Statement by Steve Wellman, President
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before the

Subcommittee on General Farm Commodities and Risk Management
Committee on Agriculture
U.S. House of Representatives

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Good morning, Mr. Chairman, and Members of the Subcommittee. I am Steve Wellman, a soybean, corn, wheat and cattle producer from Syracuse, Nebraska. I currently serve as President of the American Soybean Association (ASA), which represents 21,000 soybean farmers in 26 states on domestic and international issues of importance to all U.S. soybean producers. ASA appreciates the opportunity to appear before you today to present our views on commodity and risk management programs for the 2012 farm bill.

The circumstances facing the Committee and Congress in writing the farm bill this year are similar to those that prevailed last fall, during the Super Committee process. The Nation's budget deficits remain high, contributing to a mounting federal debt. Pressure for spending cuts in all sectors, including agriculture, remains intense. And prices for most farm commodities remain at historically high levels, eroding support for Direct Payments as a component of the current farm safety net. Combined, these factors are driving efforts to reform farm programs as risk management tools rather than income support guarantees.

We commend the leadership of the Committee for committing to reduce spending by $23 billion over ten years during last fall's Super Committee process. As noted at the time, this contribution represents agriculture's fair share of deficit reduction. We urge the Committee to write a bill that does not exceed this level, including not more than $15 billion in cuts to commodity programs and no reduction in crop insurance funding. Soybean producers strongly support the existing crop insurance program as the foundation of an effective risk management system.

Support for a Revenue Program

With the limited resources available to the Committee, ASA supports replacing three existing Title 1 programs, including Direct Payments, the Counter-Cyclical Program, and ACRE, with a revenue-based program that partially compensates for revenue losses for individual program commodities. A revenue benchmark would be established based on a moving five-year Olympic

average of prices and yields. Losses would need to exceed ten percent of this revenue benchmark, and compensation would be limited to a ten percent band between 80 and 90 percent of average revenue.

ASA initially supported limiting the percent of acres on which payments would be made to a farm's total crop acreage base. However, the ARC program included in the Senate Agriculture Committee's farm bill uses the average of planted and prevented planted acres in 2009 to 2012 as the farm acreage cap. We believe this is a better approach than using crop acreage bases, since it more closely reflects recent farming practices.

In order to meet budget requirements, we support limiting payments to 65 percent of planted acres, with the determination of a revenue shortfall at the farm level. However, we are open to providing producers with a one-time option to select county-level coverage, using county average prices and yields to establish the revenue benchmark and payment trigger. Because this option would be less costly than the farm-level option, payment acres would be set at 80 percent of the acreage cap. Payments on prevented planted acres would be set at 45 percent under both the farm-level and county-level options.

ASA believes a revenue approach would give producers a viable risk management tool that would complement the current crop insurance program. It makes the best use of the limited resources available to the Committee. We also support reauthorizing the existing marketing loan program for all commodities, and maintaining existing payment limitations and caps on Adjusted Gross Income.

Maintaining Planting Flexibility

One of the most important policies included in the last three farm bills is planting flexibility, which allows farmers to base their planting decisions on prospective returns from the market rather than prospective payments from the government. By decoupling the production of specific crops from commodity-specific payments, Direct Payments and the current Counter-Cyclical Program have enabled farmers to maximize their returns from the marketplace. Preserving planting flexibility is ASA's highest priority in reforming Title 1 programs.

We believe a revenue program, although it would be tied to current-year production, would have only a marginal impact on planting decisions. First, it requires actual losses that are based not only on declines in prices, but declines in yields. It would be much more difficult to anticipate payments prior to planting. Second, the revenue benchmark is adjusted annually to reflect Olympic average prices and yields. Since the benchmark is not fixed, it would be less likely to get out of line with market conditions over the five-year life of the farm bill. Third, farmers would need to experience a ten percent revenue loss before payments would be available, coverage would be restricted to a narrow ten percent band of revenue, and payments would be limited to only a percentage of eligible acres. These factors would mitigate any role of a revenue program in influencing producer planting decisions.

The Impact on Baseline Spending

It has been noted that, by basing support on current-year production, a revenue program would increase prospective outlays for crops that are actually grown. Indeed, the CBO baseline estimate for the Senate's ARC program shows an increase in outlays attributed to soybean plantings of $1.5 billion over ten years, while most other crops show declines. The reason for these changes is that U.S. soybean base acreage, as established in 2002, totals only 50 million acres, compared to actual planted acres in 2011 of 75 million acres. The change in outlays indicated in the CBO baseline simply reflects the reality that one-third of soybeans are currently grown on base acres for other crops and on non-base acres.

In addition, payments under a revenue program would go to producers who, in response to the market, have decided to change their cropping patterns. Since 2002, for example, farmers in southern states have increased soybean plantings by 14.8 percent, compared to a 1.6 percent increase nationwide. Coverage under a revenue program would reflect this trend, providing improved risk protection to producers in regions where soybean production has been increasing.

Protecting the Current Crop Insurance Program

As I mentioned earlier in my statement, crop insurance is the foundation of an effective risk management system for producers of soybeans and many other crops. Earlier this week we joined our colleagues from other major farm and commodity organizations in a letter to the Committee asking for your support in keeping crop insurance strong in the next farm bill.

Crop insurance has become more expensive for both farmers and the government because premiums are based on market prices. Along with high prices comes greater financial risk for farmers. We have been willing to pay high premiums in recent years because the financial risk of a crop failure is greater than ever. Crop insurance allows us to borrow money and forward contract our crops. There have been no counter-cyclical payments or marketing loan gains paid to soybean farmers under the 2008 Farm Bill. Crop insurance has become the foundation of our safety net, and we urge the Committee not to make changes in or reduce funding for this program as part of the farm bill.

Conclusion

That concludes my statement, Mr. Chairman. I am happy to respond to any questions you or other Members of the Subcommittee may have.