awarded $10 million dollars by the USDA's Natural Resource Conservation Service (NRCS) to implement a Regional Conservation Partnership Program (RCPP) project across the six major rice growing states. The RCPP directly funds Environmental Quality Incentives Program (EQIP) and Conservation Stewardship Program (CSP) contracts with rice farmers and has helped facilitate over 200 EQIP contracts with growers throughout the country.

EQIP and CSP contracts provide incentives for farmers to implement conservation practices on their farms that have proven benefits to the environment. Through investments in water resource management, irrigation efficiency, fencing, and erosion control, we have improved soil health, reduced erosion and runoff, and conserved water.

These programs also serve as economic drivers of farming communities. In order to complete the paper work for the contracts, farmers need to employ a variety of specialists including engineers, outside technicians, and soil and water experts. In rural communities, this additional economic activity provides a necessary injection of money into our economies.

The benefits to the environment provided by these programs often come as an added expense to our farms. Management practices have proven long term benefits for waterfowl, but they ultimately reduce farm profitability. Because of this added expense, we ask that the next Farm Bill address the current EQIP rule which places a three-year limit on funding annual management practices implemented "purely for the benefit of wildlife". Without a long term guarantee, farmers are less likely to continue implementing wildlife management programs if their cost-share assistance is terminated after three years.

It is critical that this program is reauthorized in the next Conservation Title. Each year we have watched as the EQIP and CSP are targeted in the appropriations process. By reducing funding, you are severely limiting a farmer's ability to invest in conservation programs that benefit the environment and their local economies.

2) **Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?**

My family has been involved in rice farming for over 100 years and our farm is recognized as an Arkansas Century Farm. The farm has provided a living for our family for four generations and we are currently raising the fifth generation. My son dreams of obtaining a degree in Agriculture and returning to work the family farm on land that has been farmed since the late 1800s. I am fearful though that because of restrictive rules and the current adjusted gross income (AGI) means test, he will have to downsize our family's farm. Even if he were to farm with his first cousins, they would not be considered a family farm because my brother left the farm last year to pursue another business venture.

The 2014 Farm Bill made substantial changes to payment eligibility provisions, including a tightening of the "actively engaged" requirements. The USDA's 2015 Actively Engaged in Farming regulation that followed created no safeguards for families to maintain "family farm" status following the death or retirement of a lineal family member. I do not believe it was the intent of Congress to force family farms out of eligibility due to family transition, but that is now a reality due to Federal regulation. It is necessary for this Committee to revise the USDA statute in order to protect family farms and safeguard them in the case of an unexpected break in the linkage of their operating structure.

In order to continue to lineal structure of the family farm, and to bring new farmers into the work force, we also need to ensure there is adequate funding for the farm safety net. Every time this is put under threat, farmers are at risk of being put out of business. Farmers take on significant risk with their operations. They are affected by weather, pests, disease and a myriad of other factors that could bankrupt them and their operations. The farm safety nets is one of the few predictable factors that helps their operations survive through good times and bad.

3) **Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or**

raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

USA Rice believes the individual limits need to be raised to reflect commercial viability across all regions. We also support an across the board increase in funding for loan programs so that all would be borrowers can have access to the program. Farmers ~~are~~ often depend on these loans in order to weather fluctuations in the markets, and it is necessary to have these safeguards in place. This is especially true as we have seen farm income drop in the past few years. When the current farm bill was passed in 2014, U.S. rice averaged $16.30 per hundredweight. The current forecast for 2016/2017 prices show an average price of $10.50 per hundredweight. This is a decrease of 36 percent and a ten year low for the industry. Depriving farmers of the ability to access a ready pool of loan programs prohibits their ability to know with certainty that they are able to continue to work their lands.

For young and beginning farmers, loan guarantees are necessary to establish their farms. They often have not had the opportunity to build adequate reserves and rely on federal assistance in order to sustain and build their farms. It is critical that there is an increase in the overall funding for loan programs in the next Farm Bill in order to lessen the barrier for entry and decrease the risk that young farmers take on.

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Questions for the Record
Mr. Roger Johnson

Chairman Pat Roberts

1) In your testimony, you requested that the Committee explore liability insurance for direct to consumer sales. This would be a significant departure from the intent of the crop insurance program, and would seem to be intended to replace product liability insurance that provides coverage under state laws. In addition, creating a new program would be extremely expensive and could include products far outside of the agriculture space. Current federal programs supporting direct to consumer sales of agricultural goods include the Farmers' Market and Local Food Promotion Program, Farm to School Grant Program, Senior Farmers' Market Nutrition Program, WIC Farmers' Market Nutrition Program, and Community Food Projects grants. Given the expense and complication related to the creation of farmers' market insurance, how can farmers who sell direct to consumer better utilize existing programs to support their businesses?

National Farmers Union supports improved access to reasonably priced liability insurance for small local-market and direct-marketing producers. NFU is also a strong supporter of traditional crop insurance, including policies for fruit and vegetable production, as well as new products like the Whole Farm Revenue Protection policies (WFRP). We commend the committee for including important improvements to the federal crop insurance program in the 2014 Farm Bill that provide improved risk management to a more diverse range of agricultural production. However, we ask that the committee continue to work to improve access to these tools to farmers who have not traditionally used them.

Liability coverage needs for direct-to-consumer farms is often a much bigger challenge than it is for most commodity production. Farm tours, educational events, and the delivery of unprocessed or minimally processed food directly to consumers present serious risks that are not presently met with private insurance. Generic small business policies, which are not tailored to farms, are not meeting the needs. We ask that the committee continue to look for innovative ways to support the risk management of these valuable farming operations, perhaps through private-public partnerships similar to federal crop insurance.

NFU supports existing federal programs that promote market expansion for direct to consumer farmers as well as those available for market expansion for the rest of agriculture. These valuable programs provide a great service to farmers and NFU applauds the committee's continued commitment to these efforts. Market expansion programs do however provide a different value for producers than those programs that directly help producers at the farm level. We encourage the committee to strive to develop risk mitigation strategies for individual farmers across all sectors of agriculture. We hope we can work with the committee to find solutions to support the broad diversity of farms that exist today.

Ranking Member Debbie Stabenow

1) Nearly half of the returning veterans from Iraq and Afghanistan come from rural communities. In the last Farm Bill, we created a new Military Liaison position and provided priority funding for returning veterans that are interested in transitioning into farming. Can you describe how your organization is working with veteran farmers? Are there any Farm Bill programs in particular that you see as most helpful to veterans interested in farming, and is there anything we can do to build on that success?

   National Farmers Union supports veteran farmers and ranchers through various educational programs. The Beginning Farmer Institute (BFI) provides training to help beginning farmers and ranchers manage financial risk and access land, credit and markets. In Addition, the Beginning Farmer Forum (BFF) is a weekly blog post and online discussion group dedicated to providing beginning farmers and ranchers the information they need to succeed early in their farming careers. The blog posts note special incentives available to veterans, and the associated discussions provide additional insight and guidance on how these programs can enhance beginning and veteran farmers' and ranchers' operations.

   The 2014 Farm Bill included several provisions that improve existing programs and provide new opportunities for veteran farmers and ranchers. Preference offered through the Conservation Stewardship Program and Environmental Quality Incentives Program help veteran farmers and ranchers run more efficient operations and become better stewards of the land. The Conservation Reserve Program-Transition Incentives Program expands veteran farmers and ranchers' access to land, and preference awarded through the Value Added Producer Grant improve veterans' farm profitability and access to markets.

   Many veteran farmers rely on FSA's Direct Operating and Ownership Loans to purchase land and equipment or improve their farm's profitability. Pension, life insurance, health coverage and other benefits earned through military service make veterans attractive borrowers. Veteran farmers' and ranchers' access to credit could be further enhanced by improving FSA's consideration of these benefits when making lending decisions to veterans.

   The Beginning Farmer and Rancher Development Program (BFRDP) is useful in helping organizations provide beginning farmers and ranchers with training, education, outreach and technical assistance. Inclusion of agricultural rehabilitation and vocational training as an eligible service and carving out a set aside for programs serving veterans enhanced opportunities for veterans through BFRDP. However, BFRDP grants are not awarded to farm business management training as often as programs that improve farm production.

Addressing this disparity would provide beginning and veteran farmers and ranchers more comprehensive educational opportunities.

Senator Amy Klobuchar

1) Over the past few decades, we have made progress in increasing access to credit for new and beginning farmers, yet I still hear about difficulties they face. I want to make sure that any changes to the Farm Service Administration (FSA) lending programs we consider as a part of the next Farm Bill preserve access to FSA financing for new and beginning farmers. Do current USDA loan programs meet the needs of new and beginning farmers who rely on FSA lending programs? If not, how should we address this issue and what precautions can we put in place to ensure that funding remains available for new and beginning farmers?

NFU strongly supports robust and adequate funding for the Farm Service Agency's (FSA) Farm Loan Programs (FLP). Over the last several years we have seen significant increases in demand for credit through these programs. In some instances accounts been depleted before the end of the fiscal year. It is imperative that we ensure that this does not happen in the future. These loans are an important lifeline for beginning and established farmers.

New and beginning farmers benefit from access to credit through USDA. Higher microloan limits and additional flexibility added to the program in the last farm bill have yielded expanded utilization of the program. Ensuring continued growth of this program is important.

The direct loan portfolio is also important to beginning farmers. NFU supports increasing the direct loan limits in the next farm bill, provided that there is additional overall funding to meet the higher limits. Our members are supportive of increasing the limits from $300,000 to $600,000. Over the last several farm bills congress has expanded loan set asides for beginning farmers. Ensuring that those set asides remain in place will continue to be important.

Lastly, we hear from our beginning farmers that improvements to the program's responsiveness would be helpful. Beginning farmers compete for resources, such as land, with other producers. The lack of timeliness of approvals has put them at a disadvantage in certain circumstances. Increased efficiency in the loan program processing should be sought. Matching the private sector's efficiency on approval should be the goal. Providing FSA with the resources required to achieve this objective will be necessary.

We would also like to see a modernization effort geared towards loan servicing. We hear stories of outdated technology and requirements that make these loans significantly more challenging than private credit. Improving these problems in the next farm bill would help beginning farmers.

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Questions for the Record
Mrs. Brenda Kluesner

Chairman Pat Roberts

1) As we continue hearing from folks throughout farm country on what needs to be improved in the next Farm Bill, we also welcome input on what regulations and administrative burdens are hampering producers' abilities to continue supplying the world with an abundant and affordable food source. Mrs. Kluesner, in your testimony you talked about a recent NEPA regulation that's hampering your ability to refinance some agriculture loans. Could you elaborate a little more on this issue?

Answer:

Yes, thank you. FSA's guaranteed loan program allows banks to help farmers restructure and refinance debt and attain access to the secondary market and make purchases of equipment, cattle, or farmland when producers might not otherwise qualify for commercial credit.

This rule is greatly slowing down refinancing as it requires lenders and borrowers to assess if there will be a negative environmental impact from financing a livestock facility or from actions involving any type of ground disturbance prior to receiving approval for a guaranteed loan.

The delays are related to the additional time it takes to do consultations with federal and state agencies and to obtain any necessary permits. It can take several months to obtain permits. There will also be public comment periods if a higher level environmental assessment is determined necessary.

Ground disturbance includes leveling land to install grain bins; repairing buildings for housing livestock; adding fencing; upgrading milking facilities; etc. If producers have already had some type of ground disturbance they will not receive a guaranteed loan. The delay is either 12 or 24 months depending on how many animal units the operation has. Even producers without **any** livestock must wait 12 months or longer to refinance their operation if there has been "ground disturbance." The rules differ between sizes of operations, making implementation difficult.

Historically, there has never been a waiting period after construction before a loan could be refinanced into an FSA guaranteed loan. Dairy/livestock farmers must continually modernize their operations to improve and/or repair facilities, buildings, upgrade equipment or enhance manure storage aspects of their operations. Upgrading and modernizing operations allows farmers and ranchers to survive, adapt and accommodate the next generation's desire to enter the farming or ranching operation. In addition, many of the projects being refinanced help protect the environment, such as those that involve manure storage and treatment facilities. By prohibiting refinancing in these cases, the rule causes environmental degradation.

Further, modernized animal housing keeps animals healthier and enhances the ability of operators to take care of their animals.

FSA apparently believes the new rule will ensure lenders do not use guaranteed loans to refinance farm operations to avoid compliance with environmental requirements and believes it is unlikely producers will need to refinance operations within 12 months of construction or ground disturbance. USDA will deny a guarantee loan request if **any** work has begun.

However, this regulation will cause many unnecessary complications. Lenders routinely work with customers prior to financing to ensure compliance with federal, state and local environmental laws. Additionally, when deciding whether to finance an operation or necessary modernization projects, banks must weigh the risks and costs of project over-runs, delays, and the potential for lost income to producers. Banks have typically provided bridge loans pending completion of construction or upgrades, knowing that when the final costs are determined, they can move the loan to a more permanent financial arrangement such as USDA guaranteed loans.

We are also concerned these burdens imposed by the environmental review process occur even when the loan is to simply refinance debt without any construction. The result is that funding for dairy modernization in Wisconsin has reached a complete standstill for family farms. No clear timetable can be established for the length of the secondary and tertiary environmental reviews.

For example, under USDA's interpretation, a farmer who completed a dairy parlor upgrade within the last 12 - 24 months cannot transfer operations to their children without waiting up to two years, depending on the size and nature of their operation. A farmer who recently built modern livestock housing to enhance animal health may now suffer from low milk or commodity prices but cannot refinance the farm's debt to more affordable terms without waiting up to 2 years, which might mean the difference between success or failure of the operation. As interest rates rise, farmers seeking to reduce interest rate risk with an FSA guaranteed loan may now find themselves unnecessarily paying tens of thousands of dollars more in interest costs, weakening their cash flow and long-term viability while they await approval. Bank examiners are looking to see if farmers can cash flow on the loans banks are extending them.

Additionally, FSA's interpretation has resulted in competitive advantages for corporate farms, contrary to FSA's mission to help family farms. Instead, the loan program is effectively restricted to those very large corporate farms that obtain investment capital in exchange for an ownership interest in the farm business.

We believe this rule is an over-reach of FSA's regulatory authority. There exists no legal basis for a one to two year waiting period on refinancing guaranteed loans and we note this prohibition was not included in the initial proposed regulation but appeared only in the final rule – which did not give the public an opportunity for comment.

FSA needs to eliminate the 12-24 months waiting period from its interpretive guidance. In addition, we urge Congress to add a provision to the next farm bill prohibiting USDA from using a waiting period after ground disturbance or construction to refinance debt.

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Questions for the Record
Mr. Nick McMichen

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

For cotton producers, our first priority is to get cotton (fiber and seed) included as a covered commodity eligible for the Title I portion of the safety net. I believe the current ARC/PLC structure has worked well for the other crops I produce that are eligible for these programs, however, I am significantly disadvantaged relative to the safety net for cotton since it is currently excluded. Maintaining and strengthening crop insurance where possible is also important, but I am experiencing first hand with cotton that crop insurance alone cannot provide the comprehensive safety net necessary to withstand the prolonged periods of depressed prices that inevitably confront producers of all crops.

Ranking Member Debbie Stabenow

1) As business men and women, most farmers understand the importance of reducing input costs while at the same time maximizing yields. Many conservation practices – like conservation tillage, cover crops and nutrient management – can help farmers do both. Can you share whether you consider conservation activities like this as tools in your risk management toolbox and should the next Farm Bill continue to support these types of conservation activities? What could be done through the Farm Bill to make conservation work for more farmers?

Yes, I strongly agree that conservation practices are an integral part of the overall effort to help reduce costs and improve yields. The next farm bill should continue the current voluntary, working lands conservation programs that help cost-share with producers to implement additional conservation practices that can help a producer's bottom line, while also helping maintain and improve our natural resources. Continued streamlining of conservation programs, including simplifying the application, paperwork, and approval processes is important. Specifically, exempting NRCS conservation programs from the unintended and unnecessary DUNS and SAMS requirements would bring important regulatory relief to producers.

2) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

   One of the biggest challenges for new and beginning farmers to enter the cotton industry is the large capital cost for specialized equipment unique to cotton production. A new cotton harvester, which can only be used for harvesting cotton, costs in excess of $700,000. This is unlike a grain harvester that can be utilized for harvesting multiple crops to help spread the costs over more production and makes it much easier for producers to shift between various crops depending on market and weather conditions. This same flexibility does not exist for cotton producers. Also, the lack of an equitable and effective safety net for cotton is a huge barrier to entry for anyone considering entering the cotton industry. Without a policy for cotton to help protect against the multiple years of low prices well below the costs of production, it is nearly impossible for beginning producers to get the necessary financing to begin cotton production. Cotton is a capital intensive crop, which has positive benefits throughout the rural communities where it is produced since that generates greater economic activity throughout the production and processing chain, however that also results in a greater disadvantage for all producers, but especially new and beginning farmers. For these reasons it is imperative that the next farm bill bring cotton back into the Title I safety net programs. This is the most important policy action that can be taken in the next farm bill to help address the current challenges in cotton production.

3) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

I agree that the individual loan limits for FSA loans should be increased to better reflect the economic realities and costs of today's full-time family farms, which in most cases requires a larger farm size than in the past to be economically viable. I would also support additional funding for the FSA loan programs, however I do not believe that should be linked to an increase in the individual loan limits. While increasing both of these amounts is important, I don't think the limits should remain static even if overall funding cannot be made available at the same time. For these programs to be meaningful and effective in allowing full-time family farmers to access the credit necessary to continue their operations, the loan limits need to better reflect the economic realities of today's production costs.

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Answers to Questions for the Record
Mrs. Mandy Minick

Q. From Ranking Member Debbie Stabenow

The 2014 Farm Bill significantly improved risk management options for beginning and diversified farming in two major ways: first by creating the Whole Farm Revenue Protection insurance, which was first offered for the 2015 crop year; and second, by adding buy-up coverage under USDA's Noninsured Crop Disaster Assistance Program (NAP). Ms. Minick, it was great to hear about Northwest Farm Credit's success with Whole Farm in your testimony, and I believe it has great potential as a risk management tool for diversified producers in places like Michigan, however we have heard some challenges based on record keeping requirements or other factors that has limited the expansion and uptake of the new policy. Could you describe in further detail what has worked well for Northwest Farm Credit in particular? Do you see any are for further improvement to the policy?

A. At Northwest Farm Credit Services, our tenure with Whole Farm Revenue Protection and its predecessors, AGR and AGR-Lite, is now approaching 17 years. As such, our expertise has grown over the years and we have been well positioned to help our producers maximize the value of these important programs.

More specifically in regard to WFRP, we have been successful because:

1) We jumped in to learn the program immediately by conducting training and accountability exercises for staff
   - Our agents and support staff can quickly and accurately calculate the approved revenue and expenses from the required tax form
   - Our agents understand entity structuring and how it affects the WFRP plan
   - Our agents track all special deadlines for WFRP to ensure no mistakes are made
   - We expect our approved insurance providers to hire and train staff that understands both how to underwrite the program and, to work claims.

2) This is paramount. If agents sell the WFRP program in areas of the country not accustomed to selling it and the adjusters do not know how to work the claims, the reputation of the program will falter.

3) We have created tools that allow us to clearly show the historical revenue and expense figures as well as the coverage options and guarantees on one piece of paper. Now, the WFRP analysis is very simple for the producer to understand and make a purchase decision. It also illustrates the value of this program on an annual basis.

4) We see all producers as prospective WFRP clientele -- regardless of size or crop make up.

We offer quotes to all that would like to evaluate their potential whole farm revenue guarantees, every single ear.

5) We have educated our lending relationship managers on WFRP policy features, thus helping them see the value of protecting outstanding debt with an overall Whole Farm Revenue guarantee. Agents and relationship managers work together in marketing the value of the product to our customers.

6) We have educated large, agriculturally-leaning CPA firms to the benefits of WFRP for their

clients. This has enhanced our marketing and underwriting efforts. In the Northwest, nearly all customers have the correct records to underwrite or work losses under the WFRP program. We see a vast array of record types: third-party and disinterested party records, IRS records and grower contemporaneous records. We attribute our limited problems in record types to our history and the education we provided through the AGR and AGR-lite programs, and now WFRP. Our customers and their accountants now know what and how they need to provide the records.

7) Commodity premium rates in the Pacific Northwest are very reasonable and sustainable. This has helped producers "engage" in this program every year.

8) The diversity, volatility, risk profile and high value of specialty crops in the Pacific Northwest necessitate a special program like WFRP since it covers the insureds adjusted gross revenue. The product would work well in any area where they have diversified crops, such as the state of Michigan.

9) The value of Farm Credit being an agriculturally exclusive lender cannot be overstated. Our customers trust us with their tax returns and financial information.

To improve the program, we would recommend reducing premium commodity rates in many parts of the country. If other areas, such as Michigan, were given lower WFRP commodity premium rates, the insureds will more clearly see the value of WFRP as an integral part of their risk management strategy.

Q. From Senator Sherrod Brown

I have heard from many individuals involved in ag credit that while more farmers are depending on credit during this downturn in prices, we are still well within the comfortable margin of error as it relates to debt-to-asset ratio—and much better than we were in the 1980s. What signs should we continue to look for that would indicate we are moving into more concerning territory? What weight do you give variables like land value in viewing the long term health of Ag credit?

A. The current downturn is certainly less extreme than what we experienced in the 1980s. Although net farm income continues to decline and prices remain low for many commodities, challenging farmers across the nation, we are unlikely to see conditions deteriorate to anything remotely resembling the 1980s crisis. (See attached Farm Credit Administration report).

As we closely monitor our loan portfolios we look at the following indicators to assess the severity of the downturn:

- **Debt-to-asset ratio** – While this ratio spiked during the 1980s to a high of 46 percent in 1983, USDA's forecast debt-to-asset ratio for 2017 is 13.9 percent. This ratio is likely to continue to rise slowly as asset values continue to adjust to the new economic environment. Slow debt growth and the eventual stabilization of asset values will likely result in a ratio significantly lower than the 1980s.

- **Credit quality** – Although the Farm Credit System's credit quality is expected to deteriorate some over the next several quarters due to the current stress in agriculture, it remains relatively very good. Nonaccrual loans as a percentage of total loans was just 0.64 percent at year-end 2016, up from 0.56 percent a year earlier. This compares with a high of 12 percent in 1986. At June 30, 2017, 57.9% of nonaccrual loans were current as to principal and interest.

- **Farmland values** – In the 1980s, farmland values plummeted as real interest rates rose and farmers lost significant equity. Today, while Midwest farmland markets are in correction mode from recent run ups, the decline is significantly less. Farm values in other parts of the nations have remained relatively stable. In all, focusing on the income generating capacity of land and more conservative underwriting has kept loan-to-value ratios comfortable. Given the declining amount land in production in the U.S., values for good quality, productive agricultural land should continue to hold relatively steady to increasing over the long term.

Senate Committee on Agriculture, Nutrition, & Forestry
Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill
Tuesday, July 25, 2017
Questions for the Record
Mr. Ken Nobis

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

The Margin Protection Program for Dairy (MPP-Dairy) has not functioned as Congress intended. I believe that MPP is the right program conceptually, but it is in need of reform. Producers have lost confidence in the dairy program since it did not work as a meaningful safety net when they needed it. Restorng the feed cost formula or implementing changes to achieve the same outcome will help enhance participation in the program, and ensure the safety of America's dairy industry As outlined in my written testimony, we also support reducing premium rates to make the program more affordable for producers of all sizes; adjusting the program so that it pays out on a monthly rather than bimonthly basis; and giving dairy producers access to other risk management tools as enjoyed by producers of other commodities.

2) I understand that to be successful your business needs to manage risks. To help you do so, Congress tries to help provide certainty for your operations. How would regulatory reform or changes help provide the certainty you need as you manage and make decisions for your business? Please provide specific examples if possible.

As dairy farmers, we appreciate any steps that can be taken to put regulatory certainty in place while also providing relief. We support Agriculture Secretary Perdue's decision to reinstate one percent flavored milk back into our schools; this regulatory improvement will result in increased milk consumption among our nation's youth, our future generation of farmers and consumers and most importantly contribute to children's health. We are also grateful that EPA Administrator Scott Pruitt has begun the process of withdrawing the 'Waters of the U.S.' rule which had created significant confusion among farmers and other landowners. However, more work needs to be done. We are supportive of legislative efforts to put regulatory clarity in place, such as the bipartisan Farm Regulatory Certainty Act (H.R. 848) introduced in the House to protect farmers from citizen suits when they are already working to comply with environmental laws and orders. Some of the new banking regulations are proving to be at the least a nuisance, for example, our bank required two separate farm appraisals 12 months apart for two separate loans that cost us $10,000 each time with no major changes in the local real estate market.

3) We know that producers across the country are experiencing increasing financial challenges including obtaining operating capital from their bank or other lending institution. When you meet with your lender, are they familiar with the Margin Protection Program? If so, do these types of conversations impact dairy farmers choosing what coverage levels to select or buy up?

   While many agricultural lenders are familiar with MPP, dairy producers have largely enrolled at the catastrophic coverage level since last year given the program's failure to serve as an effective safety net up to this point. This underscores the need to improve the program so that dairy farmers will be more inclined to buy up to higher levels of coverage to manage their risk.

   Initially my lender many others were not familiar with MPP. With the multi-year experience of poor margins in the dairy industry they have familiarized themselves with the program. Bankers soon became aware of the shortcomings of the program just as their dairy producer clients had. Producers and bankers, alike, don't feel that dairy farmers have a safety net.

   In my conversations with GreenStone Farm Credit Services, they are familiar with the Margin Protection Program, but when analyzing risk, they put very little weight on participation in MPP. Although the average dairy farmer in Michigan has a cost structure very competitive with the rest of the country, the milk prices paid in Michigan fall below the average all milk price used in the calculation of the MPP. Therefore, Michigan producers have experienced substantial margin deficiencies without triggering MPP payment levels. The majority of MI producers enrolled in MPP are signed up at the $4.00 coverage level.

Ranking Member Debbie Stabenow

1) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

   While the safety net needs reform in the upcoming Farm Bill, I speak for all Michigan dairy farmers when I express my gratitude for your steadfast efforts up to this point, both in the Farm Bill process and working with USDA. Regarding beginning farmers, we appreciate USDA's actions last year to ensure that MPP-Dairy will accommodate intergenerational transfers to help keep families farming and allow the next generation to take over appropriately. We also support efforts in the Farm Bill to provide beginning farmers with the tools they need as they enter the industry.

Workforce and market access issues are probably our two most significant dilemmas outside of the Farm Bill. As you know, we dairy farmers milk our cows 365 days a year, so we need access to a legal, reliable workforce and we are hopeful that the stars are aligning for Congress to address this issue. As it relates to trade, we face continued challenges with Canada, in particular their recent actions to implement Class 6 and 7 milk pricing in order to undermine U.S. exports of ultrafiltered milk and dump surplus powder onto global markets.

2) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

   Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

   I recognize the concern that raising FSA loan limits could limit the overall number of farmers able to receive loans at a time when they are greatly needed. I would be interested in any balance that can accommodate growth in farm sizes while still ensuring that enough farmers can receive support from a limited pool of funding. Having increased loan limits is important given the increased cost of agricultural operations. We support additional funding provided for FSA's Farm Loan programs to match demand with appropriate levels of resources. This will help ensure farmers continue to have reasonable access to the loan programs. As the third largest agricultural commodity in America, it is vital that our farmers have access to credit.

3) Mr. Ken Nobis – I am a strong supporter of investing in farm energy programs that boost our economy and bring much needed jobs. One of those critical programs is the Rural Energy for America Program (REAP), which aids farmers and landowners in developing homegrown, renewable energy and also in making energy efficiency improvements – helping to reduce overall energy consumption and the need for foreign energy sources.
Can you describe how programs like REAP can benefit dairy farmers in particular, and share any examples of these projects and how they can help dairy farmers and small businesses save money on energy costs?

The Rural Energy for America Program (REAP) is one of several Farm Bill programs that helps dairy producers monetize the value of manure and manage nutrient runoff. REAP provides financing to help farmers access valuable renewable energy technologies. It is widely used in numerous dairy states and is an important tool that helps farmers convert animal waste into energy. We are hopeful that this program and others can be maintained in the upcoming Farm Bill.

Senator Sherrod Brown

1) I have heard from dairy farmers from around Ohio concerned about the inadequacy of MPP, and I believe this Committee understands the need to address risk a management for dairy farmers in the next Farm Bill. In the meantime, what do you believe USDA can do – within its existing authority – to help struggling dairy farmers?

I believe that USDA has options at its disposal to help dairy farmers in advance of the next Farm Bill. In particular, we are supportive of an effort by the National Milk Producers Federation, which my cooperative belongs to and for which I serve as an officer, the American Farm Bureau Federation, and the National Farmers Union, to urge USDA to classify milk as a commodity separate and distinct from livestock under federal crop insurance law. We do not believe that Congress intended for milk to be considered as livestock under crop insurance, given that the definition of livestock under the law excludes all livestock products. With this in mind, we believe USDA has clear authority to determine that milk is a commodity eligible for crop insurance, and we are hopeful that USDA will work with the crop insurance industry to develop appropriate risk management tools for dairy farmers.

2) In the face of difficult prices and margins, have you seen any major shift among producers towards organic milk in order to unlock the added premium? What factors remain difficult for producers to make this transition? How can this committee support dairy farmers hoping to make this transition? What role does the limited domestic supply of organic grain play in transitioning?

While our co-op doesn't operate in the organic market I am somewhat familiar with the challenges faced by farmers trying to enter that space. One of the major issues is selling milk in the traditional market as they transition to the organic space. Organic production is much lower per cow than conventional production but in the transition period they receive the much lower conventional market price for their milk. However, it is my understanding the organic processors have more than enough organic production at the present time and as a result may not be accepting new farms into the transition program. Limited outlets for organic milk may be a bigger challenge than the limited domestic supply of organic grain.

3) I appreciate your comments on my bill, the Agriculture Environmental Stewardship Act, I am hopeful that we can include it in this committee's final bill. Other than credits to cover the upfront costs of environmental controls, how else can this committee empower dairy farmers to be great stewards of the land? How can we better encourage dairy farmers to participate in voluntary conservation programs like EQIP and RCPP?

   Voluntary conservation is critical to protecting our air, land, and water resources. Farmers are the original environmentalists, their livelihood depends on sound environmental practices, and I firmly believe that we are all conservationists at heart. EQIP has strong support among dairy farmers given its flexibility and its focus on livestock operations, and RCPP is a promising new opportunity to deal with particular water quality challenges around the country. Targeting RCPP funding towards these critical watersheds would help ensure that dairy farmers are able to make the best use of the conservation title as we work to proactively solve these problems, like your bill does.

Senator Amy Klobuchar

1) The Margin Protection Program (MPP) for dairy, which was part of the 2014 Farm Bill, has fallen short of being an effective safety net for dairy farmers. In 2016, a year of low milk prices and tight on-farm margins, dairy farmers paid $7.8 million more into the program than what they received. Fixing the issues in the MPP is one of my main priorities in the upcoming Farm Bill. What do you believe is the most important change that we can make to the Margin Protection Program so that it can serve as an effective safety net?

   Most importantly, MPP needs to be reformed so that it accurately reflects the challenges dairy producers face. Restoring the feed cost formula by undoing the 10 percent cut that was made during the last Farm Bill process will help make the program more accurate and responsive to dairy farmers during difficult years, and reducing premium rates will better enable producers to buy up to the higher levels of coverage that will best protect them during those challenging times. The changes made through the appropriations bill are a step in the right direction and we are open to other ways the MPP program can be improved.

2) One of the concerns I've heard from milk producers in Minnesota is the lack of access to Risk Management Agency (RMA) risk management options. Dairy is one of the few commodities that cannot utilize both RMA and Title I programs without restrictions. How would having additional risk management options to choose from help you and other dairy farmers?

As you know, farm safety net programs, like MPP, are meant to cover sustained difficult periods for producers, whereas crop insurance can be heavily customized by the farmer to cover a wide range of prices, revenues, and yields. Giving dairy farmers access to crop insurance programs run by the Risk Management Agency would give them the same options as producers of other commodities, as you correctly point out. Crop insurance products still require farmers to have 'skin in the game' but give producers a number of options as to how they would like to manage their risk. We are hopeful that USDA will classify milk as a commodity under crop insurance to pave the way for creating additional tools for dairy farmers.

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Questions for the Record
Ms. Meredith Rogers

Chairman Pat Roberts

1) **I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.**

For peanut producers, the 2014 Farm Bill is working. Our consumption is at the highest per capita in U.S. history. We are among the cheapest protein sources in the world. Exports are increasing. One of the biggest issues for farmers is planning. Making management decisions with a 5 year farm bill shelf life and ever-changing policy variables is difficult in addition to weather, disease, energy costs and other inputs that are constantly changing. The length of these farm bill should be increased. If this is done, Title I would have to be drafted so as production costs would not erode the safety net.

2) **I understand that to be successful your business needs to manage risks. To help you do so, Congress tries to help provide certainty for your operations. How would regulatory reform or changes help provide the certainty you need as you manage and make decisions for your business? Please provide specific examples if possible.**

Some of the regulatory changes have been helpful but many times the regulatory pendulum swings too far, i.e. Waters of the U.S. I can assure you farmers want a safe food supply but making chemical approvals too slow, too onerous many times only helps our competitors in the world marketplace. More red tape for commercial lenders has also been problematic for farmers.

Ranking Member Debbie Stabenow

1) **Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?**

One of the greatest challenges for beginning farmers is farm credit. Without farm programs that include a viable safety net and crop insurance, lending institutions are reluctant to loan money for a crop or land purchases. First, farm programs have to work for the individual commodity and region of the country. Second, crop insurance is an expectation by many lenders and the financials for these programs have to work for producers. The peanut industry's young leader program is an example of commodity groups working to encourage young farmers to engage in agriculture building leadership skills.

2) **Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.**

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

   Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

   Your question brings to light the challenges faced by the Committee when the needs for this section of the Farm Bill are even greater than when the 2014 Farm Bill was drafted. Production costs have increased as well as capital costs to maintain a farm operation. Declining net farm income puts more pressure on these federal lending programs. Clearly, the caps are too low but the demand will only increase in future years. Title I programs are critical to commercial lending participation. An increase in funding for these loan programs is the only viable solution.

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Questions for the Record
Bruce Rohwer

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

First, in the case of crop insurance, we have a program that is currently working well. Therefore, it is imperative crop insurance is not degraded by imposing a cap on the premium discount or imposition of AGI constraints, both of which will decrease participation in the use of crop insurance by larger farms thereby reducing the insurance pool. Second, the ARC-County program option needs more uniform use of yield data, i.e. consistent use of RMA yield records as well as an improvement in the yield history, something longer than the 5 year Olympic average. Also, a reduction in the deductible from 14 percent to 10 percent should also be considered to better mitigate the risks associated with a decline in commodity market conditions.

Ranking Member Debbie Stabenow

1) I am a firm believer that we don't have an economy and we don't have jobs unless we are growing things and making things here in Michigan. The 2014 Farm Bill provided important investments in biofuels and biobased manufacturing, but we have the challenge of finding funding for these programs going forward. Speaking from your perspective as a producer, how important are programs like these energy title programs that help farmers find new markets, and particularly in a period of low prices?

New markets are important to corn growers, especially when prices are low and we need additional demand. We must look for new uses and possibilities for increased market choice for consumers.

In the effort to produce and utilize biofuels, either as an alternative to, or in connection with, petroleum based liquid transportation fuels, delivery to the customer must be done through the existing dispensing infrastructure owned and operated by our competitor. Therefore, programs in the Farm Bill's energy title must support and compliment the Renewable Fuels Standard (RFS) in order to help build on its success and support further development of advanced biofuels.

Farmers are directly eligible for two of the programs in the Farm Bill's energy title. Farmers can take part in the Biomass Crop Assistance program, provided they are producing biomass feedstocks intended to go to USDA-approved processing facilities. Farmers are also eligible for loans and grants through the Rural Energy for America Program to assist with costs of installing renewable energy and energy assistance programs, such as biogas systems.

In order to help support biobased products and commercialization of new advanced biofuel production, the 2014 Farm Bill updated and extended the BioPreferred Program, the Biorefinery, Renewable Chemical and Biobased Product Manufacturing Assistance Program and the Bioenergy Program for Advanced Biofuels. We must remember that in the development of truly new products, time and patience are required before a new product achieves large scale acceptance and demand. This can take decades, but during this development time support must be dependable and consistent to achieve full commercialization.

Finally, we also believe that expansion of programs such as MAP and FMD will provide more export opportunities for biofuels in the near term.

2) As business men and women, most farmers understand the importance of reducing input costs while at the same time maximizing yields. Many conservation practices – like conservation tillage, cover crops and nutrient management – can help farmers do both. Can you share whether you consider conservation activities like this as tools in your risk management toolbox and should the next Farm Bill continue to support these types of conservation activities? What could be done through the Farm Bill to make conservation work for more farmers?

Conservation tillage, cover crops and nutrient management are always good practices on the farm, but during tight economic times it is obvious they are also very cost-effective practices. These practices also allow a farmer to leave his/her farm in better shape for the next generation. Title II programs enhance a farmers' stewardship efforts and build on the environmental gains producers have made. It is important that this farm bill continue to emphasize our efforts on voluntary, working lands conservation programs such as CSP and EQIP. There is no doubt that adequate funding for conservation programs should be provided in the next farm bill.

3) The vast majority of corn, soybeans, and wheat growers chose to participate in the Agriculture Risk Coverage (ARC) program, which protects against both price yield losses, rather than the Price Loss Coverage (PLC) program that only protects against price, and a number of producers of other commodities also participated in the program. While I have heard of several areas where the program could be improved related to the yield data or revenue guarantee, in general did the ARC program function properly and assist farmers during the price decline we have seen since the passage of the 2014 Farm Bill?

Despite some of the administrative issues that NCGA has raised with the Farm Service Agency, the ARC program, overall, has delivered substantial financial assistance to cushion producers against the sharp declines in prices. Exceptionally high yields in some regions have offset some of the price decline's impact, resulting in lesser payments than those received in areas with more typical yields, demonstrating how well the program has targeted payments.

a. Currently, the Congressional Budget Office projects that if the ARC and PLC programs were reauthorized without changes, and farmers were given another one-time choice between the programs, then most farmers would choose the PLC program given the current price environment and the current floor prices set for PLC. Would you support changes to improve the ARC formula calculations so that it remains a viable option for producers going forward?

Surveys conducted by our affiliated state associations have indicated strong support for providing a revenue based program option in the next farm bill. We believe appropriate changes can be made to improve the ARC program's risk management effectiveness in an extended low-price environment without compromising its market orientation.

4) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

First, the most effective way we can support new and beginning farmers is to build demand for our agriculture products here and abroad. Expanding our agricultural exports through more resources for the Market Assistance and Foreign Market Development programs and facilitating investments in bio-based products are increasingly important for improving farm income. If we enhance all agriculture exports, we can positively improve demand for value added products (livestock, ethanol and dried distillers' grains) which can drive more demand for corn. To attract young farmers into this high risk industry, we simply need to create more profitable market opportunities. NCGA's Risk Management Action Team has examined different ideas on to how to bring together farmers nearing retirement and new and beginning farmers to start the process of succession planning. We believe a priority needs to be placed on encouraging the initial conversation and assessment - steps that USDA and the Extension Service can better support with more resources. Finally, NCGA made available to our members a discounted succession planning consultation services more than two years ago.

5) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

   Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

   Without appropriate funding levels, the effectiveness of these programs are greatly reduced. This is nothing new, as I have seen the NRCS hamstrung in their attempts to promote conservation practices due to insufficient funding to match requests from farmers wanting to implement new conservation practices. Also, I have observed that more practices were implemented on more acres with a smaller percentage of cost share than when individuals were able to secure a larger percentage of cost share. Earlier this year, NCGA was very pleased with the action taken by the Congress to approve additional funding for the FSA's Farm Loan programs to avoid backlog programs experienced last year and earlier this year. With farm income not likely to rebound any time soon, an increased level of funding for FSA loans should be the priority for ensuring farmers and ranchers have continued access to credit. It is particularly important that funds for the Direct and Guaranteed Operating Loans be available as farmers confront the continuation of lower commodity prices and further erosion of capital. NCGA recognizes, though, the ever-increasing costs for equipment and on-farm facilities may require loan levels that exceed currently authorized limits. We are now evaluating the impacts of this constraint, as well as potential consequences of increasing loan limits without additional funds or the flexibility to increase funding for FSA to meet increased loan demand.

Senator Sherrod Brown

1) Thank you for your testimony, it was a comprehensive look at the state of the farm economy in many parts of the Midwest. Recently, I caught up with Anthony Bush—a corn grower from outside Mt. Gilead, Ohio. During the last Farm Bill, I heard from Anthony and other Ohio farmers that they wanted to plant for the market, not for the program. And I'm proud to say that after working with Senator Thune and the leaders of the Senate and House Ag Committees, the end result was the Agricultural Risk Coverage program. In light of declining commodity prices, can you tell the committee what the economic situation for farmers across the Midwest would have been without the ARC program?

    After a period of increasing agricultural revenue, the costs of business, rents and variable input costs, rose quickly but have been slow to recede with the subsequent reduction in revenue that we have seen. Crop insurance has provided good within-year risk coverage. The ARC program has been an attempt to assist where the revenue has receded quicker than input costs have adjusted. Without this assistance, farmers would have found themselves in economic straights much sooner than has been the case. Conceptually, this program has done what it was designed to do, with the exception of some administrative difficulties and payment disparities in some areas. Overall, it has been able to prevent the need for an ad hoc disaster payment program.

2) As you mentioned in your testimony, absent changes made by this Committee, the Congressional Budget Office projects that most corn farmers will shift to the PLC in the near future. Now, I think that providing farmers a real choice between ARC and PLC should be a priority in the next Farm Bill. Do you believe that for ARC/PLC that corn farmers would prefer having a revenue option? Why?

    We know from various state association surveys and most recently a survey of the delegates in our policy making body, Corn Congress, that our growers prefer having a revenue option. As you might expect, the Price Loss Coverage option has become more attractive with prices falling well below today's reference prices. Of course, the word option in this case implies that ARC is modified to provide an effective risk management tool in a low-price environment. Our experience is that a revenue-based program can provide better protection against both significant price declines and substantial crop losses, and therefore ensures farmers planting for the market, as opposed to planting for a government program.

3) Should the next Farm Bill improve the ARC formula so that farmers have a fair choice between the different types of programs again?

The work we have done at NCGA has focused on developing recommendations to improve the ARC program and to make sure it is a real choice in terms of providing comparable risk management effectiveness. Moreover, we recognize that improvements to the revenue based option must factor in the need to avoid doing harm to the PLC option. These programs deal with the situation where the supply is beyond the demand, thus the market is not providing sufficient revenue. The best safety net is increased demand, which can improve revenue from the market for farmers. That is best done through improved and expanded international agricultural trade.

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Questions for the Record
Mr. Ron Rutledge

Chairman Pat Roberts

1) I have said several times that we intend to examine programs across the board to see if they are functioning as intended. I'm concerned that the RMA Education Outreach Program may not be getting the results intended and promised from the dollars spent. In your opinions, does this program significantly help program delivery of crop insurance?

As a company, we do not have any specific experience with the RMA Education Outreach Program. Educating farmers about how to best utilize risk management tools is important, but as with all areas of government, we support streamlined and efficient programs. As mentioned in our testimony, we support the efforts being undertaken by the Senate Ag Committee and the Administration to review programs and regulations for inconsistencies and inefficiencies.

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Questions for the Record
Mr. Robert Rynning

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

   Rob Rynning: ARC-CO yields between adjoining counties have varied considerably between adjoining counties in some regions of the country. USCA believe that this issue could be mitigated if RMA yields were used as the first option in the cascade rather than NASS yields.

2) I understand that to be successful your business needs to manage risks. To help you do so, Congress tries to help provide certainty for your operations. How would regulatory reform or changes help provide the certainty you need as you manage and make decisions for your business? Please provide specific examples if possible.

   Rob Rynning: Despite this year's drought, growers in the Northern Plains have endured in recent years excessive wet conditions that began in the early 1990s. Many have begun tiling their farmland, but this effective conservation practice for managing saturated farmland has been hampered on land that has USFWS wetlands easements. While the easements were meant to protect potholes from drainage, the excessive setback distances that USFWS imposes on adjoining farmland prevents producers from managing saturated farmland that should not be considered under control of the easement. USCA supports requiring the USFWS, when administering USFWS wetlands easements, to use NRCS easement guidelines for determining applicable setback distances from wetlands; and for mitigation options in drainage projects.

Ranking Member Debbie Stabenow

1) The vast majority of corn, soybeans, and wheat growers chose to participate in the Agriculture Risk Coverage (ARC) program, which protects against both price yield losses, rather than the Price Loss Coverage (PLC) program that only protects against price, and a number of producers of other commodities also participated in the program. While I have heard of several areas where the program could be improved related to the yield data or revenue guarantee, in general did the ARC

program function properly and assist farmers during the price decline we have seen since the passage of the 2014 Farm Bill?

Rob Rynning: Yes, I believe it has worked as intended except for where ARC-CO yields have varied widely between counties due to the lack of NASS data.

Currently, the Congressional Budget Office projects that if the ARC and PLC programs were reauthorized without changes, and farmers were given another one-time choice between the programs, then most farmers would choose the PLC program given the current price environment and the current floor prices set for PLC. Would you support changes to improve the ARC formula calculations so that it remains a viable option for producers going forward?

Rob Rynning: Yes

2) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

Rob Rynning: Yes, support and even strengthen the USDA beginning farmer loan program. It is also critical for producers just starting out to strengthen or at least keep whole the other support programs and crop insurance to enable them to mitigate risk. Lending agencies are very risk averse these days and young farmers tend to be burdened with heavy debt. They are also considered as high risk loans. The ability to obtain capital is crucial for young farmers.

3) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

Rob Rynning: Yes

Senate Committee on Agriculture, Nutrition, & Forestry
Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill
Tuesday, July 25, 2017
Questions for the Record
Mr. David Schemm

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

Wheat is a particularly unique crop. There are six different classes, each of which is grown for different uses. It's also grown in 42 different states under a wide variety of weather and climate conditions. With different end uses, our farmers face different quality requirements at their elevators. For example, I grow Hard Red Winter wheat in western Kansas. This is the primary bread-baking wheat, and there are relatively strict protein standards for what I grow. But those standards are different than the protein standards for Soft White wheat grown in the Pacific Northwest or the Soft Red wheat grown on the east coast. Some of us plant our wheat in the fall, while others plant in the spring. As such we have different production variables and varying experiences with weather and rainfall. The safety net should be written to acknowledge these unique characteristics and should enable a producer choice in the type of program that best fits their needs.

NAWG believes that Title 1 commodity programs, in particular Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC), are functioning well and that producers should continue to have a choice between the two programs as some farmers need the revenue protection with variable yields and others need the protection against bad prices. Having said that, NAWG does believe that there are some challenges that can and should be addressed in the next Farm Bill.

In regards to Price Loss Coverage, NAWG believes that the reference price for wheat should be increased to an amount closer to $7.00 in order to serve as a more effective safety net, given the modern cost of producing a crop. With the Congressional Budget Office (CBO) estimating that 80 percent of wheat base acres enrolling in PLC in the next farm bill it will be critical that it works to provide the protection against poor commodity prices that is needed to enable farmers to continue their operations.

ARC-County, again, is functioning well but NAWG believes there are changes that can and should be made to enable it be an effective option. As the low prices of the past couple years are factored into the benchmark formula, ARC-County will be an less effective alternative. One option for consideration would be to set a price floor in ARC-County that would be consistent *with whatever final PLC reference price is established. Another option could be increase the transition yield that can be used when a county's yield drops below a certain level. More so, we encourage Congress to require USDA to priority the use of RMA data in setting yields. We believe this would instill more confidence in the yields used in the program. We also would like to see options on utilizing smaller than county level data, in particular in very large counties out west, to better match a farmers experience to the payments that would be received or not received.*

Ranking Member Debbie Stabenow

1) The vast majority of corn, soybeans, and wheat growers chose to participate in the Agriculture Risk Coverage (ARC) program, which protects against both price yield losses, rather than the Price Loss Coverage (PLC) program that only protects against price, and a number of producers of other commodities also participated in the program. While I have heard of several areas where the program could be improved related to the yield data or revenue guarantee, in general did the ARC program function properly and assist farmers during the price decline we have seen since the passage of the 2014 Farm Bill?

   Currently, the Congressional Budget Office projects that if the ARC and PLC programs were reauthorized without changes, and farmers were given another one-time choice between the programs, then most farmers would choose the PLC program given the current price environment and the current floor prices set for PLC. Would you support changes to improve the ARC formula calculations so that it remains a viable option for producers going forward?

   NAWG believes that the ARC program in general did function as intended and has assisted farmers during the price decline we have seen since the 2014 Farm Bill was enacted. However, if some modifications are not made the program will not function as effectively for farmers moving into future years. As the low prices of the past couple years have been factored into the benchmark revenue, it has made ARC-County a less appealing choice. As such, NAWG would support changes to improve the ARC formula in order for to be a more truly competitive option with PLC moving forword. In my written testimony, I've discussed several possible options for improving the ARC formula.

2) As business men and women, most farmers understand the importance of reducing input costs while at the same time maximizing yields. Many conservation practices – like conservation tillage, cover crops and nutrient management – can help farmers do both. Can you share whether you consider conservation activities like this as tools in your risk management toolbox and should the next Farm Bill continue to support these types of conservation activities? What could be done through the Farm Bill to make conservation work for more farmers?

Thonk you for this question. I believe that conservotion can be an important tool for formers and I participate in Farm Bill conservation programs. NAWG members hove prioritized working lands conservotion programs for the next Farm Bill and believe that growers should have options for different types of conservation programs and different conservation practices.

It is important to stress that not all conservation practices work on all types of farming operations. For instance, cover crops in western Kansos or eostern Washington state, both heavy wheat production areas with minimal rainfall, would be very difficult. And a fall planted crop, such as winter wheat, needs to factor into any type of rotation or recommended rotations. Requiring specific conservation practices would not be beneficial to growers, but providing access to voluntary conservation programs where growers can try new approaches, technology, and practices is helpful. Cropping systems, rotations, weather patterns, experience, and economics will all impact a growers' decision on whether to try a new practice or alter their approach to farming. Going forword, conservation programs should recognize the local and regional cropping systems, be flexible to allow for new technology and innovative practices, and be responsive to critical issues such as weed resistance. Conservation programs should also have broader applicability for areas with reduced rainfall or different crop rotations (beyond the corn/soybean rotation). Administration of the programs should be done in a way to reduce paperwork and especially elimination of the DUNS and SAM numbers.

3) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

My wife and I are very fortunate that our son, Clay, has recently decided that he is going to come back to the farm after he finishes up at Kansas State. It wasn't an easy decision for him, particularly when the og economy goes through such extreme swings as we're experiencing now. But our family has a farm that has been operating for many decades and we've established a productive system on our farm that has enabled us to get through low price periods and weather disasters. Key risk monogement and safety net programs like crop insurance and Title 1 have also been critical for operations like ours.

As Clay comes back, he'll certainly experience challenges along the way. We are fortunate, though, to have a plan in place for him to become a part of our existing operation. For beginning farmers that don't have a family connection to agriculture, the path will be much more difficult. The biggest challenges for a beginning farmer is access to land and access to capital. Another recent problem has emerged with student loans. By 2011, 25% of farmers had *a 4-year college degree (compared to 28% for nonfarmers); loan debt prevents many people from pursuing farming because their earnings won't cover loan payments.*

Another challenge is that the average U.S. farm acre sells for over $4,100 and it can be three times that in midwestern states. USDA has several financing options for beginning farmers to obtain the capital they need and the Farm Service Agency guarantees loans to farmers who are unable to obtain financing from commercial lenders. FSA also facilitates land contracts that provide retiring farmers assurance on the future of their land and financial interests when selling to a beginning farmer. Additionally, the Conservation Reserve Program Transition Incentive Program facilitates the transfer of land coming out of CRP owned by retired farmers to beginning farmers. These are all valuable programs that provide support to young and beginning farmers and these programs should be continued. However, commodity prices are still at an all-time low while land values, cash rents, and crop inputs remain high. This makes it nearly impossible for a young farmer to make a profit much less build net worth.

There are several good programs available for beginning farmers but often eligibility requirements are too strict. Available land is hard to find, and expensive when you do, while current commodity prices are so low that it prevents young farmers from saving and growing. Any changes that can be made to programs to ease application requirements and provide beginning farmers more capital assistance will be helpful. Established farmers are buckling down on their expenses to weather the storm ahead, but beginning farmers lack the financial reserves to keep farming for the foreseeable future. I urge you to keep this dynamic in mind as you write the Farm Bill.

4) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

This is a particularly important question as FSA's loan programs have come under increasing demand with prices remaining at historically low levels. One component of the impact of the stress in the ag economy is that modern farming operations are a lot more capital intensive than they were when the current limits were first put in place. NAWG is supportive of increasing limits for FSA's farm loan programs, and we also urge Congress to include language to ensure that programmatic loan levels are set at levels sufficient to meet demand. Both provisions are necessary to enable the benefits of this financing tool to be fully recognized.

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Questions for the Record
Mr. Ervin Schlemmer

Chairman Pat Roberts

1) I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.

A: The structure of the sugar policy as written in the current farm bill is sound. Trade and administrative issues—not the core bill—are the causes of the problems our growers are facing today. Mexico has violated our trade laws and has been dumping sugar into our market for the past five years, threatening the operation of the policy. The new amended suspension agreements should solve the problem, but only if there is continuous oversight, monitoring, compliance and enforcement.

USDA does not have comprehensive sugar market data because of sugar importers outside the U.S. industry that do not report their stocks to USDA, resulting in faulty data that over-estimates U.S. sugar consumption and often underestimates sugar production. Those two factors can cause an increase in imports that result in an over-supply and imbalance in the market, driving producer prices down. When market prices approach forfeiture levels, farmers are severely harmed because the safety net is inadequate. Accurate supply and demand data is essential in setting import levels.

Any legislative effort to restrict CCC loans through either specified loan limits or means testing creates a lending crisis for growers because of their two year investment-return cycle.

2) I understand that to be successful your business needs to manage risks. To help you do so, Congress tries to help provide certainty for your operations. How would regulatory reform or changes help provide the certainty you need as you manage and make decisions for your business? Please provide specific examples if possible.

A. Excessive regulations unnecessarily add to a farmer's cost of production and create legal uncertainty and exposure. Costs of production frequently outpace income, and farmers are often trying to survive on thin and even negative margins. The potential for weather-related losses, the natural volatility of the agriculture market and the kind of predatory trade practices of foreign countries that distort global markets create real uncertainty for farmers. By adding costs and uncertainty, excessive regulations contribute to the hardship that farmers face.

We are encouraged that the Administration has offered a venue in which excessive regulations might be revisited, and we appreciate the interest of the Agriculture Committees in pursuing the important objective of regulatory relief. For instance, we applaud administrative efforts to reshape the EPA's Waters of the U.S. regulation to reflect the Supreme Court decisions in *Riverside Bayview*, *SWANCC*, and *Rapanos* and legislative efforts to eliminate Clean Water Act NPDES regulations that duplicate regulations under FIFRA. These and other common sense efforts are extremely important in eliminating unnecessary and burdensome regulations that create legal uncertainty and exposure and added costs of doing business for farmers.

Ranking Member Debbie Stabenow

1) Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

   A: The biggest challenge is adequate returns for producers. Sugar prices have been depressed for five years, driving both young farmers and growers approaching retirement out of the business. If our farmers are to survive, market prices have to be well above the forfeiture level.

   New farmers need access to credit, adequate returns for their crop and risk management tools like crop insurance. Their cooperatives need full access to CCC loans in order to pay growers before the sugar is delivered and paid for by customers. This allows growers to repay current loans before financing the following year's crop. The CCC loans also provide for long-term stability and profitability.

   The delayed passage of the National Bioengineered Food Disclosure Standard caused damage to the beet sugar industry. We appreciate that the bill was finally passed in 2016. One of the essential issues going forward for bioengineered foods is that the regulations are written by the Administration in a manner that prevents discrimination against beet sugar in the marketplace.

   There is no difference between beet and cane sugar, whether the sugar is grown by conventional, organic or bioengineered methods. As stated in the definition in the law, an ingredient extracted from a bioengineered plant that does not contain bioengineered material is not required to be disclosed.

2) Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.

   This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

   Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

   A: Yes, we would agree with that position.

Senator Steve Daines

1) You dedicated much of your testimony to U.S. sugar policy and the importance of the sugar program. Can you expand upon how the sugar program impacts individual sugarbeet producers like yourself and the effect it would have on Montana jobs and economy if it were eliminated or substantially reduced?

   A: The Montana sugar industry produces sugarbeets on more than 42,000 acres by approximately 375 farmers. Our beets are processed by hundreds of full time and seasonal employees in Billings by the Western Sugar Cooperative and in Sidney by Sidney Sugars, Inc. The value of our crop exceeds $200 million annually, which has a half-billion-dollar economic impact in Montana. Without the U.S. sugar policy, our industry would not survive. Growers are on the financial edge right now, and most did not make money on the last two crops.

   We are struggling as it is, and if U.S. sugar policy were to be reduced in any way or eliminated, loans and financing to growers would dry up, and the factories will close. Not only would rural America be harmed, but the consolidation of the segments of the industry that remained would bring about a lack of competition in the marketplace and threaten the supply of this vital food ingredient to consumers and to our customers.

2) As you know, 100% of sugarbeets are produced utilizing biotechnology and biotech has proven to be essential for the livelihoods of farmers and ranchers across Montana and the country. As USDA is working through its rule-making process to develop a final rule related to biotech labeling prior to July 2018, what should be USDA's priorities as it moves forward?

   A: The labeling regulations that the USDA designs must make it clear that bioengineering in sugar production is not a health or safety issue. They need to follow the strict definition that a bioengineered ingredient must contain bioengineered genetic material. Refined sugar does not contain genetic material and is the same, whether cane or beet, or grown using bioengineering, conventional or organic methods. Additionally, bioengineering in sugarbeet production has provided 25 environmental benefits.

   A threshold of five percent should also be used to determine whether a food ingredient is bioengineered, because that is the national organic standard for non-organic material (not bioengineered). The U.S. must be the leader in using this science in food production, and must not follow countries that set threshholds at such low levels that the technology is driven out of the marketplace.

   We do not oppose voluntary disclosure as long as it is truthful and not misleading. But we firmly believe that the choice of voluntary labeling is an individual company's business decision—it must not be a mandate under the law.

3) In your testimony, you characterize crop insurance as an "essential risk management tool for beet growers". In light of the extreme drought impacting much of our state, how important is it to ensure that crop insurance and disaster relief programs are protected as we look to writing the next Farm Bill?

   A: Without crop insurance, farmers can't borrow and bankers can't loan, because neither will have the safety net they need to manage risks. Disaster bills of the past responded with too little, too late, and were unpredictable and unreliable for both farmer and banker.

   Almost 10 million acres of crop land and $10 million in ag liability were covered by insurance in Montana in 2016. Also last year, more than $75 million in indemnities were paid to Montana farmers for losses they incurred above and beyond their deductibles, which are on average 25% of the value of the crop. They paid an estimated $62 million for this coverage.

Senator Amy Klobuchar

1) The sugar program in the Farm Bill has operated successfully to provide a safety net for sugar beet growers in southern Minnesota and the Red River Valley, while providing a safe and consistent supply of sugar. How would you describe the state of the sugar beet industry? What are your biggest challenges currently?

A: Returns to sugar growers are not in good shape, and have not been for at least the past five years, when Mexico dumped sugar into our market. But with the recently amended suspension agreements, we are hopeful that refined sugar prices will strengthen.

The delay of the bioengineering disclosure bill also caused injury. Now that it has been passed, we are hopeful that the final rulemaking by USDA will make it clear that there is no differentiation between beet and cane sugar, which are identical. The challenge lies in making sure that we get the bioengineering disclosure regulations right. It was the intent of Congress, in its strict definition of a bioengineered food, that highly-refined products that do not contain bioengineered genetic material are not required to be disclosed.

Trade issues—and especially the end to Mexican dumping, as well as crop insurance, access to credit and burdensome regulations also present challenges to the viability of the sugar industry.

2) The farmers in my state are willing to compete on a level playing field with sugar farmers in other countries, but our farmers cannot compete when foreign government subsidies significantly drive down prices to below the cost of production. I've been working with Secretaries Ross and Perdue to ensure that our trade agreements are enforced and our policies are supportive of the sugar industry. Now that the Administration has negotiated changes to the suspension agreements governing Mexican access to the U.S. sugar market, what do you see as the most important next steps?

A: Monitoring, compliance and the enforcement of the provisions of the amended suspension agreements.

It is vitally important for the Senate Agriculture Committee to be briefed on a regular basis by the Departments of Commerce and Agriculture and the U.S. sugar industry regarding the effectiveness of monitoring compliance and enforcement of the new suspension agreements.

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Questions for the Record
Mr. Kevin Scott

Chairman Pat Roberts

1) **I am committed to working on a Farm Bill for producers of all crops and in all regions across rural America. What challenges do you have that should be addressed in the commodity programs? Please tell me about specific problems or risks, as we will need to be creative regarding solutions.**

   The question of meeting the needs of producers of all crops in all regions was addressed successfully in the 2014 Farm Bill. The ARC-CO and PLC programs should be reauthorized and producers should again be allowed to sign up for whichever program they prefer on a crop-by-crop and farm-by-farm basis.

   RMA rather than NASS yield data should be used under ARC-CO, when available, and RMA yields in adjacent or similar counties should be used when a county lacks RMA data. This change will reduce discrepancies in yields and payments in neighboring counties and make ARC-CO more defensible.

   As a result of lower prices since 2013, the revenue guarantee under ARC-CO will be less robust, starting with 2019 crops. In order to make ARC-CO a fair choice versus PLC, adjustments in the payment formula should be considered, including lengthening the price average from five to seven years or longer and increasing the revenue guarantee from 86% to 88% or higher. The cost of these changes would be at least partially offset by the resulting shift in participation from PLC to ARC-CO. It should be emphasized that these changes and any resulting shift in participation would in no way reduce the benefits provided to producers under the PLC program. The purpose is not to create competition between the two programs, but to give producers the best possible choice between them, given likely budget restraints.

Ranking Member Debbie Stabenow

1) **The vast majority of corn, soybeans, and wheat growers chose to participate in the Agriculture Risk Coverage (ARC) program, which protects against both price yield losses, rather than the Price Loss Coverage (PLC) program that only protects against price, and a number of producers of other commodities also participated in the program. While I have heard of several areas where the program could be improved related to the yield data or revenue guarantee, in**

general did the ARC program function properly and assist farmers during the price decline we have seen since the passage of the 2014 Farm Bill?

As indicated in my testimony, ARC-CO as well as the PLC program functioned as intended. My statement also identified areas where ARC-CO could be improved in the 2018 Farm Bill to make yields and payments more equitable between counties and to offset the lower prices we have seen since 2013 by making it a more attractive option.

2) **Currently, the Congressional Budget Office projects that if the ARC and PLC programs were reauthorized without changes, and farmers were given another one-time choice between the programs, then most farmers would choose the PLC program given the current price environment and the current floor prices set for PLC. Would you support changes to improve the ARC formula calculations so that it remains a viable option for producers going forward?**

As a result of lower prices since 2013, the revenue guarantee under ARC-CO will be less robust, starting with 2019 crops. In order to make ARC-CO a fair choice versus PLC, adjustments in the payment formula should be considered, including lengthening the price average from five to seven years or longer and increasing the revenue guarantee from 86% to 88% or higher. The cost of these changes would be at least partially offset by the resulting shift in participation from PLC to ARC-CO. It should be emphasized that these changes and any resulting shift in participation would in no way reduce the benefits provided to producers under the PLC program. The purpose is not to create competition between the two programs, but to give producers the best possible choice between them, given likely budget restraints.

3) **As business men and women, most farmers understand the importance of reducing input costs while at the same time maximizing yields. Many conservation practices – like conservation tillage, cover crops and nutrient management – can help farmers do both. Can you share whether you consider conservation activities like this as tools in your risk management toolbox and should the next Farm Bill continue to support these types of conservation activities? What could be done through the Farm Bill to make conservation work for more farmers?**

My investment in inputs on the farm are not an effort to save money but to improve my ROI. Conservation tillage, cover crops and nutrient management can all be good things if they improve the production and return on investment made on them. If it takes a subsidy for me to be able to do the practice, then it is not sustainable. I will spend a lot of money on things that have a good chance of return on investment. If I reduce my input costs and lose production, there is no incentive to change current sustainable practices.

Agriculture continues to struggle with the challenge of an increasing age of the average American farmer. There are many barriers to entry for new farmers, particularly those without a family history in farming and agriculture. Every commodity faces similar and unique challenges for their beginning farmers; can you describe the biggest challenge facing producers in your industry and ways you and the organization you represent are working to support new

and beginning farmers? Are there opportunities you see to help support these farmers in the upcoming Farm Bill?

I don't believe that ag struggles with the increasing age of farmers. Farmers are getting older, but it is not because there is a problem in ag that keeps young people out but because farming has changed so much that it is now much easier to continue doing what you love to do. We all want to work longer than before and we are healthier and able to do what needs doing for a much longer time. I would say that if the age trend were going in the other direction that there would be some serious problems to discuss. There are plenty of young people trying to get into production ag and it is tough to do without family help. We currently have no shortage of farmers willing and able to farm more acres in their area and the competition for land is still strong. When the land sits idle because no one wants to take a chance on it, then we have a problem.

4) **Several proposals have been made to raise the individual loan limits on FSA Direct and Guaranteed Operating and Farm Ownership loans to reflect increased costs of production and land values. However, a concern I have is that if the individual limits are doubled or raised from their current positions of $300,000 and $1.399 million for direct and guaranteed loans respectively, without a commensurate increase in the overall levels of funding for FSA loans, then the total overall number of loans FSA makes each year could be severely limited.**

This would mean fewer farmers having access to critical loan programs at a time when net farm income has dropped to half of what it was just three years ago and many producers are struggling to make ends meet. For example, as recently as last year, USDA had shortfall in funding for these loans programs partway through the year putting a hold on new loans for hundreds of farmers nationwide until a new spending bill was passed. With the exception of Direct Farm Ownership loans, each of the FSA loan programs have reached or come near to using all available funds in recent years. If the individual loan limits were higher, the funding shortfall that cut off farmers' access to credit last year could have been even greater.

Do you agree that the individual loan limits for FSA direct and guaranteed operating and farm ownership loans should not be raised unless it can be certain there is a commensurate increase in overall funding for the loan programs so that farmers are not cut off from these important sources of credit?

As indicated in my statement, ASA supports increasing funding available under the FSA operating loan program to address difficulties producers are experiencing in obtaining commercial loans due to shortages in operating capital. Such an increase should be sufficient to allow individual loan limits to be raised, providing loan eligibility criteria are met, without concern that funding will not be adequate to meet demand.

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Questions for the Record
Ms. Lindsey Lusher Shute

Ranking Member Debbie Stabenow

1) **Your testimony mentions the importance of the Agricultural Conservation Easement Program (ACEP) to help protect farmland and support transition to the next generation of farmers. What are the biggest changes that should be made to ACEP from the 2014 farm bill to make it a stronger tool for beginning farmers? Are there conservation tools that can be improved for beginning farmers, like the Conservation Reserve Program Transition Incentives Program?**

The Agricultural Conservation Easement Program (ACEP), through its Agricultural Land Easements (ALE) funding, helps eligible entities purchase the development rights on farmland by matching up to 50 percent of the cost of an easement. This program is a critical tool in protecting our nation's farmland from development. The four primary changes that we believe must be made to strengthen the program's impact and relevancy for beginning farmers are: (1) maintain and increase funding levels; (2) prioritize projects that keep farmers on the land; (3) maintain parity between funding allocations for wetland and farmland easements; and (4) increase flexibility to allow eligible entities to use ACEP funds for projects that get prime farmland off the market quickly and into the hands of farmers.

Increase program funding. In the 2014 farm bill, we worked with Members of Congress to add "farm viability" to the program purpose of NRCS' Agricultural Conservation Easement Program (ACEP). This change helps ensure that federal support for farmland conservation easements will focus on protecting the long-term viability of farmers and their businesses, as well as on protecting prime agricultural soils from development.

Unfortunately, funding for this program is cut in half for FY 2018, significantly undermining a program that is already in extremely high demand at a time when 10 percent of all U.S. farmland is changing hands and must be conserved. First and foremost, mandatory funding for ACEP should be restored to its pre-FY18 levels at $500 million per year.

Prioritize keeping protected lands in the hands of farmers and in production. In addition, to make it a stronger tool for beginning farmers, all ACEP-ALE funding should be prioritized for easement projects that incorporate affordability provisions and ensure that protected farmland stays in the hands of working farmers. Traditional conservation easements funded through ACEP prevent future development and subdivision on conserved land, but stronger easements are needed to keep this land in the hands of farmers and in production. In 2013, NYFC reported that nearly 25 percent of agricultural land trusts have seen land go fallow or be underutilized because it was not held by a working farmer. Once farmland leaves production, it no longer contributes to food growth or agricultural economic development, undermining the intent of federal dollars spent to protect it.

Working farm easements with affordability provisions, such as the Option to Purchase at Agricultural Value (OPAV), protect the long-term affordability of land and keep it in the hands of working farmers. Given the limits of public funding for farmland protection, and the magnitude of the challenge that farmland access and affordability pose for the next generation of producers, we must ensure that farmland protected with federal funding remains in production and that it will provide rural economic opportunity for working farmers and ranchers for generations to come. We must keep farmland in the hands of farmers.

NYFC recommends that the 2018 Farm Bill direct the Secretary of Agriculture and NRCS to prioritize in its national ranking criteria easements that keep farmland affordable to owner operators. We believe that this will fulfill the new program purpose, increase program integrity, and result in a more viable farm sector.

Create funding parity for wetland and farmland easements. NYFC also recommends that Congress include measures in the next farm bill to ensure parity between wetland and agricultural land easements within ACEP. Currently, Wetland Reserve Easements (WRE) receive more of the program's funds and agreements. In 2015, for example, ALE allocations amounted to just 31% of funds distributed through ACEP, while WRE received 69%. During that same year, only 40% of agreements went to agricultural land. While wetland preservation has important ecosystem, water quality, and conservation outcomes, Congress must respond to the necessity and demand for working land conservation by ensuring that ALE is not shortchanged in the new ACEP program as it competes with WRE for funds.

NYFC recommends that Congress include language in the farm bill that requires 40% of ACEP funds go to ALE.

Allow buy-protect-sell projects. In order to ensure that ACEP continues to serve the needs of our nation's current and future farmers, ACEP must allow qualified land trusts to receive funding directly while they hold land that will be sold to a beginning or historically underserved farmer. Currently, the ACEP-ALE program allows eligible entities to apply for program funds only if an eligible landowner is identified. This restriction eliminates a large number of potential projects that would significantly contribute to the protection and transition of high-quality agricultural land. The highest-quality soils are often found on properties that are under the most development pressure and likely to move through the market quickly. In addition, conservation easements can have a big impact on facilitating the transition of land to young, beginning, and historically underserved farmers. These farmers are often not able to access capital or credit quickly enough to work under the current program, however, and would greatly benefit from more flexibility to partner with land trusts as interim property holders.

In order to ensure that ACEP continues to serve the needs of our nation's current and future farmers, ACEP should allow qualified entities to receive ACEP-ALE conservation easement funding directly while they hold land that will be sold to a young or beginning farmer. We recommend that the statutory blocks cited by NRCS as preventing temporary ownership by NGOs or state/local PACE programs in the ACEP-ALE Final Rule—including reserving an easement, AGI, eligible land definition, and conservation compliance requirements—are conditionally removed. In addition, we recommend state conservationists be given more flexibility to respond to the specific needs of farmland in their area of operation. We do not support an unqualified removal of the AGI cap.

Maintain funding for, and improve, CRP-TIP. Through the Conservation Reserve Program (CRP), landowners can enter into contracts with USDA and receive rental payments to temporarily remove farmland from production to conserve soil and water resources. CRP-TIP provides retired or retiring landowners with two additional annual rental payments on land enrolled in expiring CRP contracts, on the condition they sell or rent this land to a beginning farmer or rancher (BFR). In effect, CRP-TIP creates a pathway for BFRs to access land. It also provides additional income to retired or retiring producers. Barriers to participation in CRP-TIP include: matching existing landowners with the right beginning farmer or rancher, restrictive program requirements such as the requirement for a five-year lease, and a lack of funding to meet demand.

Congress should (1) increase CRP-TIP funding to help meet demand, (2) assist USDA in developing a better system for matching program participants, and (3) reallocate any surplus TIP funds, should they exist, to other land transition and conservation programs that benefit beginning farmers. Congress should also provide more direct technical assistance to beginning farmers enrolling in the program to help start production on land previously enrolled in CRP.

2) The 2014 Farm Bill significantly improved risk management options for beginning and diversified farmers in two major ways: first by creating the Whole Farm Revenue Protection insurance, which was first offered for the 2015 crop year; and second, by adding buy-up coverage under USDA's Noninsured Crop Disaster Assistance Program (NAP). Ms. Shute, do you have suggestions for how we can build on these programs in the upcoming Farm Bill? Are there changes that would help make the programs more accessible for new farmers or smaller, direct-market producers?

Farming is a risky enterprise, and uncertainty is part of the business. Young farmers are entering their careers during a significant decline in commodity prices; they also face a changing climate. Here in New York, last April's snow led to nearly total crop loss for many apple growers, and just last month, three of the farmers in our local Hudson Valley chapter were seriously injured due to a microburst. In 2011, Hurricane Irene led to a complete crop loss for many vegetable growers in our region who suffered flooding from nearby streams. Although farmers are diversifying their businesses and farming in a way that increases their resilience to extreme weather, no farmer or policy can completely eliminate the risks. We stand behind risk management tools and a strong safety net that works for all farmers. We encourage the Committee to continue the progress made in the 2014 Farm Bill to improve beginning farmer access to crop insurance and disaster assistance programs, to help farmers save money and manage their own risk from year to year, and to be mindful of program impacts on sector health.

Continue beginning farmer crop insurance discounts and improvements to the Noninsured Crop Disaster Assistance Program (NAP), and reauthorize NAP buy-up coverage. Congress made a number of improvements to NAP in the 2014 Farm Bill, including the option for farmers to pay a premium for coverage up to 65% of the approved yield at 100% of the average market price—so-called NAP Buy-Up. Congress also included administrative and premium discounts for beginning and historically underserved farmers. According to the USDA's Economic Research Service, NAP applications doubled in the year after these changes were implemented. For many young farmers in our network, NAP is one of the only risk management products that is applicable to their operations, and in some cases is the coverage they would need in order to secure a loan with FSA. We encourage the Committee to reauthorize these buy-up provisions to keep this important program working. We also encourage FSA and Members of Congress to improve the process and administrative efficiency of NAP, particularly for small-acreage farms growing high-value specialty crops.

Support Whole Farm Revenue Protection (WFRP). Most young farmers today start at a smaller scale, grow a diversity of crops and livestock, sell directly to consumers, and are more likely than previous generations to use organic farming practices. For these reasons, farmers in our network struggled to find a crop insurance option that was a good fit for their farms. We were encouraged when Congress directed RMA to create a new revenue-based crop insurance product for diversified farms. With its coverage based on revenue rather than acreage or yield, WFRP holds strong possibilities for young farmers, and it's now available in every state and county in the country. We urge the Committee to fully support this program in the next farm bill, and continue to improve its functionality and accessibility for farmers.

Support saving as a risk management tool. As Congress and the USDA continue to expand crop insurance and disaster assistance options to a broader range of farmers and crops, they should also consider other straightforward and cost-saving opportunities to help farmers manage risk. For CSA farms like ours, for instance, where our customers pay for their membership before each season and receive weekly shares of farm goods throughout the year, current crop insurance programs do not fit.

While traditional farm safety net programs are critical, NYFC recommends that Congress explore new ways to help farmers save for difficult seasons. We recommend the creation of a special tax-free or tax-deferred savings accounts for farmers that would incentivize year-to-year financial management, and create a low-cost safety net for farmers who cannot utilize existing programs. We recommend that farmers have an option similar to a Health Savings Account, where they could save up to a specified amount on an annual basis. We encourage Congress to make such a program also available to farm workers, as a means to save for future farms.

Examine the significant sector-wide risk of farmland transition and program impact. We must also be holistic in our assessment of risk management beyond insurance products. Risk must, ultimately, be managed across the agricultural sector. Because nearly two-thirds of farmland in the U.S. is going to need a new farmer in the coming decade, we see the issue of farmland transition as a significant, looming risk to the farm economy and rural America. The challenge of farmland access is shared among all farmers: farmers who rent, farmers ready to buy, and even farmers from multi-generational farm families. We urge Members of the Committee to continue to examine this significant risk to our economy and food system in full, including the impact that federal programs may have on the availability and price of farmland. We must keep our farmers in business today while promoting opportunities for future generations.

3) Ms. Shute, USDA made significant changes to cut red-tape, reduce paperwork, and tailor several loan programs to work better for new farmers. Can you summarize some of these efforts around microloan and Farm Storage Facility Loans? Are there other areas you see where barriers could be removed to improve access to credit for new farmers?

Since NYFC's inception, we have been advocating for improvements to credit options for young farmers, including a microlending program that accommodates the specific credit needs of young growers and barriers to access that they face. In 2013, USDA created a microloan program with a streamlined application process and a shorter timeline. In the 2014 farm bill, Congress created a permanent authorization for the program and made additional improvements. Since its creation, the program has reached over 20,000 farmers and provided nearly $500 million to their businesses. It has been one of FSA's most popular loan making tools, and they've expanded it to apply to guaranteed loans and Farm Storage Facility Loans (FSFL).

In 2000, the Farm Service Agency created the Farm Storage Facility Loan (FSFL) as a way to support farms that needed to build or improve their on-farm storage for commodities like grain, legumes, and hay. In 2008, through inspection of the original statute, NYFC realized that it could easily be interpreted to cover fruits, vegetables, dairy, honey, meat, hops, flowers and other crops. FSA and NYFC worked together to adapt this program to address the needs of a broader range of farms. The FSFL can now be used to build or upgrade washing and packing facilities as well as temperature-controlled storage. It has also been expanded to cover purchase and installation of both new and used infrastructure and equipment.

Both of these initiatives illustrate how Congress and the USDA can improve young farmers' access to critical federal programs by increasing flexibility and tailoring program requirements to the small scale of most young growers. NYFC is encouraged by this progress, and recommends the following additional improvements:

- **Continue FSA cooperative agreements with service providers and organizations like NYFC as a cost-effective way to improve outreach to young, beginning, and historically underserved farmers.** In 2016, FSA entered into a cooperative agreement with NYFC to educate our network of young farmers on the opportunities offered by FSA loan programs. Within this agreement, we authored a forthcoming guidebook on the history, structure, and options within the FSA loan program, aiming to encourage and embolden young farmers to apply. In addition to the guidebook, we've facilitated eight workshops around the country and have more planned, and we've partnered with local organizations to help them build their own capacity. In these workshops, attendees tour a farm to discuss credit needs, young farmers share their experiences using FSA credit, and a local FSA loan officer presents an overview of loan products. These workshops help demystify credit options and introduce FSA staff to local beginning farmers. Our joint outreach efforts with the agency are having a significant effect, and we strongly encourage FSA to continue offering cooperative agreements to improve its communications and reach a new generation of customers.

- **Modernize FSA customer service to reach the next generation of farmers.** In competitive real estate markets, the FSA loan making process often takes too long for growers to purchase land. Non-farmers with pre-approved mortgages and cash bids can easily outbid working farmers for farmland. The current application process can take longer than 30 days, and funds may not be available for months. Likewise, the current process requires farmers to turn in application forms in person, which can compound the time and expense required of farmers, particularly in rural areas. To address these barriers, the Agency must modernize the way it conducts business. FSA should create an online self-service portal that:

    - Offers an online application process through which farmers can apply for programs, check statuses, update records, add supporting documentation.

    - Allows farmers to self-register their farms online with USDA. We believe that moving registration online would speed the loan application process, since a farmer would be ready to apply when they walk through the door of their USDA office.

    - Offers pre-approval. We understand that a farm's viability is linked to the quality of the land itself, but starting the loan application process before finding land would enable farmers to act quickly and effectively in a competitive real-estate market when suitable land comes on the market.

- **Empower FSA agents in the field to work with young and beginning farmers.** As FSA makes steps to improve its online accessibility, it must also expand its outreach on the ground. Young and beginning farmers report that some FSA agents don't know about or promote young and beginning farmer loans, or other beginning farmer initiatives within USDA. Young farmers, like other young entrepreneurs, are innovative and open to trying alternative methods for growing food and marketing it to their communities. Not all agents are comfortable with these newer methods. FSA loan rules have been applied inappropriately, preventing young and beginning farmers from receiving credit. NYFC was excited for the rollout of Beginning Farmer Coordinators, and we are eager to see this program fully staffed. In addition, Congress should expand FSA's Beginning Farmer Outreach Coordinators to all states, and encourage it to also take steps to train every agent on the needs and opportunities for young and beginning farmers, and give them flexibility to work with these growers.

- **Invest in financial training for new farmers.** For multi-generation young farmers and those from non-farming backgrounds, the importance of financial planning and business training cannot be overstated, nor can they be separated from policy considerations related to credit. Increasing opportunities for young farmers to access training and mentorship will make their startup businesses more viable, make those farmers more credit-worthy, and open up additional avenues to capital. One such program, the Beginning Farmer and Rancher Development Program (BFRDP) provides competitive grants to nonprofits and universities to develop education, extension, outreach, and training initiatives directed at helping new farmers and ranchers. BFRDP funding has been used to develop incubator farm programs, provide business planning and food safety training services, promote innovative farm and ranch transfer strategies, and establish on-farm apprenticeship opportunities to train future farmers and farm laborers. NYFC is a recipient of this funding, and with it we built an online calculator to help farmers compare public and private options for farmland finance. Unfortunately, this program and others like it will be eliminated without reauthorization in the 2018 Farm Bill. Building our national capacity and infrastructure to train the next generation of growers is a long-term effort that requires sustained investment. NYFC strongly recommends the reauthorization of BFRDP, as well as increasing mandatory baseline funding for BFRDP to ensure that this program is protected from future failures by Congress to pass a farm bill on time.

As the success of initiatives like the FSA microloan program have demonstrated, many existing federal programs can be modified and improved to better reach the farmers we serve. Given the demands of the current agricultural economy and the challenging budget constraints, NYFC strongly urges the Committee, Congress as a whole, and the USDA to examine every program, regardless of title, to find where efficiencies can be added, paperwork can be reduced, and barriers can be reduced to meet the needs of young farmers over the life of the next farm bill.

4) Nearly half of the returning veterans from Iraq and Afghanistan come from rural communities. In the last Farm Bill, we created a new Military Liaison position and provided priority funding for returning veterans that are interested in transitioning into farming. Can you describe how your organization is working with veteran farmers? Are there any Farm Bill programs in particular that you see as most helpful to veterans interested in farming, and is there anything we can do to build on that success?

Like many members of the Committee, NYFC believes strongly that returning military veterans represent a unique asset to our agricultural economy and rural communities, and are a key component in our movement to create more farmers. Farming offers real and practical benefits to veterans reentering civilian life, while veterans can bring their dedication, character, and leadership to communities that need them. NYFC works hard to include veterans in our national network of young farmers and ranchers; we work, for example, with organizations such as the Farmer Veteran Coalition, the Center for Rural Affairs, and the National Center for Appropriate Technology, all of which have specific programming to serve this important community.

Because most military veterans entering careers in agriculture are young and beginning farmers, veteran farmers face many of the same challenges as their non-military counterparts, and benefit from all policies that NYFC advocates for. The 2014 Farm Bill included a number of changes to improve services to veterans, including the creation of a Military Liaison position and the specific inclusion of veterans in key programs like the 2501 Program, the Conservation Stewardship Program (CSP), and the Conservation Reserve Program - Transition Incentives Program (CRP-TIP).

Congress and the USDA must continue the progress they've made in serving farmer veterans, starting with strong investments in training and outreach. The 2501 Program, for instance, remains the only farm bill program specifically dedicated to addressing the needs of minority farmers and military veterans by helping institutions and nonprofits provide outreach and technical assistance to these farmers in accessing USDA programs. Farmers of color and veterans have been historically underrepresented in many USDA programs, and the 2501 Program has been essential in ensuring that all farmers are able to benefit from federal programs, especially those farmers that could most benefit from federal resources. As a growing number of post-9/11 military veterans seek to transition to farming, this program is more important than ever. Unfortunately, in the 2014 farm bill, Congress cut funding for the 2501 Program in half, to $10 million per year, even as it expanded the program to include veterans. This funding should be restored. Likewise, failure to reauthorize and increase funding for BFRDP could have profound consequences on the ability of USDA to provide technical, financial, and business training to ensure that veterans are able to start and grow viable farm businesses.

Senator Sherrod Brown

1) Your testimony touched on how FSA new beginning farmer coordinators serve as a resource for these farmers.

   a. Do you believe Extension agents could play a similar role?

Extension agents play a key role in connecting farmers with the services they need, and can serve as a very important resource for young farmers in every community. Extension agents can point young farmers toward helpful programs, identify and troubleshoot pest and disease pressure, and provide timely regional updates. Many young farmers keep their local Extension agents on speed-dial, and build important relationships that can last throughout their careers in the field. Recent farm bills have increased research and Extension funding for small-scale and diversified agricultural systems, beginning farmer outreach and development, and businesses services—all of which have improved the landscape for young and beginning farmers.

FSA beginning farmer coordinators were put into place to serve the unique needs of new farmers. With so many young people pursuing highly diversified and direct-market operations, which may not be familiar to all agents, as well as needing more support than farmers already familiar with FSA, these coordinators ensure that USDA supports the next generation. Likewise, we would like to see Extension and its agents adapt their approach and technical advice to support the new business models and growing practices of new and beginning farmers. Our farmers would greatly benefit from more expertise on organic growing practices, pastured livestock, soil health and vegetable disease management.

   b. What other federal resources have been most instrumental in providing on-the-ground assistance to new farmers?

Our data indicates that young farmers are increasingly conservation-minded and use practices that build soil health and climate resilience on their farms. NRCS conservation cost-share programs and technical assistance are critical to farm viability. EQIP and CSP are essential to supporting farmers in the face of climate change, drought, and other natural resource challenges.

Unfortunately, working lands conservation programs have been targeted for significant cuts in the annual appropriations process since the passage of the 2014 Farm Bill. These programs yield a significant return on their investment and funding for them should be restored.

EQIP and CSP currently have set-asides that give beginning farmers priority in the application process. To keep up with demand, however, and because of the return on investment from these projects, Congress should raise the reservation rate for beginning farmers from 5 to 15 percent.

Members of Congress should also ensure opportunities for small-scale producers within programs. Under EQIP, small-scale farmers, which include many young farmers, are often at a competitive disadvantage with larger operations for program funds and NRCS staff resources. To improve parity and equity for these farmers, Congress should establish a pilot small-acreage EQIP initiative to help ensure that EQIP funds are more cost-effective and equitably administered to small-acreage operations. Funding for the program should be set aside through existing EQIP funds. The pilot program should further streamline the EQIP application process to reduce the paperwork required for small operations and set aside technical assistance funds to help small-scale farmers develop conservation plans and apply for EQIP funding.

Farming is a knowledge-intensive enterprise, and investments in research have a direct impact on farm viability nationwide. Because young farmers tend to employ sustainable practices on their farm, programs like the Sustainable Agriculture Research and Education (SARE) grant program are critical to providing young farmers with cutting-edge, innovative research to improve their yields, practices, and livelihoods. SARE has been helping fund farmer-driven, sustainable agriculture research for over 25 years and remains the only USDA competitive grants research program that focuses solely on sustainable agriculture. SARE grants directly fund farmers who want to explore sustainable solutions through on-farm scientific research, demonstration, and education projects. SARE grants have helped develop regional water quality trading markets that effectively improve water quality through market-driven, voluntary efforts; supported efforts to expand markets for organic crops; increased economic viability; and provided farmers and ranchers with timely information concerning adaptation measures to drought and other natural disasters. This program must be reauthorized in the upcoming farm bill.

2) You mention that millennial farmers are looking at value added production and are more likely to sell directly to consumers and have been innovative in their business strategy and marketing.

a. As this committee considers the next Farm Bill, what more can we do to help new farmers reach their local and regional markets?

At a time when they face significant structural barriers to entry, the increasing consumer demand for local, direct-marketed products has provided young farmers with opportunities to start their farm businesses with less startup capital, while returning a higher percentage of consumer dollars back to their farms. Young farmers use marketing channels like Community Supported Agriculture (CSA) and farmers markets to reach consumers and build their brand. Farmers selling direct do best when they're within 200 miles of urban centers. To that end, it's very important that Congress support smart growth and land conservation that will protect farmland in urban foodsheds from development and price increases due to the secondary market of estate and non-farmer home buyers. For these reasons, we strongly advocate for prioritizing public funding for easements that incorporate affordability protections.

b. What tools are especially helpful for new farmers looking to support local and regional food systems, or connect with local buyers?

A number of federal programs promote local and regional food systems that directly and indirectly benefit young farmers, including: Value-Added Producer Grants (VAPG), the

Farmers Market and Local Food Promotion Program (FMLFPP), Specialty Crop Block Grants, Farm Storage Facility Loans (FSFL), and the Food Insecurity Nutrition Incentives (FINI) program.

The 2014 Farm Bill made significant progress toward recognizing the importance of, and investing in, these programs. Most significantly, Congress tripled funding for the Farmers Market and Local Food Promotion Program—which supports direct farmer-to-consumer marketing channels such as farmers markets and CSA—and expanded the program to provide grants to farm-to-institution, food hubs, and other enterprises that process, distribute, aggregate, or store locally or regionally produced food products. These investments serve to grow the already expanding opportunities for young farmers seeking to serve their communities.

3) Beginning farmers often rent land as they are beginning their careers. Do you have other ideas on how we could help these farmers access acreage in a time of relatively high land prices? Do you see any problems with these sorts of ideas?

In NYFC's 2011 survey of young farmers across the country, we found that more than two-thirds of farmers did not come from a farming background, meaning they likely do not have access to a secure land base. In addition, the majority of farmers under 30 years of age rely on leasing to access land. As of 2014, 39% of U.S. farmland was leased out by landowners, nearly half of whom had never farmed. Given that only a fraction (2.3%) of the close to 100 million acres of agricultural land changing hands in the next five years is expected to be sold to a non-relative, it is likely that leasing will continue to remain a critical way for farmers to access land.

We must ensure that farmers have the resources and training they need to write secure, equitable lease agreements and transition slowly into farm businesses. Leasing land is an important first step for many young farmers as they establish their farm businesses, but navigating lease agreements can be challenging, especially for first-generation farmers. Many nonprofits and Extension offices have developed programs designed to help farmers write strong lease agreements that provide security and help farmers negotiate the best arrangement.

When farmers are ready to move beyond leasing, we believe that most successful farm transitions occur over a period of years, allowing the incoming farmer to gain management experience and build equity in the business over time. Apprenticeship and incubator programs can help farmers build skills and their businesses without needing to invest immediately in all the resources of owning a new farm. Many more programs support both business and succession planning for farmers.

The Beginning Farmer and Rancher Development Program is the primary avenue through which farmers receive education and assistance with writing strong lease agreements, succession planning, and farm transition. It is critical that this program remain fully funded in the 2018 farm bill.

In addition, we must ensure that the Agricultural Conservation Easement Program is keeping farmland in the hands of farmers and helping to create paths to ownership. Ultimately, in order to build strong businesses, farmers need secure access to land that enables them to make investments and build equity in their businesses. The most promising tools we see being used to facilitate farm ownership and equity-building opportunities for farmers are working farm easements and ground leases. The working farm easement provides the easement holder with the option to purchase, or assign the purchase of, the land at its agricultural value when it goes up for sale if it is not being sold to a qualified farmer or family member. The ground lease tool similarly helps keep farmland in agricultural use. In this model, the land trust or nonprofit organization owns the land, providing the farmer with a secure, lifetime lease that is often inheritable. The farmer then purchases the buildings and owns all equity and improvements in the property.

It is critically important that the federal Agricultural Conservation Easement Program and Regional Conservation Partnership Program encourage land trusts and other conservation entities to use federal funds for stronger easements that protect affordable and encourage transition to farmers. In addition, the program should allow more flexibility for entities that wish to purchase land and create long-term, equity-building lease opportunities.

By offering pre-approval options for its farm ownership loans, FSA can enable farmers to act quickly and effectively in a competitive real-estate market when suitable land comes on the market. New and beginning farmers face a number of challenges accessing secure land. One of the biggest areas where they are struggling that we have seen, however, is in access to quick and sufficient capital.

Finally, USDA programs, such as EQIP, should continue to incentivize land security for farmers by requiring written lease contracts with any landowners who are not themselves farming the land when they apply for federal conservation dollars. In addition, these programs could explore ways to incentivize long-term leases beyond the terms of the EQIP contract.

Senator Amy Klobuchar

1) As the Executive Director of the National Young Farmers Coalition, you see the challenges young farmers face every day in trying to get a start in agriculture. Do you hear concerns from young and beginning farmers about the lack of access to commodity and crop insurance programs? If so, how do you see beginning farmers and ranchers overcoming this challenge?

Strong federal safety net and risk management options are critical to farmers and the consumers they feed. In an increasingly unpredictable climate and at a time of low commodity prices, NYFC stands behind federal programs that support all farmers. We encourage the Committee to continue the progress made in the 2014 Farm Bill to improve beginning farmer access to crop insurance and disaster assistance programs, to help farmers save money and manage their own risk from year to year. As more and more young farmers build their businesses on diversified crop and livestock systems, Congress must continue to expand access and create new tools where necessary.

The 2014 Farm Bill took an important and innovative step toward meeting the risk management needs of small-scale, diversified growers by creating Whole Farm Revenue Protection (WFRP). With its coverage based on revenue rather than acreage or yield, WFRP holds strong possibilities for young farmers, and it's now available in every state and county in the country. We urge the Committee to fully support this program in the next farm bill, and continue to improve its functionality and accessibility, including additional flexibility and options for young farmers who have difficulty demonstrating revenue history in their critical first years.

Congress also made significant improvements in the 2014 Farm Bill that have improved beginning farmer access to the Noninsured Crop Disaster Assistance Program (NAP), including the addition of NAP "Buy-up" coverage, as well as special premium subsidies and fee waivers for beginning farmers. Unlike most USDA programs, however, these beginning farmer benefits only last for a farmer's first five years of production. Congress should consider extending this important support by bringing the beginning farmer definition in line with existing USDA programs.

Ultimately, though, current crop insurance tools cover only a quarter of farmers in the U.S., according to the 2012 Census of Agriculture. Simply put, for many farmers, including CSA farmers like my husband and I, there are no crop insurance tools that work for our business models. To truly provide all farmers with the risk management they need, NYFC recommends the creation of special tax-free or tax-deferred savings accounts for farmers to incentivize year-to-year financial management, and create a low-cost safety net for farmers to manage risk and invest in the future during seasons of high prices and high yields. Most often, farmers reinvest that extra revenue back into the farm, which is difficult to recoup should the farm fall on financial difficulties later on. For many farmers, even a small cushion of cash savings can make a big difference in a difficult year. We recommend that farmers have an option similar to a Health Savings Account, where they could save up to a specified amount on an annual basis. We encourage Congress to make such a program also available to farm workers as well, as a means to save for future farms.

2) The 2012 Agriculture Census shows that the average age of American farmers continues to rise – in Minnesota, the average age is now over 56 years old. That's one of the reasons why I supported a number of programs in the last Farm Bill focused on beginning farmers and ranchers, including a provision that reduces the cost of crop insurance by 10 percent and a provision that makes it easier to graze cattle on Conservation Reserve Program (CRP) acres. How have these changes improved access for beginning farmers? What other barriers still exist for beginning farmers and ranchers and what should we be focused on in the Farm Bill?

As it did in key parts of the 2014 Farm Bill, the Committee and Congress as a whole should continue to make improvements to ensure that all farmers can access federal farm programs. Set-asides for underserved farmers, microloans, on-ramps to crop insurance and disaster assistance, and flexibility within programs like CRP can all help USDA reach new farmers and support the next generation. NYFC remains committed to assisting with and advocating for these straight-forward improvements, particularly within the budget constraints of the next farm bill. At the same time, we encourage policymakers to recognize the changing landscape of the farm economy and the business models young farmers are embracing.

Our surveys of young farmers indicated that millennials entering the field tend to operate smaller farms, have more diversified operations, and are increasingly likely to come from non-farming backgrounds. At a time of higher yields and lower prices of commodity crops, young farmers are increasingly building their businesses to serve local markets, using sustainable and farming systems to manage risk and diversify their revenue streams, and marketing their products directly to consumers. In short, young farmers are driving change in the American agricultural system. Congress should continue to help USDA change with them, including training all USDA field staff to recognize this change.

As you mention, the farm population is rapidly aging, in Minnesota and across the country. Farmers over the age of 65 now outnumber farmers under 35 by a margin of six to one, and U.S. farmland is overwhelmingly concentrated in the hands of older farmers, with nearly two-thirds of farmland currently managed by someone over 55. The National Agricultural Statistics Service (NASS) estimates that over the next five years—the lifespan of the next farm bill—nearly 100 million acres of U.S. farmland are expected to change ownership,and will need a new farmer. At the same time, the single greatest challenge young farmers face, regardless of background, state, or region, is accessing land to farm. This is both a threat to the future of our food system, and an opportunity. Helping young farmers access farmland, therefore, should be the primary focus for Congress in this farm bill. This must be a national priority.

3) Over the past few decades, we have made progress in increasing access to credit for new and beginning farmers, yet I still hear about difficulties they face. I want to make sure that any changes to the Farm Service Administration (FSA) lending programs we consider as a part of the next Farm Bill preserve access to FSA financing for new and beginning farmers. Do current USDA loan programs meet the needs of new and

beginning farmers who rely on FSA lending programs? If not, how should we address this issue and what precautions can we put in place to ensure that funding remains available for new and beginning farmers?

- **Fully fund FSA loan programs.** FSA loans are critical for young and beginning farmers, and are often the only credit option available to them. In recent years as the farm economy has declined, however, farmer demand for loans has caused many programs to run out of available funds only partway through the fiscal year. This demand will likely continue to increase as commodity prices and median farm incomes decline. Congress should increase funding for loan authority across all FSA loan programs to ensure that they keep pace with demand and ensure that the statutory participation targets for beginning and socially disadvantaged farmers are being met for all loan programs.

- **Increase FSA Direct Farm Ownership loan limits.** Multiple national surveys conducted by NYFC have indicated that access to farmland is the number one challenge young and aspiring farmers face, regardless of geography, background, or scale. FSA's Direct Farm Ownership loans can put the dream of farm ownership within reach for many of these farmers. Current statute limits these loans at $300,000, however, which makes them insufficient for many farmers in areas of high real estate prices and volatility, and unable to keep pace with real estate inflation. Overall, farmland real estate values have increased by nearly 40% since the cap was last adjusted in 2008. Although Direct Farm Ownership loans have met their statutory participation rates for beginning farmers (75%) in recent years, they're the only loan program at FSA that has not exhausted its funding, and for which the average loan is the highest relative to its cap. There are undoubtedly a number of reasons this program hasn't spent down its full funding, including a lack of landowners putting farmland on the market and the competition from buyers with private financing, but the high average loan indicates that the cap is also an impediment that can easily be solved. NYFC recommends adequately funding this program, and increasing the loan limit in the next farm bill to $500,000 with a peg to inflation.

- **Keep FSA operating loan limits in place.** Demand for all other FSA loan programs continues to outpace availability, and in FY 2016, all but the Direct Farm Ownership loans expended more than their originally appropriated funds. At the same time, the average loan size across all programs remained well below the statutory caps, particularly among direct and guaranteed operating loans. This indicates a high demand for relatively smaller loans, and that few farms would benefit from an increase in the limit. At the same time, FSA's target participation rates among beginning farmers are currently not being met across all loan programs, most notably within operating loans. In FY 2016, amidst much higher demand from all farmers, beginning farmers received a smaller portion of overall loan funding than the previous year. While NYFC supports access to credit for all farmers, we believe raising the loan limits across the board will primarily benefit larger, more established farms—for whom traditional financing options are more available—while putting young and beginning farmers at a competitive disadvantage.

- **Continue FSA cooperative agreements with service providers and organizations like NYFC as a cost-effective way to improve outreach to young, beginning, and historically underserved farmers.**

- **Modernize Farm Service Agency (FSA) customer service to reach the next generation of farmers.** In competitive real estate markets, the FSA loan making process often takes too long for growers to purchase land. Non-farmers with pre-approved mortgages and cash bids can easily outbid working farmers for farmland. The current application process can take longer than 30 days, and funds may not be available for months. Likewise, the current process requires farmers to turn in application forms in person, which can compound the time and expense required of farmers, particularly in rural areas. To address these barriers, the Agency must modernize the way it conducts business. FSA should create an online self-service portal that:

- Offers an online application process through which farmers can check statuses, update records, and add supporting documentation. Many young farmers maintain their records online.

- Allows farmers to self-register their farms online with USDA. We believe that moving registration online would speed the loan application process, since a farmer would be ready to apply when they walk through the door of their USDA office. It would also prevent farmers from making an unnecessary trip to their local office, which may be quite far away.

- Offers pre-approval. We understand that a farm's viability is linked to the quality of the land itself, but starting the loan making process before finding land would enable farmers to act quickly and effectively in a competitive real-estate market when suitable land comes on the market.

- **Empower FSA agents in the field to work with young and beginning farmers.** As FSA makes steps to improve its online accessibility, it must also expand its outreach on the ground. Young and beginning farmers report that some FSA agents don't know about or promote young and beginning farmer loans, or other beginning farmer initiatives within USDA. Young farmers, like other young entrepreneurs, are innovative and open to trying alternative methods for growing food and marketing it to their communities. Not all agents are comfortable with these newer methods. FSA loan rules are often applied too stringently, preventing young and beginning farmers from receiving credit. NYFC was excited for the rollout of Beginning Farmer Coordinators, and we are eager to see this program fully staffed. In addition, Congress should expand FSA's Beginning Farmer Outreach Coordinators to all states, and encourage it to also take steps to train every agent on the needs and opportunities for young and beginning farmers, and give them flexibility to make loan requirements work for those farmers.

- **Invest in financial training for new farmers.** For multi-generation young farmers and those from non-farming backgrounds, the importance of financial planning and business training cannot be overstated, nor can they be separated from policy considerations related to credit. Increasing opportunities for young farmers to access training and mentorship will make their startup businesses more viable, make those farmers more credit-worthy, and open up additional avenues to capital. One such program, the Beginning Farmer and Rancher Development Program (BFRDP) provides competitive grants to nonprofits and universities to develop education, extension, outreach, and training initiatives directed at helping new farmers and ranchers. BFRDP funding has been used to develop incubator farm programs, provide business planning and food safety training services, promote innovative farm and ranch transfer strategies, and establish on-farm apprenticeship opportunities to train future farmers and farm laborers. NYFC is a recipient of this funding, and with it we built an online calculator to help farmers compare public and private options for farmland finance. Unfortunately, this program will be eliminated without reauthorization in the 2018 Farm Bill. Building our national capacity and infrastructure to train the next generation of growers is a long-term effort that requires sustained investment. NYFC strongly recommends the reauthorization of BFRDP, as well as increasing mandatory baseline funding for BFRDP to ensure that this program is protected from future failures by Congress to pass a farm bill on time.