Statement of the American Farm Bureau Federation

To: The House Agriculture Committee
Subcommittee on General Farm Commodities and Risk Management

Regarding: The 2012 Farm Bill

Presented By:
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My name is Philip Nelson. I am President of the Illinois Farm Bureau Federation, a Board Member of the American Farm Bureau, and a grain and cattle producer from Seneca, Illinois. Farm Bureau is the nation's largest general farm organization, representing producers of every commodity, in every state of the nation as well as Puerto Rico, with more than 6 million member families.

I would like to thank Chairman Leonard Boswell (D-Iowa) and Ranking Member Jerry Moran (R-Kan.) for holding this hearing. I appreciate the invitation to speak this morning to the House Agriculture Subcommittee on General Farm Commodities and Risk Management. 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 this Subcommittee and the entire Agriculture Committee, the end product was a fiscally responsible compromise of which we can all be proud. I would like to start by saying that our farmers can generally point to at least one commodity program included in the 2008 farm bill that they use on their farm. As you probably heard during your farm bill field hearings, it depends on what kind of farmer you talk to and in what part of the country they farm as to what portions of the farm bill producers find most useful. But most farmers in most states rely in some way on the safety net provided in the 2008 farm bill.

That said, we know we will face many challenges in writing the 2012 farm bill. The first will be the budget. We have seen the baseline for many farm bill programs decrease since passage of the last farm bill. More than 30 programs included in the last bill do not have any baseline at all, and the standard re-insurance agreement (SRA) currently being negotiated by the administration threatens to rob even more spending baseline without any serious consideration to capturing that savings. It is going to be a difficult environment in which to re-write farm law, and we look forward to working with this committee to again ensure that the final product is a fiscally-responsible package that provides taxpayers and America's farmers with maximum bang for their buck.

Even though the purpose of this hearing is to focus on the Commodity Title of the farm bill, we recognize that another challenge for the 2012 farm bill will once again be to address the priorities of a wide variety of interests, from farm and ranch groups to conservation groups to nutrition groups. Even within the agricultural community, farm bill priorities and agendas will likely vary by commodity and region. As an agricultural organization that represents all types of farmers and ranchers in every state, we look forward to working with you to achieve the balance in interests that will be necessary to craft a successful piece of legislation.

At Farm Bureau, we have just started the process of evaluating the programs in the 2008 farm bill, grappling with budget constraints, and considering future policy recommendations. We have kicked off our internal Farm Bureau process by outlining five key principles that will guide us in our work on the 2012 farm bill and any proposals that we ultimately put forward:

- **The options we put forward will be fiscally responsible.** Proposals that we put forward will work within the budget constraints Congress must use to draft the new bill. Our members are greatly concerned about the deficit and want to be fiscally-responsible in considering farm policy.

- **The basic funding structure of the 2008 farm bill should not be altered.** Farm Bureau's proposals for the next farm bill will not shift funding between interest areas. For example, if we suggest an increase in spending for a particular conservation program, we will offset that increase by reducing spending elsewhere in conservation programs.

- **The proposals we put forward will aim to benefit all agricultural sectors.** Again, Farm Bureau is a general farm organization, with members who produce everything from pork to peanuts. As such, the overriding goal of Farm Bureau's proposals will be to maintain balance and benefits for all farm sectors. It can be tempting for a single interest organization to say Congress should allocate more funding for programs that benefit only its producers without worrying about the impact of that funding shift on other commodities. Farm Bureau does not have that luxury and will seek balance for all producers.

- **World trade rulings will be considered.** Farm Bureau's options may include changes to comply with our existing World Trade Organization (WTO) obligations and litigation rulings. However, they will not presuppose the outcome of the Doha round of WTO negotiations, which are far from complete. To do so would reduce our negotiating leverage in the ongoing Doha round.

- **Consideration will be given to the stable business environment critical to success in agriculture.** Abruptly changing the rules of the game on farmers, particularly in a tight credit environment, can be disastrous to a farmer or rancher's operation. Our options will recognize the need for transition periods for major policy changes so that farmers and ranchers will have an opportunity to adjust their business models accordingly.

Current Farm Policy Inequities

While our farmers are generally content with the safety net provided in the 2008 farm bill, it can sometimes feel like you're reading the old children's story "Goldilocks and the Three Bears" when you talk to individual farmers about their experiences with farm programs. Some farmers think the safety net coverage provided under the 1008 farm bill is "just right." But in other cases and for other farmers the coverage is sometimes too little. In a small number of cases, the coverage may even be duplicative and too much.

To that end, it is instructive to look back over how our two risk management tools – commodity programs and crop insurance – have changed. Historically commodity programs provided price risk protection and crop insurance products covered yield risk. With the advent of a variety of revenue based programs under crop insurance in the 1990s and the Average Crop Revenue Election (ACRE) and Supplemental Revenue Assurance Payments (SURE) programs in the 2008 farm bill, those lines have become blurred. Both crop insurance and the farm bill Commodity Title programs now provide the option of support to producers based on revenue losses and not strictly price or yield risk. In some cases, this coverage is complementary. In other cases, it may even be duplicative. Yet, despite this convergence of farm programs and crop insurance, there

are still many farmers who fall between the cracks and have little protection from the vagaries of the market and weather.

The complexity of the relationship between crop insurance and Commodity Title programs can best be described by using examples. So for the sake of illustration, I'll talk about two different farming situations: one in my home state of Illinois, and another in Mississippi.

Illinois

About 134,000 U.S. farms are currently signed-up for the ACRE program. Almost 26,000 of these ACRE-enrolled farms are in Illinois (just under 17 percent of all eligible Illinois farms). The ACRE program provides these Illinois farmers with price coverage based on a two-year historical price average and yield coverage based on a five-year Olympic average. The same Illinois farmers that signed up for ACRE can then purchase crop insurance at a level they feel is appropriate for their farm. In Illinois, it is typical to purchase crop insurance that will cover both price and yield. For example, I purchase 85% coverage for my farm, and this level of buy-up is fairly typical for the state. Illinois farmers have generally found that the crop insurance programs available work very well to help manage their risk, and this is reflected by the fact that 95 percent of crop acres in Illinois that have crop insurance are covered by buy-up levels of coverage, not just base protection. Nearly 70 percent of all acres in Illinois have some form of crop insurance coverage.[1]

Some of this crop insurance coverage may overlap with the coverage provided by ACRE. In other words, the same price decrease or yield decrease may be covered by both programs, but the crop insurance coverage can be purchased to cover above and beyond what is covered by ACRE. Also, crop insurance coverage is customized to a specific farm's loss, while the ACRE program has not only a farm-level trigger for a payment, but also a state-level trigger for a payment. The result is that while some of the same losses may be covered in theory, in practice, crop insurance can provide more customized protection for farm-specific losses.

If this particular Illinois farmer also happens to be located in a disaster county and meets the variety of eligibility requirements, then the SURE disaster program is then layered on top of both crop insurance and ACRE. SURE essentially provides a farmer with a "bump-up" in their crop insurance coverage, and the program again covers both price and yield. The SURE program attempts to minimize overlap of programs by deducting part of a producer's ACRE payments and crop insurance indemnities when calculating payments.

The bottom line is that while our farmers in Illinois may have concerns about some of the details of these programs, the fact is that our producers have multiple opportunities to manage their primary risks of price and yield.

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[1] USDA, Federal Crop Insurance Corporation data and National Agricultural Statistics Service data. Does not include acres that may have Noninsured Crop Disaster Assistance Program (NAP) coverage.

Mississippi

Other farmers in other circumstances could face a completely different situation. While I'm not as familiar with Mississippi farms as I am with Illinois farms, I can tell you what I've heard from my counterparts in Mississippi and in other states.

Most farms in Mississippi are not enrolled in the ACRE program. In fact, at last count, only 165 of Mississippi's 22,435 eligible farms (less than 1 percent) chose to take cuts to their direct payments and marketing loan benefits in order to have the price and yield coverage provided by ACRE. These farms instead chose to continue participation in the traditional farm programs.

There are a variety of logical reasons that my counterparts in Mississippi have chosen not to sign-up for the ACRE program:

- Some farmers in Mississippi, particularly those growing cotton, experienced very low commodity prices in 2007 and 2008 – the base years for calculating ACRE benefits. With such a low price baseline, the traditional program offered as much if not more price coverage than the ACRE program. This is a dramatic contrast to corn, soybean and wheat farmers who saw record high prices in 2007 and 2008 and were going to have a high price baseline on which to calculate payments.

- For commodities such as cotton, the 30-percent marketing loan cut required for ACRE coverage would have had a profound negative impact on farmer's operations. Unlike many other commodities in recent years, cotton has seen prices at marketing loan levels and cotton farmers have continued to utilize the marketing loan program.

- The cuts to direct payments were deemed too steep for many farmers. Both farmers and their bankers were wary of giving up a payment that is a "sure thing" for a payment that, according to Food and Agricultural Policy Research Institute (FAPRI) analysis, was highly unlikely to occur on many of the stalwart crops in Mississippi.[2]

The ultimate result is that your average Mississippi farmer has continued to operate under the traditional farm program, which provides only price coverage.

The use of crop insurance is also not as prevalent in Mississippi as it is in my home state of Illinois. Only 41 percent of Mississippi's crop acres are covered by buy-up crop insurance.[3] The vast majority of Mississippi farmers only purchase the catastrophic crop insurance coverage (CAT) or the Noninsured Crop Disaster Assistance Program (NAP) coverage required in order to be eligible for the SURE program. Keep in mind that CAT and NAP only cover losses in production greater than 50 percent and only pay on 55 percent of the average market price for the year. Neither program provides meaningful price or yield coverage to farmers.

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[2] Food and Agricultural Policy Research Institute (FAPRI), University of Missouri, "US Baseline Briefing Book; Projections for Agricultural and Biofuels Markets," March 2009.
[3] USDA, Federal Crop Insurance Corporation data and National Agricultural Statistics Service data.

Once again, there are a variety of reasons that a Mississippi farmer might choose not to purchase buy-up levels of crop insurance. In many cases, the availability of programs is not as robust as back home in Illinois. Many crops grown in quantity in Mississippi don't even have buy-up crop insurance available, and NAP is a farmer's only option. In other cases, coverage is viewed as prohibitively expensive or farmers may choose to use other risk management tools such as diversification. Another challenge to the acceptance of crop insurance in the region has been the significant shift in the types of crops grown. This shift means that many Mississippi farmers who are interested in purchasing buy-up crop insurance don't have their own yield history and would be forced to accept outdated, excessively low county average yields to calculate their farm's yield coverage. These "plug" yields completely negate the value of purchasing coverage.

Still other farmers don't purchase coverage because the types of coverage available don't align with the types of risk the farmer is facing. For example, rice farmers in Mississippi don't typically buy crop insurance because they are an irrigated crop and their risk of production loss is significantly less than for other crops. The risk for rice farmers is the increased input costs that could be required to produce a crop in disaster situations - but crop insurance doesn't offer reasonable coverage for this type of risk.

As long as a Mississippi farmer has purchased at least CAT or NAP coverage, they are eligible for the SURE program. That said, the value of the SURE program is minimized with such low levels of price and yield coverage. Since SURE provides a bump-up on crop insurance, disaster coverage provided to many Mississippi farmers is still minimal.

The 2009 growing season is a good case in point. Many Mississippi farmers faced enormous losses, yet very few farmers expect to receive a SURE payment. Instead, many Southern states and commodities have been forced to ask for ad hoc disaster assistance to bring relief to farmers in the region. On the other hand, many regions that faced lesser losses in 2009 will likely receive payments because the farmers in those regions purchased high levels of crop insurance coverage. Given this situation, it is difficult to view SURE as a true disaster program, although the program has clearly worked to encourage the use of crop insurance as a risk management tool.

The bottom line is that crop insurance and farm programs have morphed significantly over the past 20 years, and these changes have left different farmers with different safety nets.

Again, I would like to stress that our farmers generally find at least one component of the commodity title that works for their farm. However, given the tight budget constraints that this committee will face in writing the 2012 farm bill, Farm Bureau understands that change may be necessary. We believe that any change should focus on eliminating these gaps and redundancies in the safety net.

Whole-Farm Revenue Programs

Given the great deal of discussion that has already occurred regarding whole-farm revenue programs, we would be remiss if we didn't at least briefly discuss our thoughts on this topic.

There are currently crop insurance products and components of the farm safety net that use the whole-farm revenue concept, and challenges that have arisen with these programs can be very instructive if the concept is further pursued in the context of the 2012 farm bill. For example, there are whole-farm revenue insurance programs already in place through USDA's Risk Management Agency, namely the Adjusted Gross Revenue and the Adjusted Gross Revenue Lite plans. While they are both only available in limited areas, the acceptance of these programs has been modest at best. There are limitations on farm size as well as on the proportion of the farm's income that can derive from livestock operations. Producers must submit several years of tax records in order to establish their revenue benchmark, and in many cases, complicated adjustments to the records are required to determine those benchmarks. In addition to submitting tax records, a producer also must file farm plans. These limitations, as well as the complicated paperwork involved, have discouraged sign-up for the programs.

The SURE program provides us another case study on whole-farm revenue programs, although SURE only covers crops and not livestock. Yet the complexity of this program still has caused implementation delays and has created technological challenges for USDA. Another issue with the SURE program is that it does not provide support until months, even years, after the disaster event. In true disaster situations, such a delay negates the value of the program.

A whole-farm program that included livestock exponentially increases the complexity of a program and the paperwork involved. Consider a livestock producer who decides to sell cattle every other year. On average, the rancher's income might be constant, but that income would gyrate significantly year over year and thus could be seen as triggering a payment every other year. Even for crop producers, determining appropriate whole-farm revenue guarantees can be complicated. For example, farm size may vary from one year to the next due to changes in rental agreements or real estate purchases or sales. Accounting for these changes over time is essential to having a fair and effective program, but it does increase the complexity of the program.

Moving beyond these examples, a whole-farm revenue safety net raises a number of both pragmatic and philosophical questions. Does the program cover gross or net revenue? Will it require full access to Internal Revenue Service filings? Would it be more appropriately administered by FSA or RMA? How would the protection offered under such a program be viewed by our WTO partners? These represent only a few of the questions that need to be answered.

Understand that Farm Bureau would not necessarily reject a whole-farm revenue option out-of-hand, and in fact would be very interested in continued discussions in this regard. But such a program needs to be easily understood, be straightforward to administer and needs to actually provide producers with risk management tools before we commit to such a path.

In conclusion, we appreciate the hard work of this subcommittee to ensuring that America's farmers 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, least expensive food supply in the world. We look forward to working with you toward this goal.

I would like to thank you again for the opportunity to speak this morning, and I look forward to answering any questions you have.