



**Testimony of Erik Younggren**  
**President, National Association of Wheat Growers**  
**Before the House Agriculture Committee's Subcommittee on General Farm Commodities**  
**and Risk Management**  
**On Formulation of the 2012 Farm Bill: Commodity Programs and Crop Insurance**  
**May 17, 2012**

Chairman Conaway, Ranking Member Boswell and Members of the Committee, thank you for the opportunity to address you today. I'm Erik Younggren, a fourth-generation wheat farmer from Hallock, Minn. I work with two of my cousins on our family's farm and have been an active part of the farm's management for 17 years. I am also currently serving as president of the National Association of Wheat Growers.

We know you, Members and leaders of the full Committee and your staff members have been working over the past year toward reauthorizing farm and food policy legislation. We appreciate your commitment to working in a bipartisan and bicameral fashion throughout this process, and we appreciate your dedication to providing a well-functioning farm safety net to the farmers who supply our nation with food, feed, fiber and fuel.

Before I begin talking about policy priorities, I want to draw your attention to two encompassing, environmental factors that are influencing what I say today and the work you are preparing to undertake as a Committee.

Wheat growers around the country are well aware of the reality and consequences of our country's fiscal situation and are committed to doing our part to help right our fiscal house. We know a functioning and solvent U.S. government is one of many factors that helps us to maintain thriving farms, strong rural businesses and a secure domestic food supply. We also know the fiscal integrity of our nation is important to the rest of the world, to which we export about half of our wheat crop each year.

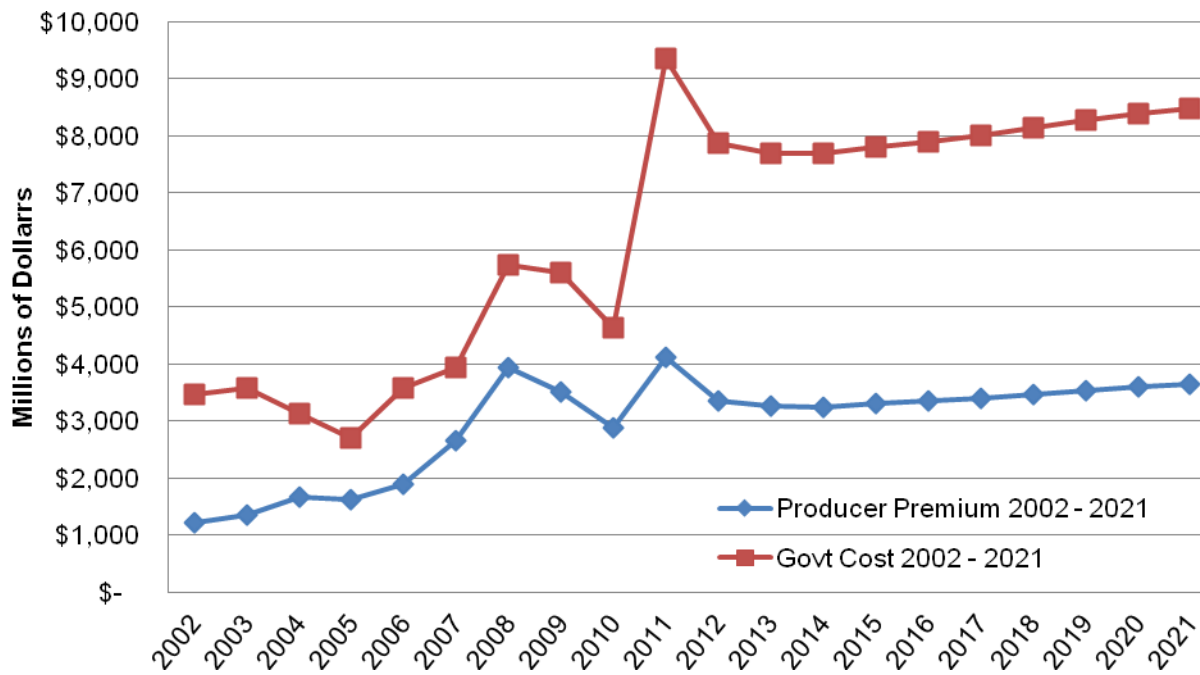
We are also strongly aware that, starting in August, wheat farmers in the south will go to their fields to plant their 2013 crops. These farmers and their bankers will want to know with certainty what sort of safety net programs will be available to them. With ever increasing input costs, these farmers are making huge financial commitments, and it is vital that you and our other agriculture leaders provide program certainty for these growers who are trying to make responsible business decisions. If you take anything away from my testimony today, take this: **it is of the utmost urgency to our farmer-members that you and your colleagues in the Senate approve new farm policy soon.**

### **Primary Farm Risk Management Through Crop Insurance**

Agriculture is arguably the industry most susceptible to natural disasters. While science and technological advancements have enabled producers to increase production efficiencies, farmers and farm businesses are still uniquely vulnerable to crop production losses from weather hazards, insects and other uncontrollable events. Today, farmers are partially guarded from the worst of these threats by a strong crop insurance program, which girds them against inevitable acts of Mother Nature and volatile price swings. By helping to ensure the stability of U.S. farmers, crop insurance helps to ensure a stable food supply – a necessary government responsibility that allows society and the larger economy to grow and allows us to protect ourselves against threat at home and abroad.

The federal crop insurance program provides risk management tools to address production and revenue losses. Today, approximately 75 percent of total policy premiums come from revenue protection policies, while the remaining 25 percent come from yield protection policies. Since the inception of federal crop insurance in the early 1930s, the program has become the most important cost-share, farm risk management tool available. On average, the federal government contributes 60 percent of crop insurance premiums, while a producer pays 40 percent out of pocket.

### Federal Crop Insurance Producer and Taxpayer Premium Cost

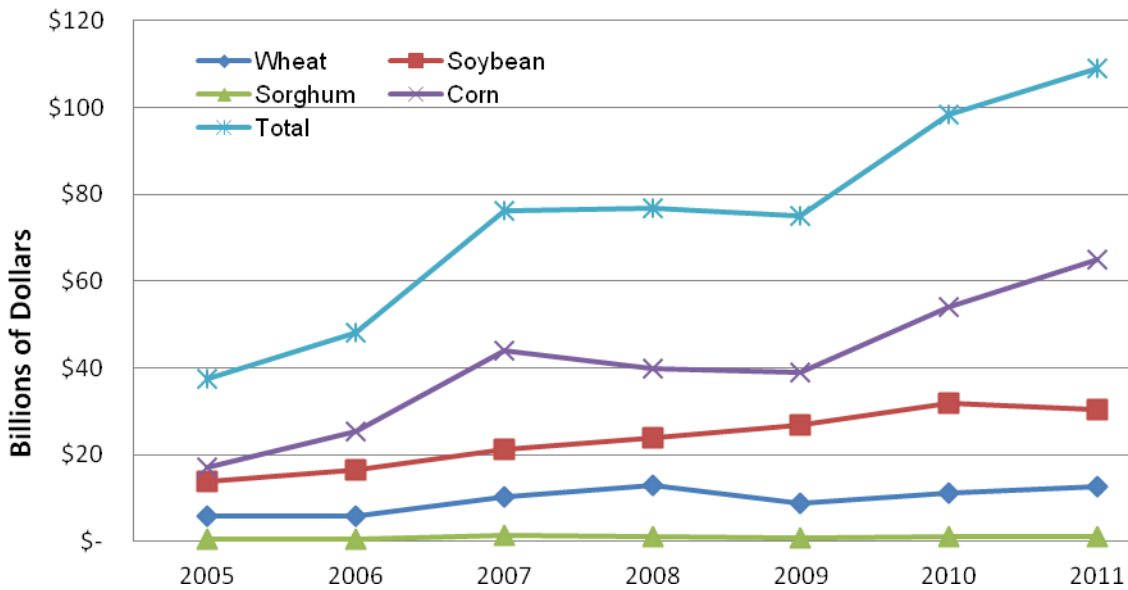


(Source: 2002-2011 Actual obtained from FCIC, 2012-2021 Projections obtained from CBO)

**Government subsidization of the federal crop insurance program is absolutely necessary to maintain affordable and competitive policies for America's farmers.** The high level of risk involved with production agriculture prohibits private entities from writing agricultural policies, which have extremely limited and risky profit potential. Without government involvement, private companies would target high-profit, low-risk areas and leave highly vulnerable regions, including many wheat growing areas, without sufficient coverage options. As the crop insurance structure is now organized, private companies are able to write policies for regions and states that have historically shown losses. The public-private partnership ensures that all areas have equitable access to crop insurance.

The partnership between government and private industry is also vital to maintaining the level of service necessary for the program to be truly effective on the farm. Private companies are able to be more flexible in meeting their customers' needs and providing quick, local and comprehensive solutions for farmers, while the government provides oversight and enhanced security. Private agents have the ability to travel more extensively and operate longer hours than government employees, which means farmers can run their business around their farms' schedules not Farm Service Agency (FSA) office hours. Housing and storing data within the Risk Management Agency (RMA) system enhances security and allows producers to keep track of sensitive information. All of this benefits the U.S. taxpayer, too, because the government is not responsible for the investment necessary to hire and maintain a staff of insurance agents in every county in the United States.

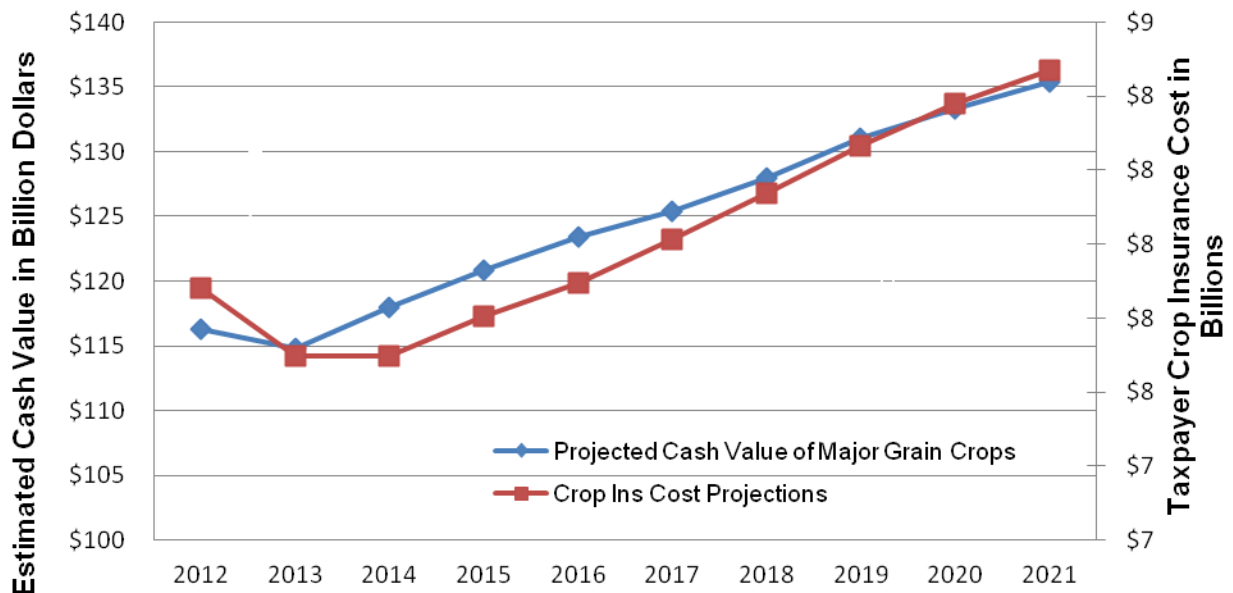
### Cash Value of Major Grain Production Covered by Crop Insurance



(Source: USDA Risk Management Agency)

The most recent Congressional Budget Office (CBO) projections predict that the current crop insurance program will cost an average of \$7.7 billion per year through 2021. Compared to the 2011 cash value of major U.S. grain crops enrolled in the program, more than \$109 billion, public investment in crop insurance shows an excellent return to the U.S. economy. That level of return on investment is expected to increase over time. Over the next ten years, the cash value of crops is expected to increase, and yet estimates are that Americans will pay less than five cents per person per day to maintain current crop coverage options and protect the domestic food supply.

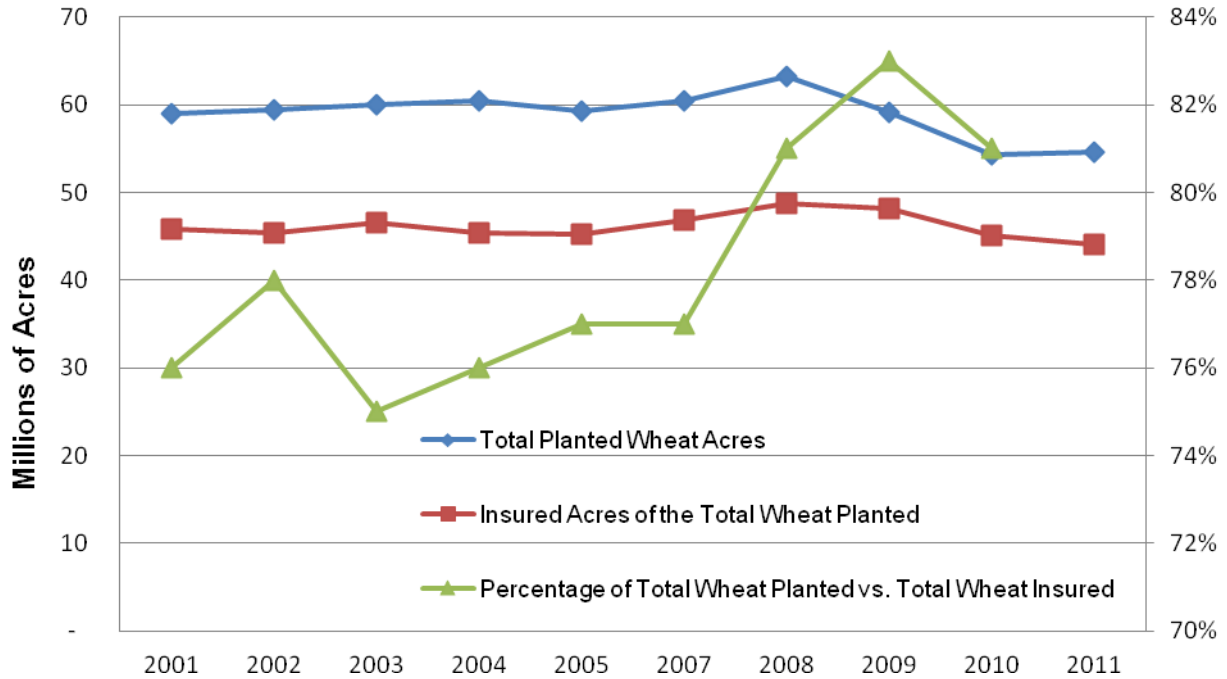
### Crop Insurance Cost and Total Estimated Cash Value of Major Grain Crops



(Source: Feb. 2012 USDA Long-term Projections, March 2011 CBO Crop Ins. Baseline Projections)

As crop insurance has become more affordable and coverage options have expanded, a larger percentage of productive acres have been enrolled in the program, making the federal crop insurance program one of the most widely-used risk management tools for row crop producers. For wheat, this is especially important, with wheat acres insured through the program in 41 of 50 U.S. states.

### U.S. Historical Total Planted Wheat Acres vs. Total Insured Acres



(Source: USDA Risk Management Agency "State Profiles" \*2006 Data Unavailable\*)

Crop insurance provisions made in the Agriculture Reform, Food and Jobs Act of 2012, recently approved by the Senate Agriculture, Nutrition and Forestry Committee, provide growers additional options for increasing their protection through public-private partnership, in which they and the government share premium costs. Some of these provisions include: authorizing supplemental coverage for farmers to buy county-level revenue policies in addition to individual coverage; authorizing separate enterprise units for irrigated and non-irrigated crops; and authorizing an increase in the transitional yield (T-yield) plug from 60 percent to 70 percent. NAWG strongly supports these improvements and would like to see the House Committee on Agriculture include them in its version of the legislation as well.

Crop insurance historically has provided yield protection and, more recently, revenue protection. However, in consecutive years of poor yields, our farmers have seen protection decrease while premiums have remained the same or risen. While RMA and the Senate's farm bill legislation have been responsive in helping farmers cope with prolonged years of poor yields, the only real way to fix the problem is for a farmer to grow his way out of the so-called "APH hole" through improved varieties and management practices, both of which require long-term investments in agriculture research.

### Traditional Title I Programs

While crop insurance has been an important tool for our farmers, it does have its weaknesses, some of which have been ameliorated by Title I programs. NAWG's farm policy priorities have always been to preserve AND enhance the farm safety net. Beginning in the 1996 Farm Bill, we began to see holes in our protection because our actual production history (APH) declined with bad weather years. In the 1990s, this problem was patched with the direct payment and later an emergency double direct payment and ad

hoc disaster assistance. As farmers and businessmen, we realized this was not a good path to continue with agricultural policy. In the 2008 Farm Bill, mechanisms were put into place to help farmers deal with year-to-year revenue risk, through the ACRE program; single year disasters, through the SURE program; and multi-year price risk, through the countercyclical program.

In the past, direct and countercyclical payments (DCP) have been essential to wheat growers because these payments were predictable from year to year and provided long term stability for growers, their bankers and their communities. Direct payments worked especially well for wheat farmers because other price-based programs were not structured in a way that provided regular support in times of loss.

The combination of direct payments and crop insurance enables farmers to manage risk to the downside; because of crop insurance, we are able to forward contract our grain to maximize good pricing opportunities, and because of the cash flow the direct payment provides, we are able to lock in our inputs when the price is right. The banker likes this program because it allows the farmer flexibility and provides her with certainty that the farmer will be able to cover at least some of his costs. The countercyclical side of the DCP program, while overlooked in recent years because of high prices, was also an important part of the last farm bill package because it gave farmers and bankers assurance that help would be available in years of tragically low prices.

We realize that the DCP program as it exists today is a thing of the past as we move forward with writing policy for 2013 and beyond, but NAWG would like to see a Title I program that is as dependable and bankable for farmers and that allows them to plan and make adequate planting decisions based on market conditions.

Created in the 2008 Farm Bill, ACRE is a revenue-based plan that allows growers to still receive direct payments, but reduced these payments by 20 percent. To receive an ACRE payment, two triggers have to be met: first, the actual state revenue for a supported crop during the crop year has to be less than the state-level revenue guarantee amount and, second, an individual farm's actual revenue for a supported crop has to be less than the farmer's benchmark revenue. The second trigger theoretically is set to keep farmers from receiving payments when they did not have a sufficient loss, even when the state as a whole sustained a loss in revenue for the crop.

The ACRE program attempts to soften volatility from one year to the next. By incorporating the Olympic average of the previous five years' market prices, ACRE provides farmers with a soft landing in times of year-to-year price declines, and delivered a safety net for a good number of wheat farmers through the life of the last farm bill. This program did provide a cushion for wheat farms through the price declines from historic highs in 2008. We believe this program would have been more effective if the trigger had been as close to the farm as possible, particularly since much of our wheat is grown in the large, western states that have quite diverse growing regions. We also would be remiss not to call attention to the confusion created by the ACRE program, which was so problematic for farmers, landlords and local FSA offices it impeded the program's overall effectiveness.

The SURE program was also created in the 2008 Farm Bill. This program was frequently used by wheat growers and provided a safety net during times of disaster. In order to be eligible for SURE, producers had to:

- produce in a disaster county or contiguous to a disaster county and suffer a 10 percent production loss,
- suffer a 50 percent production loss,
- satisfy the Risk Management Purchase Requirements (RMPR), and
- comply with other general eligibility requirements.

Wheat farmers found SURE beneficial because it used the current crop insurance price in the revenue guarantee, and if a farmer qualified, it also incorporated the National Average Market Price, which is a true representation of what farmers receive. Additionally, SURE covered an individual farm down to the crop insurance level so there was no overlap with crop insurance, even while the program incentivized

farmers to buy up their crop insurance coverage. SURE did have downsides, including coverage on a whole-farm, non-crop-specific level and extremely delayed payments after a disaster. However, on the whole, wheat farmers, their bankers and suppliers found it a great benefit to non-diversified operations.

## **Revenue-Based Options in Title I**

**NAWG supports a revenue-based program modeled on the ACRE and SURE programs with an on-farm trigger, and coverage by commodity as part of a multi-legged safety net.** Coverage close to the farm provides a safety net with fewer holes for farms with losses than area-level coverage. Additionally, although programs that provide whole-farm protection may sound appealing, it is important to note that they discourage diversification, one of the most basic tenets of risk management by producers.

Over the past year, NAWG has met with fellow producer groups and House and Senate staff in efforts to find a new set of policies that can provide a safety net that is as strong as our current policies, but at a lower cost to American taxpayers. Since the Senate Agriculture, Nutrition and Forestry Committee marked up its version of the bill, we have been examining how the Ag Risk Coverage, or ARC, program might work for wheat farmers. We appreciate the work the Senate did in crafting a program that would work with crop insurance to cover a band of farmers' revenue, building on current crop insurance policies.

The Senate program is a single, risk-based coverage program that aims to protect against both price and yield losses. Farmers can make a one-time coverage choice between individual, by commodity level or county, by commodity level. Payments under ARC would be made when actual revenue is less than the benchmark revenue calculated by using a five-year Olympic average.

Because the ARC program only covers between 79 percent and 89 percent of a farm's expected revenue, there is a donut hole between a farmer's insurance coverage level and the bottom end of the ARC program. To fill in this hole, the Senate bill includes in the crop insurance title a supplemental insurance coverage option (SCO) that allows producers to purchase coverage on a county yield and loss basis between their crop insurance coverage and 79 percent, or up to 90 percent for those farmers not participating in ARC. Payments under this option would trigger only if losses exceeded 21 percent for the producers enrolled in ARC and 10 percent for all other producers who purchase this coverage. We believe SCO coverage would allow cost-effective protection against shallow losses beyond what the government can afford to provide in ARC. We realize that all farmers around the country and of various crops have different risk profiles, and this program would allow them to work with their agents to customize coverage for their unique operations.

While we appreciate the expansion of crop insurance, not every county has group insurance available because of limited National Agricultural Statistics Service (NASS) data availability. We appreciate the authority granted in the Senate's legislation to allow RMA to utilize their own yield and price data to supplement the NASS data previously allowed. With this expanded authority, we believe county-level SCO protection would be available in most areas of the country.

## **Other Title I Options**

While NAWG supports a revenue-based Title I program, we are also cognizant of the concerns expressed in the House about protection during consecutive years of low commodity prices.

Wheat is a unique crop, grown in some of the riskiest areas of the country and in rotation with nearly every other program crop and is harvested many months out of the year. The price wheat farmers are paid depends not only on market factors, but also on quality characteristics and wheat class, which are not pertinent for some program crops. Therefore, we realize it is important for growers to have choices, which can be provided in a multi-legged plan.

Since we export so much of our wheat crop, wheat growers are also very concerned about distortions of the market from any price protection program and, therefore, compliance with World Trade Organization

(WTO) agreements. We feel it best to keep any price protection program decoupled from current year planted acres.

However, we realize that the base acres utilized in farm programs for almost 30 years are outdated and irrelevant. Most farms have changed dramatically since base was set and many do not grow the crops for which their fields have base. We would recommend that this subcommittee update base acres for any Title I price protection program to more accurately represent what is planted on the farm and to maintain WTO compliance.

## **Review of NAWG's Risk Management Policy Priorities**

Wheat is grown on some of the most risky land in the country, facing weather hazards, highly variable yields and price swings based on a world market and quality-related factors beyond our control as farmers. Despite this variability, wheat country provides a steady, safe supply of one of the most widely consumed food staples on the planet and has made the United States the most reliable supplier of wheat in the world. These factors make it all the more important for wheat farmers to have a farm safety net that is dependable, bankable and defensible.

Our highest priority for federal investment in farm safety net programs is the portion of crop insurance premiums subsidized by the federal government, the public part of one of the most well-functioning agriculture public-private partnerships. More than 85 percent of non-irrigated wheat acres planted is covered by crop insurance. We believe crop insurance is essential to the farm safety net and to the reliable production of our nation's food supply.

Perhaps one of the strongest testaments to crop insurance is the performance of the agricultural industry in 2011. Despite extreme weather losses and market volatility faced over the past 12 months, U.S. agriculture is poised to continue into a new year as one of the strongest segments of our nation's economy. This performance in the face of trial has made the crop insurance program the top farm policy priority for most major farm groups, including our commodity friends. **NAWG strongly opposes any reductions to the baseline available for the federal crop insurance program.**

To enhance the crop insurance program, we request that you:

- make permanent the enterprise unit subsidies;
- provide authority for growers to purchase a combination of individual and group risk coverage policies such as the Total Coverage Option introduced by Rep. Randy Neugebauer or the SCO coverage authorized in the Senate Agriculture Nutrition and Forestry Committee's legislation;
- address the declining yield issue by allowing for 70 percent of the county yield to be incorporated as a plug; and
- allow the Risk Management Agency to deliver margin protection instead of just yield or yield and price protection.

While crop insurance protects us year after year, we still need strong Title I options to help us deal with issues beyond our control. As you work to define risk management programs in Title I of the farm bill reauthorization, NAWG encourages you to keep a few basic principles in mind:

First, we ask you to outline a revenue program that is understandable and builds on the lessons farmers have learned from the revenue crop insurance products in the 2008 Farm Bill. Even with the inception of ACRE and SURE, it took USDA, farmers and all of our advisors much study and research to determine how they would work on the farm. Our farmers, extension specialists, bankers, landlords and other farm partners need to be able to understand these programs so we can appropriately adapt our risk management plans.

**NAWG supports reallocation of funding away from direct payments to an alternative Title I safety net program. We also support multiple safety net programs, including a disaster program in Title I.** We recognize different production areas of the country rely on different types of farm programs to provide

a safety net. However, we call on you to make sure that changes to existing programs or newly-created programs do not affect planting decisions and allow producers planting flexibility, which have been central tenets to the last three farm bills.

**NAWG supports a revenue-based program modeled on programs in the 2008-authorized ACRE and SURE programs with an on-farm trigger, and coverage by commodity as part of a multi-legged safety net.** Coverage close to the farm provides a safety net with fewer holes for farms with losses than coverage at the state, crop reporting district or county levels. Furthermore, we would request that any revenue-based program cover as large a portion of our planted acres as possible.

While we support a revenue-based program in Title I, we recognize and are grateful for concerns from the leaders of the House Agriculture Committee about protecting farmers and farm businesses in times of low prices. As a farmer, I share these concerns and recognize the risks of changing the existing safety net so dramatically that it removes the price protection currently available in Title I. We recommend that any price protection included in the 2012 Farm Bill incorporates the principles that have made existing Title I programs successful, including being designed not to distort planting decisions and to be WTO-friendly, therefore decoupled from current plantings.

Any farm policy program should be designed to help farmers minimize the risks they face. Any reductions in payment caps or changes the definition of active farming would be alarming for farmers who have developed business plans based on existing law. We encourage your recognition that family farms do need to utilize multiple business structures to protect both the family and the farm and allow it to transfer to the next generation when appropriate.

It is my analysis that groups that want to tie crop insurance to conservation compliance believe farmers like crop insurance enough that they will do anything to keep it. However, the significant number of acres that go uncovered every year refutes this. Any regulation that disincentivizes producers from participating in the crop insurance program shifts more risk to farmers in highly variable areas and leaves more of our nation's food supply and the farmers that provide it precarious positions. NAWG believes we need to keep as many farmers in the crop insurance program as possible. In fact, RMA has been working to expand crop insurance to underserved areas and farmers. Additional restrictions to participation are farm harmful to that long-term goal.

**Most importantly, the nation's wheat farmers call on you to reauthorize this legislation this year, before the expiration of the current bill on Sept. 30.** This will provide reliability for the nation's food supply as our wheat farmers go to the fields in August and September to plant the 2013 winter wheat crop.

## **Conclusion**

On behalf of the nation's wheat farmers, I appreciate your attention to my perspective on our nation's agricultural risk management programs and that of the National Association of Wheat Growers. We are committed to working with you and the vast array of other stakeholders to federal agriculture programs as you outline a path forward through these serious and uncharted fiscal times. I am happy to answer any questions you have of me or my Association, now or at a later date.