



# Farm Bill Testimony

May 16, 2012

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Presented by:

**Dee Vaughan**

President – Southwest Council of Agribusiness

Prepared for:

**House Committee on Agriculture**

Subcommittee on General Farm Commodities & Risk Management

Mr. Chairman, Ranking Member Boswell, Members of the Committee, thank you for holding this hearing, and the important work you are doing to craft a good farm bill.

My name is Dee Vaughan and I farm in the northern Panhandle of Texas. I grow several of the major row crops – chiefly corn, cotton, sorghum, wheat and soybeans.

I have been fortunate to serve in leadership with several farm organizations in the past, but am honored to appear before you today as President of the Southwest Council of Agribusiness, which has members in Texas, New Mexico, Oklahoma, Colorado, and Kansas. Our diverse coalition brings together 17 regional producer groups of cotton, corn, wheat, grain sorghum, rice, peanuts and cattle feeders; more than 30 lending institutions including both banks and farm credits; and more than 70 main street businesses.

The SWCA is unique in that it is focused solely on agricultural policy and its impact on the overall economy of this region.

Our business members – from farm implement dealers, to auto dealers, to irrigation companies, fuel suppliers and grocers – know that the foundation of their economy are we, the producers, who spend billions each year in our region alone to produce the crops and livestock that feed our nation and the world.

Our lenders join the cause because they see first hand how important good farm policy is to give their borrowers confidence to take risks in the dynamic and exceptionally volatile business of agriculture. They know the farmers and cattlemen and have seen their financial standing demolished by adverse weather and brutal world markets – through no fault of their own.

This is not my first time to appear before this Committee in the context of this farm bill, but it is the first time since the Senate Agriculture Committee marked up their bill so that we have something to analyze. I strongly commend Chairwoman Stabenow for getting out there and leading the Committee and the farm bill forward. But we are also grateful it is still early in the process, as the package needs improvement.

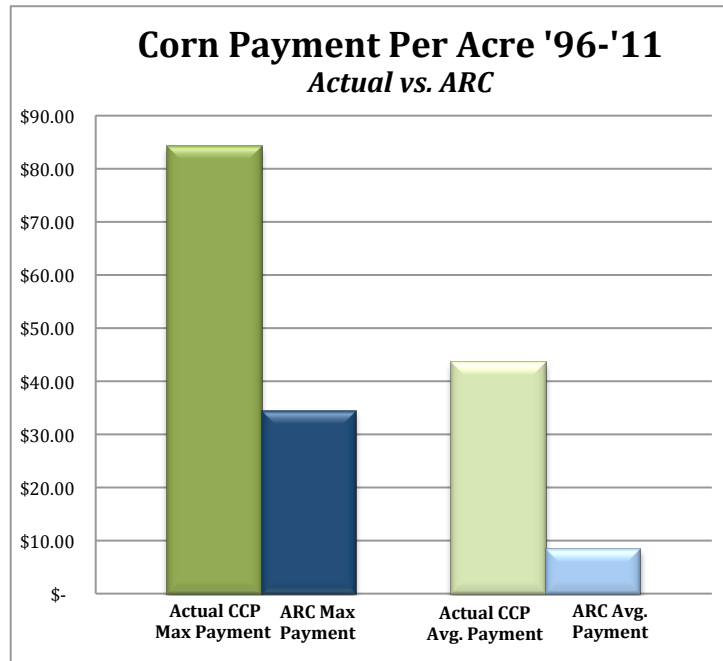
The SWCA has been consistent in advocating for six core principles for the Farm Bill, and so I will spend the rest of my time today talking about our recommendations for your committee in relation to the Senate package and those key principles.

Our **first principle** centers on having a program that works – meaning it kicks in when needed – and the hope of avoiding unwanted market distortions.

Unfortunately we find the Senate ARC program lacking in both respects.

I hope everyone appreciates just how much we as farmers are being asked to give up in this process. The following chart illustrates maximum and average Title 1 assistance provided on the corn land I farm since 1996.

***P1: Any countercyclical element of farm policy that would replace the current countercyclical program, direct payments, SURE, and ACRE, in whole or in part, must effectively work for all staple commodities and producers. The policy should provide reliable protection by commodity, but should be carefully designed to not distort planting decisions.***

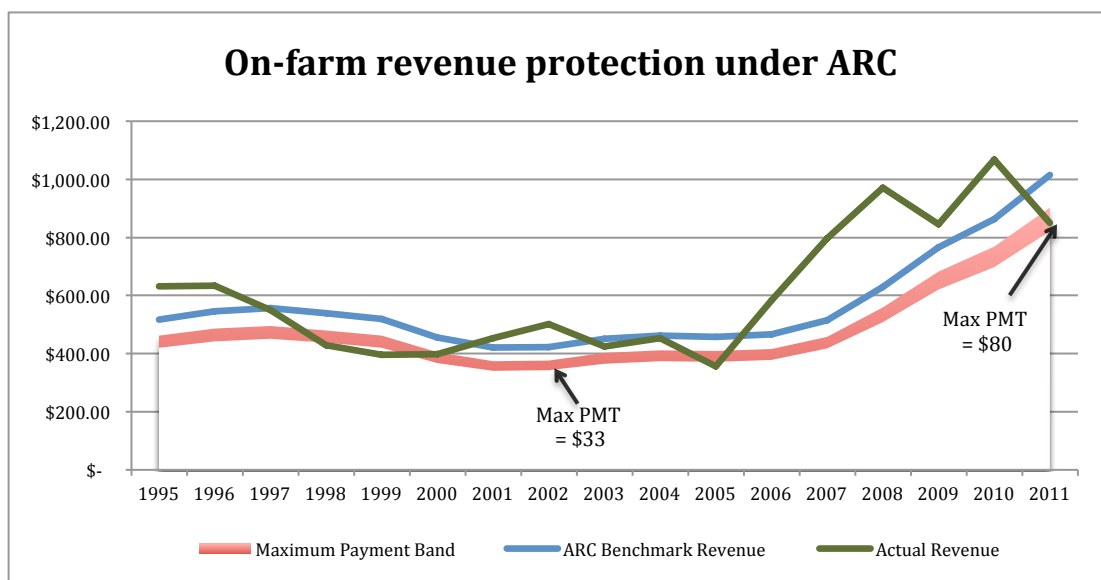


From that time until now, I have used Direct Payments and Target Price based countercyclical (included in the '02 farm Bill to replace ad hoc "market-loss assistance" or double AMTA's as we called them at the time) to weather storms and leverage needed investments on my farm. Next to the actual, it shows what my farm would have received under the 6.5% moving band of coverage called ARC. The difference is staggering, and I can tell you without hesitation that I would not be here as a farmer today had ARC been our policy in that time.

Why is it such a stark difference? There are a number of factors, but

fundamentally it is because ARC is not designed to provide a safety net in times of deep loss; but rather it is designed to just provide a little boost (up to a 6.5% of expected revenue) when expected revenue falls off slightly (more than 11% from the 5 year average).

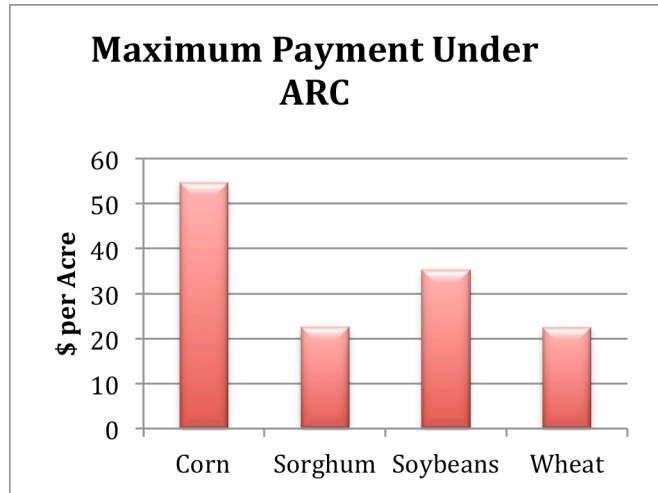
The red ribbon in the chart below represents the area of potential coverage under ARC. Note how the ribbon moves with the 5 year average such that the "safety net" provided is actually richer in good years than after a couple of bad years (this seems like it is working opposite of the way it should be to me). Nevertheless, ARC would have triggered on my farm 5 times out of the last 15 years, including this past year 2011 (this was due to the epic drought and yield losses). In reality under the current set of policies, the market loss or countercyclical portions of the current safety net provided assistance in 7 of those same 15 years (not triggering in 2011), and from my vantage point provided more meaningful and tailored assistance than ARC would have.



Some might critique this analysis by saying the past is irrelevant. But from my standpoint, it is a more trustworthy guide than all the economic modelers in the world. The fact is none of us knows what is going to happen in the future. The SWCA understands this, and while we all might be tempted by fancy shallow loss offerings that could pay out even if times remain relatively good, what our organization has decided we really need is a safety net that will only pay out if times get really hard again.

Our concern with **unwanted planting/market distortions** with ARC flows from the fact that the red ribbon illustrated above is wider (richer) and more apt to trigger (higher) for some crops than others.

The chart to the side shows the maximum safety net for the main program crops based on 8% (the county ARC election factor) of the 5-year national Olympic Average revenue for each crop. ARC is essentially free insurance of a sort. Our fear is that when given free insurance, you don't necessarily pick the one that is most suited to your needs. Rather, you pick the one that is most likely to pay and has the highest potential payout. Under ARC, I would get to make this decision each year when I decide what to plant.



These are serious issues with big potential repercussions. Abandoning the decoupled base, which is the essential and positive element of "Freedom to Farm," does not just have WTO implications, but will impact producers' planting decisions. This is why the SWCA – though very supportive of the farm bill process generally – signed onto a letter asking that the Senate Agriculture Committee slow down. We would urge you to take your time on this one as well and make sure to find the right balance.

***P2: Any cuts made to Title I of the Farm Bill should be applied to the respective commodities on a proportional basis.***

The SWCA's **second principle** focuses on equity among commodities and among regions in terms of the baseline.

This is not about keeping an outdated program – old program bases and yields – but it is about slow change and considering the policies of the past when deciding where you go next.

Micro-economies like land values and production rents do take into account the value of farm programs that are connected to the land. So the fact that rice or peanut farmers have larger direct payments than I do with my corn and wheat base is simply reality, and it should be taken into account in crafting the next farm bill.

The Senate plan fails terribly on this front. In taking away direct payments in total, and replacing it with a free insurance-type product based on the last 5 years income, the Senate Bill essentially throws history out the window. Further, by abandoning old base that is oftentimes in conserving uses, the Senate bill shifts significant resources out of certain

regions like the west and southwest and into the I-states.

All this of course is reflected in the CBO's score of the Senate Committee bill. Our point is simply that to shift resources in this fashion will create significant windfalls in some areas and significant financial pain in others. We don't believe either of these results are what should be intended in crafting good farm policy.

Our **third principle** has proven to be very controversial among academics and DC organizations in that it calls for simple bankable protection tied to deep and persistent price drops.

A good example of this controversy is in a quote last week from Professor Barry Flinchbaugh at Kansas State University, who, in response to a question about getting rid of direct payments and replacing it with ARC said, "In the long run it is a mistake, but it is a sign of the times. At least they did not go back to the old **target price program**, which pays farmers when they do not need it and does not pay them when they do need it. However, the House committee is talking about this. Some of the House members refuse to understand the basic economics of farm programs. They still have the "**price, price, price**" mentality instead of revenue." If this is true, if the House is focused on price, let me just say thank you, and that I think you have a better understanding of the basic economics of farming than the esteemed professor Flinchbaugh.

***P3: The priority in redesigning a countercyclical policy should be to protect against deep and persistent price declines. Whether achieved through a countercyclical revenue policy or a price-based policy, the policy must provide effective protection across commodities, and be reliable and bankable to the producer. The marketing loan for commodities should also be maintained and rates raised where practicable in order to reflect today's costs of production.***

Of the systemic risks (those beyond the control of the farmer) which farmers face, prolonged periods of low prices would be most devastating to the economy and is most worrisome to SWCA members – producers, lenders and agribusinesses alike. The fact is that production losses are being addressed well by crop insurance. Single year revenue losses are being addressed well by crop insurance. But if a series of events like a strengthened dollar, above average yield worldwide, and a slowdown of Asian economies struck, causing corn and sorghum prices to decline to \$3.00, soybeans to \$7.00, wheat to \$4.00, rice to \$11.00 and cotton to \$.65, our current farm policy would be ineffective and rural economies would suffer.

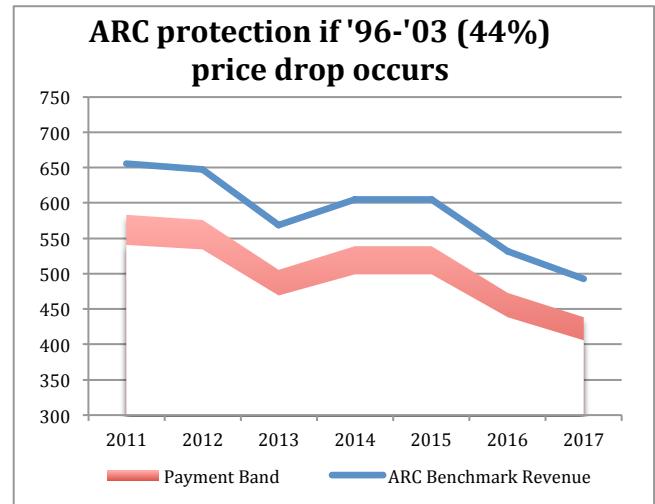
Within the ARC program, the Senate bill does offer some price protection, tying the revenue to the 5-year Olympic Average of price. But the SWCA does not, and I do not believe this provides adequate protection. A five-year rolling average price-trigger can offer assurance in the first and second year of a price decline, but by the third year the protection is severely eroded. And, of course, our experience from 1997 to 2006 would confirm that prices can remain below cost of production for multiple years.

In this way, the current debate reminds me of the 1995/1996 timeframe when economists (including the one quoted above) assured us all that we had hit a new plateau of prices and that growing world demand for food and fiber would keep prices high. In 1995, the season average price for corn hit \$3.24 — an all time high. But over the next four years, prices fell to \$2.71 in 1996; to \$2.43 in 1997; to \$1.94 in 1998; and to \$1.82 in 1999 — that is a 44%

collapse in prices over 4 years that was absolutely devastating.

How would a 5-year Olympic Average price safety net have fared during these times? Well it would have peaked in 1998 at \$2.55, but then trailed off over the next 4 years to \$2.07 in 2001, and then \$1.92 in 2002 and 2003. That is **not** what I, or my banker, would have considered adequate price protection.

In 2010, the season average price for corn hit \$5.40 — a new all time high. But what if we shed 44% over the next 4 years just as we did in the late '90's? How will farmers fare with corn prices at \$3.02? The current 5-year Olympic Average for corn relevant to 2012 is \$4.55, which sounds like an attractive safety net. But if that safety net is allowed to trail down over a couple years back to the mid \$3.00 range or lower, then it is no longer helpful. The chart to the right illustrates how ARC's red ribbon of protection would move on my farm should prices decline by the same percentages they did in the late '90's. I can tell you this diminishing red ribbon of protection does not look very good.



The reality of this diminishing assistance is not lost on even its proponents. Indeed, Dr. Schnitkey, the University of Illinois professor who was on your previous panel, wrote an article last week where he stated, "If prices are persistently low for several years, ARC payments will decline over time as lower prices enter into the calculation of benchmark revenue. Hence, ARC will provide payments in early years of a multi-year price decline, eventually though farmers will need to fully adjust to price declines as ARC payment decline."

So no one is disputing that there is no bankable price protection in the Senate bill, therefore this is just a policy decision for you. Does the House Agriculture Committee think the best thing for farmers and the agricultural complex in this nation is a moving shallow loss ribbon of protection like ARC, or do you want to set a stable base or foundation that only pays if commodity prices sink and remain below cost of production?

Now I can tell you I am thrilled prices are still relatively strong in the 2011 marketing year and 2012 planting season, and I am hopeful they remain this way — but with the prospect of a 15 billion bushel corn crop this year and international economic turmoil, I am not confident they will. Bottom line, I as a producer and we as an organization think building in more relevant protection in the 2012 farm bill is wise policy should prices go south again, as history has shown they most likely will.

If one defines conservatism, fiscal responsibility, and market orientation by the traditional measures of how much something costs and how often it intervenes, price-based farm policy that only kicks in when it is absolutely necessary is also the conservative, fiscally responsible, and market-oriented approach.



**P4: The separate countercyclical mechanism should complement, not compete with or duplicate, the protection that can be purchased through federal crop insurance.** Moreover, crop insurance should be improved, especially as it relates to insurable yields (i.e., the Actual Production History system) and specific crops such as rice and peanuts that are currently underserved. The area-based supplemental insurance authority (SCO) is a well-crafted and cost effective option for shallow loss coverage.

The SWCA's **fourth principle** focuses on interactions with crop insurance, affirming the notion that a highest priority in the farm bill must be to do no harm to crop insurance.

At the farm level, there is a persistent issue with what have been deemed "shallow losses," or losses within the deductible amounts of insurance. But while this is a real problem that merits creative solutions, we are concerned about free "shallow-loss" revenue mechanisms that will displace or disincentivise the buy-up of crop insurance.

While ARC does not exactly duplicate what crop insurance does, there is at least some crossover and, in the minds of the public and especially the critics, any effort to say there is no duplication between the two will be regarded,

however falsely, as merely parsing words. It is important to remember in this exercise that we must not just pass a Farm Bill but we must also one day defend it as well.

Because crop insurance is working so well for production losses and in-season price losses, we believe it would be a far wiser use of limited federal resources to address revenue issues that cannot be covered well by crop insurance – and this points us back to the problem of deep and systemic price losses.

To the extent deductible-level losses are a problem that the federal government wants to help producers address, we believe it should be done through federal crop insurance. In this vein, we are excited about RMA-initiated improvements to the APH like the Trend Yield Adjustment option, and the potential for expanded use of Personal T-yields, even potentially with a better 70% plug yield. We are also very supportive of the Supplemental Coverage Option (SCO) that has been considered and was at least partially included in the Senate plan. The SWCA believes that "shallow-loss" policies such as this are better and more defensible to the extent they are actuarially sound and the producer has skin in the game.

Finally, adding the SWCA's voice to the chorus saying "do no harm" to crop insurance, let me just say that the proposals to link conservation compliance and/or to impose a pay limit on crop insurance are thinly veiled attempts to kill insurance for farmers. They should be forcefully rejected. Period.

Our **fifth principle** concerns payment acres, and reflects the general belief that farm policy should provide assistance to those at risk.

However, as noted above, this is a difficult issue with significant repercussions. Federal Crop Insurance is already tailored to planted acres only, and provides a significant benefit to the farmer based on his or her particular needs.

*P5: Given declining budgetary resources, **assistance should generally be tailored to planted acres.** However, we are concerned about base acres, particularly in the western Great Plains, that are currently in grass and receiving decoupled benefits. Because of their conserving use, we would urge the consideration of alternative positive incentives to keep this land in grass where the economic benefits of breaking it out would be outweighed by the potentially adverse environmental impact.*

For the FSA policy, we believe keeping a base, but updating it and preserving the baseline within each respective commodity would be a wise approach. In addition to promoting commodity-based and regional equity, leaving the FSA program decoupled would simplify administration, prevent unwanted market distortions, and provides WTO protection.

Finally, I would simply note that in much of the area of the SWCA, there is a significant amount of base acres that are and have been in pasture for many years. To the extent that bases are updated, or benefits tied only to planted acres, then special care should be taken in Title 1 or in the Conservation Title to provide opportunity for these lands to remain in a good conserving use.

*Finally, **outdated payment limits and arbitrary means tests should be eliminated**, and USDA's definition of a "farm" should be updated. Notions of 2.1 million farmers in the U.S. (based on USDA's definition which includes anyone who sells more than \$1,000 worth of agricultural production) lead to the distortion of facts. Based on 2007 census data, only 10% of farms in the U.S. had gross sales over \$250,000, and only 125,000 had gross sales over \$500,000. These full-time family farms are all-in every year and constitute the "thin green line" that keeps America and much of the world clothed and fed.*

Our **sixth and final principle** concerns the old and unfortunate issue of payment limitations.

Our first priority would be to keep arbitrary limitations or means tests away from Crop Insurance. This is a business oriented risk management policy that should be available to any and all who are willing to take the risks of farming.

As for the FSA policies, I want to just inject a little perspective into this debate. We have been living with payment limitations since 1970, and the first limits were in the amount of \$55,000 per individual on FSA-based deficiency payments only. Under the Senate Committee's ARC plan, the payment limitation would be \$50,000 per individual, and if corn payments max out at around \$55 per acre, a farmer will reach his max on

about 900 acres. This is goofy, and seems totally detached from the reality of today where full-time, at risk farmers cover thousands of acres.

Going back to our theme, the SWCA believes our nation's farm policy needs to act as a safety net that provides a bankable and reliable safety net for at risk farm families when forces beyond their control (weather, international markets, foreign government manipulations, etc.) would make harvesting the crop they have grown a losing proposition. Our nation and our world needs those crops, and our nation and this world needs those farmers.

Payment limitations bind and hurt when the market is at its worst. They should be eliminated, or increased to reflect today's market realities. Moreover, new rules or bureaucratic definitions for lawyers to interpret should be rejected.

## **Conclusion**

I want to conclude by saying that, having been around this debate for many years, I think we often try to make it too complicated. In this farm bill, which you are writing during what we would all describe as the best of times in agriculture, I would urge you to keep it simple.



- ✓ Address the shallow losses, but do it through the incredibly successful and proven crop insurance system where the producer has skin in the game, or at least do it in a way that is simple to administer and does not undermine or compete with crop insurance. The SCO seems the best and easiest potential option here.
- ✓ Provide simple and bankable price protection that is reflective of today's costs, and keep it on an updated but decoupled base so as to not distort the market. Hopefully market prices will remain high and it will never cost a dime.
- ✓ Keep your core crop insurance strong, and make improvements to the APH and other areas so that all producers can cover their yield risks and in-season price risks in this way.

It is our strong belief that if you pair such a straightforward and bankable Title 1 and Federal Crop Insurance with similarly strong and progressive Conservation and Research titles, then you will lay a good foundation for continued growth in our Nation's agricultural sector.

This is so important and fundamental. The stakes are so high for our world. Again, I thank you, and the SWCA thanks you for your thoughtful considerations of these matters.

## Biography – Dee Vaughan

Dee Vaughan resides and farms in Moore County, Texas near the community of Dumas. Vaughan began his farming career in May of 1978. Currently he produces corn, cotton, sorghum, soybeans, and wheat and is a contract grower of sorghum seed. The family owned and operated farm includes his parents H.B. and Hazel Vaughan and his wife Terri.

Vaughan serves as president of the board of directors of the Southwest Council of Agribusiness. He is also a director on the Corn Producers Association of Texas, the Texas Corn Producers Board, and Plains Cotton Growers, Inc. He currently chairs the Panhandle Agricultural Producers, LLC, a for profit group seeking to create renewable energy projects in the Texas Panhandle. He is a past chair of the Texas Ag Forum steering committee. He served on the National Corn Growers Association board and was the president of the association from October 1, 2003 to September 30, 2004.

On January 1, 2012, Texas Agriculture Commissioner Todd Staples appointed Vaughan to serve on the newly created Texas Grain Producers Indemnity Board. He was subsequently elected chair of this board for 2012. The board will develop rules and hold a producer referendum to create a grain producer indemnity fund.

Vaughan, through his involvement with agricultural groups, has worked extensively on Federal policy pertaining to agriculture, energy, transportation, and trade. He was involved in the 1996, 2002, and 2008 farm bills, the 2005 energy bill, and other legislative efforts. He has also been involved extensively in regulatory issues concerning U.S. agriculture. He served as a corn industry representative to the Cancun Ministerial of the Doha round of WTO negotiations, to the WTO headquarters in Geneva, Switzerland, and on numerous trade missions to the European Union and Russia.

Vaughan currently serves on the Moore County Ag-IPM Advisory Committee and the Texas Agrilife CREET (Cooperative Research, Extension, Experiment, and Teaching) advisory panel. He serves on the Dumas/Moore County Chamber of Commerce board and is involved in other civic and church activities. He has served on the Texas A&M T-CARET (Texas Council on Agricultural Research, Extension, and Teaching) Committee.

Dee Vaughan

Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2009.

Name: Dee Vaughan

Organization you represent (if any): Southwest Council of Agribusiness

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2009, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: USDA - Rural Development Amount: 3289.47

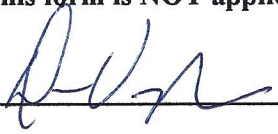
Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2009, as well as the source and the amount of each grant or contract:

Source: NONE Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Please check here if this form is NOT applicable to you: \_\_\_\_\_

Signature: 

\* Rule XI, clause 2(g)(5) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.