Written Testimony of

Dee Vaughan
Farmer from Dumas, Texas

regarding

The Future of U.S. Farm Policy: Formulation of the 2012 Farm Bill

Before the

U.S. House of Representatives Committee on Agriculture

Sitting in

Dodge City, Kansas
April 20, 2012

Mr. Chairman, Ranking Member Peterson, 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 just about 200 miles southwest of here near the town of Dumas, Texas. I grow all the major row crops that work well in the Texas panhandle – chiefly corn, cotton, sorghum, wheat and soybeans. I have been fortunate in the past number of years to get to serve in a number of leadership positions in farm and commodity organizations – including serving as President of the National Corn Growers Association from 2003 to 2004.

I currently serve as President of the Southwest Council of Agribusiness, an organization comprised of 17 farm groups, including producers of cotton, corn, wheat, grain sorghum, rice, peanuts and cattle; 30 lending institutions; and about 70 main street businesses in Texas, New Mexico, Oklahoma, Colorado, and here in Kansas.

I want to begin by thanking this Committee – earnestly thanking you – for working so hard to develop a consensus Farm Bill last fall that not only would have met the needs of all producers, regions, and crops in this country but would have done so in a way that would have saved taxpayers $23 billion. I believe we as farmers can all be proud of the fact that our rural representatives and agricultural leaders in Washington were able to come together in this way – a real contrast to how it appears other areas are working (or not working) in our nation's government. In short, I believe this year's Farm Bill process should build upon the excellent work that you did last year.

There is one particular aspect of your work that I want to especially thank you for and encourage you in, and that is your focus on price protection. Plain and simple, a collapse in commodity prices is what keeps me up at night, and that is the risk I think this farm bill should address. Happily, this approach is also the most cost efficient. If Washington is truly serious about saving taxpayer dollars and about less government intervention, price-based protection in a Farm Bill, as a compliment to crop insurance, is the way to do it.

Think about the prospect of a Farm Bill that provides meaningful price protection relative to today's production costs and price situation that could still end up not costing taxpayers a dime over the next five years. If the only thing Title 1 of the next Farm Bill provided producers was this kind of price protection, this no cost scenario is a real possibility. Conversely, if a price-based farm policy did cost money, if history is any guide, you can be sure that it will prove to be the cheapest of all the alternatives.

Easy to understand, bankable price protection is not a unique concept to me or anyone else and it certainly is not an unproven one. But it does feel a bit novel amidst all the other complicated proposals that are floating around out there which I'd be surprised if more than a handful of people could actually explain to you if asked. But worse than being complicated, these ideas – which all center on a revenue guarantee based in part on a 5-year Olympic Average (OA) price – offer farmers no real price protection and we know from experience that that alone is a big problem.

The SWCA, which is made up of the major producer organizations from 5 states as well as dozens of lenders, suppliers and processors, has made price protection a key priority. This organization is unique in that it brings a lot of diversity and experience to the table via the leaders from these regional organizations, many of whom have served as officers in national commodity organizations. This past Fall, our group propounded a priorities document which is attached to this testimony in its entirety. With respect to the price protection, it stated the following:

> "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. 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, beans 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.

The SWCA does not, and I do not believe a 5-year Olympic Average of price or revenue as a target provides adequate protection in this situation either.

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.

The current debate reminds me of the 1995/1996 timeframe when economists 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, and that I expect most of us up here today would not have survived had it not been for the ad hoc Market Loss Payments that was provided beginning in 1998.

How would have 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. I can tell you for this farmer and the community of Dumas, Texas, the answer would be not well.

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, and I expect farmers would be seeking ad hoc assistance again.

Now I can tell you I am thrilled prices are still strong in the 2011 marketing year and 2012 planting season, and I am hopeful they remain this way — but I am not confident they will. So bottom line, I think building in more relevant protection while prices are high is good insurance 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 the conservative, fiscally responsible, and market-oriented approach.

Regarding revenue program alternatives, specifically those targeted at "shallow losses," I would note just a few concerns. First, I think there has been enough bad PR from Direct Payments that producers want to avoid receiving any payment unless it is absolutely necessary. I also think there is concern that no policy should be too rich so that it drives up input costs and land rents, in addition to the criticism. Second, I think there is a big concern that revenue approaches cut off help to producers just when they need it most: when revenue really drops, mainly due to a prolonged period of low prices. That's exactly when farmers need farm policy most and that's exactly when revenue approaches fold-up tent. Third, while I agree that revenue 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.

In my view, what was so important about what you did last fall is that you ensured that even if a producer chose a revenue approach, there would be price protection for that producer if the bottom ever fell out. You also worked to protect crop insurance from harm, something that so many farmers across the country say is there absolute top priority.

I want to add my voice to the chorus and say, whatever you do, please do nothing to harm crop insurance. Proposals to link conservation compliance and to impose a pay limit on crop insurance are thinly veiled attempts to kill insurance for farmers. Period.

From my perspective, at least, the Supplemental Coverage Option included in your plan of last fall could serve very well as the revenue component of the Farm Bill and could do so without any of the negatives of the other revenue approaches that I just laid out.

In closing, let me just say this: I firmly believe that if you asked rank and file farmers in the country, no matter what the crop or region of the country, 9 out of

10 of them would tell you that if they were writing the Farm Bill, they would ensure that there is real price protection because that is the one thing crop insurance is not designed to take care of, and that crop insurance should be not just not harmed, but improved upon.

It may be the West Texan in me but I tend to think that the right answer is usually the plain one. Washington should keep it simple. We rely on crop insurance for what it does best, protect against production and in-season price risk. We need an equally effective policy that provides protection against low prices over a sustained period of time such as was experienced in the late 1990's through the mid-2000's. While shallow losses can be devastating if they are repetitive, the risk that producers fear most is a drop in commodity prices to below cost of production lasting for several years.

Thank you for the opportunity to present my views on the 2012 Farm Bill. I will be pleased to answer any follow-up questions you may have.

Biographical Sketch
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 a director on both the Corn Producers Association of Texas and the Texas Corn Producers Board. In addition he serves as president of the board of directors of the Southwest Council of Agribusiness and as a director for Plains Cotton Growers. 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 Vaughen

Organization you represent (if any): ______________________

____

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:** 3,131.50

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: ______________________ **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.

SOUTHWEST COUNCIL OF AGRIBUSINESS

4517 West Loop 289 • Lubbock, Texas 79414 • Tel 806-792-4904 • Fax 806-792-4906

October 12, 2011

Dear Member of Congress:

The Southwest Council of Agribusiness (SWCA) is a coalition of more than 100 businesses standing with producer organizations from **Texas, New Mexico, Oklahoma, Kansas and Colorado** to promote agriculture and policies that support this most important and fundamental of industries.

Understanding that our nation's current fiscal situation, and the super committee process designed to address it, may force an early reconsideration of the policies of the 2008 farm bill, the SWCA offers the following for your consideration.

Budget Issues

The members of the SWCA believe that farm policy designed to support a strong and dynamic U.S. agriculture sector is vital to our nation's economy and security interests. We also believe the current mix of policies has proven a great success by reducing government expenditures while providing a foundation for our nation's farmers to diversify and create and grow markets, commerce, and jobs to emerge as one of the few bright spots in the current dismal economy.

Accordingly, as Congress considers any revisions to these important policies, we would ask that you carefully consider three important overarching facts along with our specific recommendations:

> **First, stable agricultural policy makes for a strong agricultural economy.** In 2000, a time of great instability and uncertainty, the U.S. value of farm sector production had stagnated at $218.4 billion with little optimism for a recovery. However, since the 2000 crop insurance bill, the 2002 farm bill, and subsequent improvements, farm sector production value and other measures have shown steady growth, reaching a net record $411.5 billion in 2011. Total net value added to the economy from agriculture is also forecast to reach a new high of $157 billion in 2011. As Washington seeks to provide greater economic certainty through reform of the tax code, regulatory relief, and other measures in order to fix all that is broken in the economy, injecting uncertainty in the one sector of the economy that is not broken seems especially imprudent.
>
> **Second, stable agricultural policy costs taxpayers less.** From 1999 to 2001, the government spent an average of $22.4 billion to shore up the floundering agricultural sector, which had been injured by, among other things, lost trade, a strong dollar and strong worldwide crop production. Over the last decade, this has changed. For example, from 2009 to 2011, annual spending will average $11.6 billion – roughly half of the amount being spent 10 years earlier. When markets turn again, it will be more cost effective to have stable and predictable policy in place to address the losses rather than work on an ad hoc basis to provide costly disaster assistance.

Third, our growing world needs a strong and dynamic U.S. agricultural sector. The global population is expected to rise from 7 billion to 9 billion people by 2050, and so we must become more productive on the world's limited arable land. U.S. agriculture today leads the way in this regard, getting more out of every acre of soil than any other nation, and doing so in a sustainable way. We must not abandon this model.

Because of these critical facts, we strongly oppose cutting the agricultural budget beyond the level that would otherwise be cut under sequestration, which essentially mirrors the level of cuts recommended by the bipartisan Simpson-Bowles Commission. Agriculture has consistently come in under budget over the past decade, and has made significant contributions to deficit reduction both in its mandatory policies (e.g. the 2008 farm bill and the 2010 crop insurance negotiation) and in discretionary funding accounts. **We also strongly believe that the policies to achieve these savings should be developed by the House and Senate Agriculture Committees.**

While the SWCA considers all areas of the farm bill important, and specifically supports areas such as research funding and the FSA guaranteed loan programs, we are focusing our comments on the principal funding areas most likely to be affected should the super committee process address farm policy.

<u>Federal Crop Insurance and Title I Farm Policy</u>

Since our nation's very beginning, we have had federal policies in place to promote strong U.S. agricultural production. These policies have helped the U.S. agricultural sector become the most productive, dynamic, conservation-minded and diverse agricultural sector in the history of the world. Below are some specific policy recommendations we provide to ensure we do not break with this important tradition that is also a cornerstone of our economy and security.

1. **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.

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

3. **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.

4. **The separate countercyclical mechanism should compliment, 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. Rep. Randy Neugebauer's "Total Coverage Option" area-based supplemental insurance authority is a well-crafted and cost effective option for shallow loss coverage.

5. 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.

6. 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.

Title II Conservation Issues

In the southwest region of the U.S., conservation policies have provided important tools for farmers, ranchers, livestock producers, and landowners to make sound investments that promote wise use of soil and water resources. We are especially mindful this year of this fact considering the severe drought that has gripped the region. With this background, we offer the following principles:

1. **The Conservation Reserve Program (CRP) should be preserved**. While we are open to reduction in the overall acreage cap, we maintain that this policy has served as an effective means of concentrating our farming efforts on the most productive land. **The Grasslands Reserve Program (GRP) should be expanded**, especially if decoupled Title I policies are substituted for policies tied to planted acres.

2. **The Environmental Quality Incentives Program (EQIP) is the most important conservation policy**, providing critical cost-share and incentives for farmers and livestock-producers alike. **The EQIP model should be expanded, and funding for the Agricultural Water Enhancement Program (AWEP) within it should be maintained** and better directed to encourage the best water conserving practices in agriculture operations possible.

3. Given the critical water needs of a growing world population, **a greater emphasis should be placed upon water conservation in all policies within the conservation title**. The southwest U.S. has much it can teach the world about a wise use of scarce water resources in agricultural production, but we feel confident more can and should be done.

Regulatory and Competitiveness Issues

Agriculture is a business subject to sharp and unpredictable swings in price, costs, and income, with producers operating on thin margins, which generally, helps to explain the need for the farm and conservation policies discussed above. This also explains why U.S. farmers and ranchers are sensitive to regulations imposed by the government. The imposition or threat of misguided environmental regulations, including a rash of recent endangered species listings, and the proliferation of manipulative regulations in the livestock sector have all had a dampening effect on the rural economy, with no apparent benefit. Accordingly, the SWCA is very supportive of efforts by Senator Mike Johanns and Senator Pat Roberts to sequester the regulatory activity and provide stability to the business environment. We offer one specific proposal that is fully within the purview of the House and Senate Agriculture Committees:

The USDA Grain Inspection, Packers and Stockyards Administration (GIPSA) proposed rule should not be implemented because it will encourage frivolous lawsuits and end alternative marketing arrangements as we know them. Ultimately the proposed rule will set the beef industry back 30 years by stifling the innovative efforts of U.S. cattle producers to add value and enhance the quality and safety of their products. The bottom line is that this is yet another example of the government trying to interfere in the private market by telling producers when and how they can market their cattle.

We hope that this information is useful as you continue to work to develop sound farm policy in the context of ongoing deficit reduction efforts. If you would like to know more about the SWCA and our membership, please visit http://www.southwest-council.com.

Sincerely,

Southwest Council of Agribusiness