Statement of the American Farm Bureau Federation

TO THE

GENERAL FARM COMMODITIES AND RISK MANAGEMENT SUBCOMMITTEE OF THE

HOUSE AGRICULTURE COMMITTEE

REGARDING: RISK MANAGEMENT AND COMMODITIES IN THE 2012 FARM BILL

May 16, 2012

Presented by Bob Stallman

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My name is Bob Stallman. I am president of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. Farm Bureau is the nation's largest farm organization, representing producers of virtually every commodity, in every state of the nation as well as Puerto Rico. We represent more than 6 million member families.

I would like to thank Chairman Conaway and Ranking Member Boswell for holding this hearing and inviting me to testify. The farm bill touches the lives of every agricultural producer in this country. It was a long, hard road to passage of the 2008 Farm Bill, and thanks to the hard work of the House and Senate Ag Committees, the end product was a fiscally responsible compromise that served this nation's farmers well.

We all face many challenges in writing the 2012 Farm Bill, with the budget deficit at the top of the list. The baseline for many farm bill programs has decreased since passage of the last farm bill. Thirty-seven programs included in the last bill do not have a baseline because of tough choices made when it was created. The renegotiation of the Standard Reinsurance Agreement reduced the baseline even further, without any consideration to capture those savings. It is an extremely challenging environment in which to draft a bill that provides an adequate safety net, and we look forward to working with the committee to ensure the final product is a fiscally-responsible package that provides taxpayers and America's farmers with the maximum bang for their buck.

Farm Bureau's testimony is based on the premise that the committee will draft farm legislation that reduces spending by $23 billion over the next 10 years as was suggested to the Joint Committee on Deficit Reduction by the chairs and ranking members of the House and Senate Agriculture Committees. In addition, we assume the same proportional cuts will be enacted -- $15 billion in commodity program reductions, $4 billion in conservation program reductions and $4 billion in nutrition program reductions. Farm Bureau is pleased the Senate Committee on Agriculture, Nutrition and Forestry maintained the $23 billion in savings suggested last fall as the committee's reduction target in the bill passed last month.

Beyond the budget reductions, Farm Bureau also prioritized (1) protecting and strengthening the federal crop insurance funding and not reducing funding for that program; (2) developing a commodity title that encourages producers to follow market signals rather than making planting decisions in anticipation of government payments; and (3) refraining from basing any program on cost of production.

As a general farm organization, we place high priority on ensuring the bill benefits all agricultural commodity sectors in a balanced, coordinated manner. While some interested parties can push Congress to allocate more funding for programs that benefit only their producers without worrying about the impact of that funding shift on other commodities, Farm Bureau does not have that luxury and will seek balance among all producers' interests.

While the bill passed by the Senate Agriculture Committee addresses many of our policy priorities, we believe several adjustments and refinements should be made to improve the legislation. We do not believe the Senate Agriculture Committee passed bill provides equity across all commodities. The variety of program options continues to raise concerns that some programs will cause planting decisions based on farm program benefits that accrue more beneficially to a particular crop.

We are also concerned that the net effect of the "Agriculture Risk Coverage (ARC) Eligible Acres" provisions does not ensure a true "planted acres" approach and may effectively recreate the "base acres" issues that have given rise to equity and planting distortion concerns. While we support the requirements in the Senate Agriculture Committee passed bill to eliminate "double dipping" between ARC or Stacked Income Protection Plan (STAX) and crop insurance, we still have concerns regarding the potential for a 90 percent farm level coverage being so high as to induce fraud or abuse. We do not believe the federal government should be covering low-level losses that could be managed through the normal course of business.

Lastly, Farm Bureau's member-established policy opposes payment limits and means testing of farm program benefits in general. As such, we also oppose the Senate Committee's proposed changes to make the current law's payment limit and Adjusted Gross Income (AGI) provisions even more restrictive.

Fundamentally, Farm Bureau continues to support a single program option for the commodity title that extends to all crops. We believe the safety net should be comprised of a strong crop insurance program, with continuation of the marketing loan program and a catastrophic revenue loss program based on county level losses for each crop. We are confident our approach can be easily tailored to meet the committee's goals to provide a safety net that meets regional and commodity differences, while also meeting the established savings target.

We would like to specifically highlight two provisions of the Senate Agriculture Committee bill we hope you will incorporate in the House Agriculture Committee draft. The first is inclusion of the Supplemental Coverage Option (SCO) whereby program crop producers, as well as producers of specialty crops, could purchase a county-level revenue policy on top of their individual crop insurance coverage to cover all or part of a producer's deductible portion of their individual insurance policy. Importantly, this program insures against area-wide losses rather than individual losses. This approach alleviates broad risk without undercutting an individual producer's skill to competitively manage farm level risk.

The second is a restoration of the critical non-program crop disaster programs, such as the Livestock Indemnity Program, Livestock Forage Program and the Tree Assistance Program, to provide those producers with some basic risk management tools to help address catastrophic losses.

FARM POLICY PROPOSAL

While Farm Bureau believes a single program option should be extended to all crops, the program needs to include the continuation of a multi-legged stool approach to provide a fair, flexible and effective safety net. Two legs of that stool should consist of a strong crop insurance program and continuation of the marketing loan program with modifications to better reflect market conditions. Marketing loans and the crop insurance program provide protection at the individual farm level.

We believe the third leg of the stool should provide catastrophic revenue loss protection at the county level, or at the crop reporting district level if county level data is unavailable, rather than the farm level. This approach not only protects against catastrophic area-wide losses, it also will go a long way toward addressing moral hazard concerns and keeping administrative costs down.

These deep loss events that would endanger the financial survivability of the farm are typically beyond any producer's control, and, in the past, have prompted enactment of ad hoc disaster programs. Our plan focuses on protecting farmers from these situations and brings program benefits into play only when they are needed, rather than being considered a supplemental source of annual income.

Under our plan, each producer of a program crop, as well as producers of apples, potatoes, tomatoes, grapes and sweet corn, would be provided a coverage level equal to 75 percent of the last five years' Olympic average revenue. This would be provided for the same fee charged for catastrophic crop insurance - $300 per commodity per county. Farmers can then supplement that coverage with one of the current crop insurance programs based on their own assessment of their farm's risk management needs.

There has been some recent criticism of farm program designs, such as this one, that incorporate a moving average guarantee for revenue or price. The concern is that if a price decline persists for a number of years, the guarantee may fall to an unacceptably low level. The solution to this situation, it is argued, is to establish fixed support prices. We do not support that approach. We have seen too many times in the past when fixed support prices discouraged adjustments to production that would have allowed markets to recover and instead contributed to chronically low market prices. A moving average guarantee allows farmers time to adjust to a changing market while still allowing market signals to direct production decisions.

While our proposal is a deep loss program and would not provide producers with payments as often as other proposals contemplated, it would provide more coverage in times of catastrophic losses when assistance is most critical. In addition, because the deep loss program would take some of the risk off of the table, individual policies would be rerated. Our economic analysis shows a producer would receive crop insurance for 9 to 22 percent less per year than they are currently paying – that is money that stays in his or her pocket – and it is a benefit that a producer would see every year regardless of a payout under the deep loss program.

The following chart shows premium reductions per commodity and the amount of likely payout on an annual basis.

Farm Bureau's Deep Loss Program Impacts for the U.S.
(Premium Reduction based on 75% revenue protection)

	Average Payment/Acre	Average Premium Reduction
Corn	$11.60	8.7%
Sorghum	$11.63	8.8%
Cotton	$22.10	10.0%
Soybeans	$7.97	10.8%
Wheat	$9.17	14.8%
Rice	$38.63	23.1%

Payments under this program would be made on actual planted acres. While past transfer-type payments on planted acres have been problematic from a WTO standpoint, this program would be a true insurance program. As such, it only makes sense for farmers to be able to insure what they are actually planting – not some far out-of-date average of what has been planted in the past. It is our opinion that payments under this program, the bulk of payments anyway, would likely qualify to be notified in the green box non-trade distorting category when the Doha negotiations are completed. Under the rules of the WTO, up to 70 percent of such payments qualify for that designation, so only the last 5 percent would need to be notified as non-product-specific amber box.

Following is an example of how the deep loss plan works with an individual crop insurance policy wrap:

Assume a corn farm located in a county with the following 5-year county average yields and harvest prices.

	Yield (bu/ac)	Price ($/bu)
Year 1	193	$4.00
Year 2	187	$4.95
Year 3	180	$4.50
Year 4	168	$6.00
Year 5	172	$5.50

5-Year Olympic Average 180 $4.98

The 5-year Olympic average revenue for this county is 180 bushels times $4.98 = $894.

A 75 percent county-level revenue guarantee results in payments when county revenue falls below $670 (75 percent of $894). The revenue decline could be due to a decline in prices, county yields, or both.

Assume the individual farm has an actual production history (APH) yield for corn of 185 bushels per acre. For the current crop year, the projected corn price for crop insurance purposes is $5.00 per bushel. The expected farm revenue is 185 bushels per acre times $5.00 = $925 per acre.

A 75 percent revenue protection crop insurance policy would provide an insurance guarantee of $925x75% = $694 per acre.

The following tables show calculated program payments for a number of price/county yield outcomes and calculated crop insurance indemnities for a number of price/farm yield outcomes:

It is important to keep in mind that the deep loss program is based on county yields while the individual crop insurance policy wrap is based on farm yields. It is also critical to note that the Farm Bureau deep loss program does not allow for deep loss program payments and individual insurance loss payments to overlap. Any payment received from the deep loss program would offset any indemnity occurring under the individual crop insurance policy. Following is an example of this point.

Deep Loss Payment		Harvest Price			
	$ 4.00	$ 4.25	$ 4.50	$ 4.75	$ 5.00
125	$ 170.41	$ 139.16	$ 107.91	$ 76.66	$ 45.41
130	$ 150.41	$ 117.91	$ 85.41	$ 52.91	$ 20.41
135	$ 130.41	$ 96.66	$ 62.91	$ 29.16	$ -
140	$ 110.41	$ 75.41	$ 40.41	$ 5.41	$ -
145	$ 90.41	$ 54.16	$ 17.91	$ -	$ -
150	$ 70.41	$ 32.91	$ -	$ -	$ -
155	$ 50.41	$ 11.66	$ -	$ -	$ -
160	$ 30.41	$ -	$ -	$ -	$ -
165	$ 10.41	$ -	$ -	$ -	$ -
170	$ -	$ -	$ -	$ -	$ -
175	$ -	$ -	$ -	$ -	$ -
180	$ -	$ -	$ -	$ -	$ -

Revenue Insurance Indemnity			Harvest Price		
	$ 4.00	$ 4.25	$ 4.50	$ 4.75	$ 5.00
134	$ 157.75	$ 124.25	$ 90.75	$ 57.25	$ 23.75
135	$ 153.75	$ 120.00	$ 86.25	$ 52.50	$ 18.75
140	$ 133.75	$ 98.75	$ 63.75	$ 28.75	$ -
145	$ 113.75	$ 77.50	$ 41.25	$ 5.00	$ -
150	$ 93.75	$ 56.25	$ 18.75	$ -	$ -
155	$ 73.75	$ 35.00	$ -	$ -	$ -
160	$ 53.75	$ 13.75	$ -	$ -	$ -
165	$ 33.75	$ -	$ -	$ -	$ -
170	$ 13.75	$ -	$ -	$ -	$ -
175	$ -	$ -	$ -	$ -	$ -
180	$ -	$ -	$ -	$ -	$ -
185	$ -	$ -	$ -	$ -	$ -

Assume the harvest price is $4.25 per bushel, county yield is 150 bushels per acre, and farm yield is 155 bushels per acre. This farmer would be eligible to receive a crop insurance payment as soon as is currently possible for the **$35.00** per acre revenue insurance indemnity.

In addition, because the county-based deep loss coverage also triggered, the crop insurance company would receive a reimbursement of **$32.91** per acre for the previously-paid indemnity, and the producer would receive the balance.

So even though the farmer would have received a reduction in premium rates, he or she would have the same coverage and timing of crop insurance payments as they do today.

If a producer suffered an indemnity-triggering individual loss without a county loss, the full calculated indemnity would be received by the farmer. For example, assume a $4.25 price, a 160 bushel per acre county yield and a 150 bushel per acre farm yield. The producer would receive an indemnity of **$56.25** per acre from their individual insurance coverage.

If a producer suffered a payment-triggering county loss without an individual loss, the farmer would receive the program payment only. For example, assume a $4.25 harvest price, 155 bushel per acre county yield and 165 bushel per acre farm yield. The producer would receive a program payment of **$11.66** per acre.

Because our deep loss plan is based on the crop insurance program, we also believe some enhancements should be made to the current program. We note the high level of participation in the enterprise unit program following the pilot program that increased the premium subsidy available to that program. We strongly urge the enterprise unit program be permanently extended and that separate enterprise units be offered on irrigated and non-irrigated acreage.

We also support looking at alternatives to rectify the declining Actual Production History (APH) issue. If direct payments are eliminated, crop insurance becomes the major safety net and it simply does not work when a farmer experiences several consecutive disaster years. We support re-evaluating the yield plugs used in disaster years, as well as the county T-yield.

Last October, at our request, House Agriculture Committee Chairman Frank Lucas (R-Okla.) submitted our deep loss proposal to the Congressional Budget Office (CBO) to be scored. After receiving some numbers from the Congressional Budget Office recently for a 70 percent program, we now believe it is possible to provide support at the 80 percent revenue level of coverage for all program crops and the five fruits and vegetables. In addition, we believe there would be enough money to increase the coverage for those participating in the Noninsured Assistance Program (NAP) from 50 percent loss coverage to 70 percent. This would save $15 billion from the commodity title to apply towards budget deficit reduction. To be clear, this is based on the premise of utilizing the savings realized by eliminating authority for the direct payment program, the counter-cyclical program, Supplemental Revenue Assistance Payments (SURE) and Average Crop Revenue Election (ACRE) provisions, as has been indicated by members of the committee.

We continue to believe that our deep loss concept is the best farm policy option, particularly in light of the budget realities that face the writing of a new farm bill. We believe it may even become a more viable choice down the road once all the numbers are in.

The principles we will seek in any final outcome include:

- Basing the safety net on planted rather than base acres;
- Delivering the program through private crop insurance companies;
- No payment limitation in effect;
- Equitable treatment of all commodities by offering this to program crop commodities and to fruit and vegetables that have crop insurance coverage;
- Being easy for farmers to understand and for USDA to administer;
- Being scalable to meet budget requirements; and

- Keeping delivery and administrative costs low.

PAYMENT LIMITATIONS/MEANS TESTING

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions. Simply stated, payment limits bite hardest when commodity prices are lowest. Our federal farm program, even one focused on deep losses, is based on production. Time and time again, this has proved to be the best manner for distributing assistance to those most responsible for producing the nation's food and fiber. Farmers who produce more take more risk, have higher investments and face more losses in down years. To be viable, we must recognize realistic economies of scale to justify the large capital investment costs associated with farming.

CONSERVATION COMPLIANCE

With the elimination of direct payments and other farm support programs, some have called for extending conservation compliance to crop insurance programs. We are adamantly opposed to this and believe crop insurance is vital to a farmer’s risk management strategy and must not come with government strings attached. When farmers make their annual crop insurance decisions, the only option is the federal crop insurance program -- which could be denied as a result of a single unforeseen event if compliance is attached to it.

Consider the situation where a huge rainstorm causes a gulley to appear in a farmer's no-till field overnight. The right thing to do is repair it quickly to minimize further degradation. But doing so requires prior approval from the Natural Resources Conservation Service (NRCS), which is often a two or three day process. Farmers know that even two or three days can make the difference between making the planting window and missing it. If a producer didn't have permission to repair the gulley prior to planting, he or she would be out of compliance and denied eligibility for crop insurance under the approved conservation plan. This is just one example of the difficulties that would be experienced if compliance was required for crop insurance.

DAIRY

Farm Bureau supports Rep. Collin Peterson's (D-Minn.) bill to eliminate the dairy price support program and the Milk Income Loss Contract program and to use the funding associated with those programs to offer a voluntary gross margin insurance program for dairy producers.

RESEARCH

Farm Bureau opposes any cuts to research funding. We recognize the key role that agricultural research plays in making and keeping the farm sector competitive, profitable and responsive to the country's changing food, feed and fiber needs. However, with research costs rising faster than funding, USDA will have to increase its efforts to prioritize research. We encourage Congress to call for the establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry-to help specialty crop producers offset problems in securing a labor force sufficient to handle peak production stages. This growing problem makes this type of research imperative.

NUTRITION

The School Fruit and Vegetable Snack Program should be expanded as it will promote healthy eating habits among children and provide increased market opportunities for fruit and vegetable producers.

SPECIALTY CROPS

The State Block Grants for Specialty Crops program should be continued and expanded if possible.

SUGAR

Farm Bureau supports maintaining the current sugar program.

CONSERVATION

We support the farm bill's conservation programs. The 2008 farm bill is the "greenest" farm bill in history in terms of providing conservation benefits that assist producers in their environmental enhancement efforts. However, with conservation programs also under budget pressure and projected over the next ten years to cost even more than the commodity programs, we recommend prioritizing "working lands" programs over land retirement programs.
We support provisions in the draft bill that reduce the number of conservation programs from 23 to 13. Fewer programs will be simpler and less expensive to administer, as well as less confusing for producers. If funding for conservation has to be reduced, we prefer it to come from administrative savings rather than out of the pockets of producers.

The most popular conservation program has been the Environmental Quality Incentives Program. It provides landowners the planning and resources they need to conduct a myriad of conservation practices that help preserve soil and water and enhance wildlife. Importantly, it also provides them resources to deal with increasing regulatory requirements.

Farm Bureau supports reducing the number of acres eligible for enrollment in the Conservation Reserve Program (CRP) as a way to reduce funding. We believe this should be undertaken gradually as Tier 1 and Tier 2 land currently enrolled in CRP contracts expire. That land should not be allowed to be enrolled in the program in the future.

RURAL DEVELOPMENT

Farm Bureau supports the United States Department of Agriculture developing, funding and improving programs that enhance the lives of rural Americans and foster development of robust rural communities. America's farmers and ranchers need viable rural communities able to supply the services needed to support their families and agricultural operations. Congress and the administration should seek ways to stimulate rural jobs and economic growth within rural communities.

As USDA encounters budget limitations, it is vital for USDA Rural Development to find innovative solutions to the issues facing rural America. Farm Bureau supports USDA implementing a regional approach to give its rural development programs greater flexibility in promoting and leveraging innovation in rural regions across the country. These regional partnerships, whether the efforts of just two communities in one county or a multi-county or multi-state effort, depend on a flexible statutory definition of a “region” to encompass the multiple ways that rural citizens and their communities partner.

Farm Bureau supports rural development programs that help farmers and ranchers and the communities where they live capture more of the profit and jobs generated from the commodities they produce.

In conclusion, we appreciate the hard work of this committee to ensure that America's farmers and ranchers have a practical safety net that provides protection against the vagaries of the market and weather and allows our farmers to continue to produce the safest, most abundant, and least expensive food supply in the world. We look forward to working with you toward that goal. It is vitally important that Congress complete a farm bill this year and Farm Bureau we will do everything we can to assist you in this effort. Thank you for considering our views.

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