National Association of Wheat Growers

Testimony of Erik Younggren
Second Vice President of the National Association of Wheat Growers
before the House Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management

Hearing to Review U.S. Farm Safety Net Programs in Advance of the 2012 Farm Bill
June 24, 2010

Chairman Boswell, Ranking Member Moran and Members of the Subcommittee, my name is Erik Younggren. I am a fourth-generation farmer from Hallock, Minn., where I produce wheat, sugar beets and soybeans in partnership with two of my cousins. I currently serve as the second vice president of the National Association of Wheat Growers (NAWG) and am honored to be here today to share the views of the wheat industry with respect to the future of federal farm policy.

Wheat is a vital crop for the food supply and economy of our nation – and, indeed, our world. The United Nations has estimated that 20 percent of calories consumed by humans come from wheat, and the United States is its world largest exporter. While we lead the world in technology and development related to wheat production, our crop and our industry do face challenges. We know the federal government plays an important role in partnering with our producers to ensure functioning research and development systems for wheat varieties and inputs; a functioning safety net to mitigate risk inherent in wheat production; and a functioning world market to which our producers can sell their crops.

NAWG has taken seriously the charge from your Committee's Chairman and others to start now with our analysis and discussions with respect to the next generation of farm policy and the future of the farm safety net. A startling federal deficit and struggling economy are as much a concern for our membership as for each of you on the Subcommittee and for your constituents.

While we know spending on a federal farm safety net is a minute part of the overall federal budget, we also know it is our responsibility to carefully consider the value of those programs currently in place and to explore potential opportunities to improve both the efficiency and effectiveness of federal spending in future legislation.

Farm Policy Goals in General

Our policy goals with respect to the farm safety net are driven by concern for the financial and environmental sustainability of American agriculture, particularly in light of challenges on the horizon ranging from global competition to environmental restrictions and sourcing of petroleum based products, to land use and population growth. It is our intent to borrow the most significant and successful fundamental elements from past policies while casting a vision for the ongoing sustainability of production agriculture in the U.S.

In general, wheat growers seek a risk management system that reflects the realities of today's production environment; protects them from unrecoverable losses due to volatile weather and market conditions; and supports their stewardship efforts on our nation's working lands. Components of that safety net should be reliable, provide meaningful coverage for producers throughout the country and be mindful of the world-wide marketplace in which our commodities operate.

I'd like to leave you today with some thoughts related to the perceived utility of current commodity and risk management programs; ideas on how they interact with one another to create a safety net for growers; and some specific areas we have identified as having room for improvement. I also want to leave you with a preview of our survey efforts and a commitment to continue in an open-minded policy development process to explore new ways of accomplishing our overall policy goals in a responsible and forward-thinking manner.

Experience with 2008 Farm Bill

The continued health of the farm sector through our recent economic downturn and the less-than-extraordinary experiences in recent years with volatile weather and market conditions is a testament to the commitment of Congress to maintain federal support for production agriculture.

NAWG supported passage of the 2008 Farm Bill due to the inclusion of a number of programs of significance to wheat growers including crop insurance, the direct payment, conservation programs, renewable fuels programs, market development programs and research funding.

Those programs of interest to this committee - crop insurance, the direct and counter-cyclical (DCP) and marketing loan programs, the Average Crop Revenue Election (ACRE) program and the Supplemental Revenue Assistance (SURE) program - were each designed to serve a specific function in contributing to the farm safety net and risk management system available to producers.

In general:

- **Crop insurance** is a vital risk management cost-sharing program to address a combination of production and price risks up to a specified coverage level. It is largely predictable and can be purchased by an individual farmer based on his or her operating conditions. Though arguably the most heavily relied-upon risk management component of the current farm bill by wheat growers, it does have limitations in meeting the totality of producers' risk management needs. These limitations include the fact that it does little to help growers protect against volatility in local market conditions such as basis risk. Revenue coverage can deteriorate after multiple years of disaster, and it currently does not take into consideration risks associated with volatility in input costs.

- The **direct payment** works as a reliable cash flow tool that enables growers to secure operating loans. It can be used to provide assistance with the expense of crop insurance, allowing producers to purchase more than they might be able to otherwise, or to help offset uncertainties related to input costs. It is also a relatively trade-friendly safety net program, which is of utmost importance to many agricultural producers in trade-dependent sectors, including wheat.

- The **counter-cyclical program** is designed to protect growers from the most extreme dips in market prices by creating a floor price. However, this tool has been rendered largely ineffective due to a target price for wheat that is far below the cost of production, and that has not been triggered for 10 to 15 years.

- The **marketing loan program** is designed to address price risk by creating a floor price for marketing purposes and helps provide liquidity for growers in times of difficult marketing conditions. Because it is more tied to local prices, it can help compensate for some basis risk in a way that other safety net programs aren't able. However, its utility is limited by the comparatively low loan rate.

- The **ACRE program** is an optional, whole-farm revenue protection program that creates an alternative to receiving CCPs at the cost of reducing direct payments by 20 percent and taking a 30 percent reduction in the loan rate. It gives producers a public option for revenue protection outside of the federal crop insurance program. In general, the past wheat price history has made the ACRE guarantees more attractive, but it is a moving target offering varying degrees of utility to wheat growers depending on their location, production mix and a variety of other factors.

- The **SURE** program is designed to supplement crop insurance in providing risk protection for growers in times of natural disaster. Wheat growers value this program in helping to fill the income gap between insurance coverage levels and cost recovery or income needs.

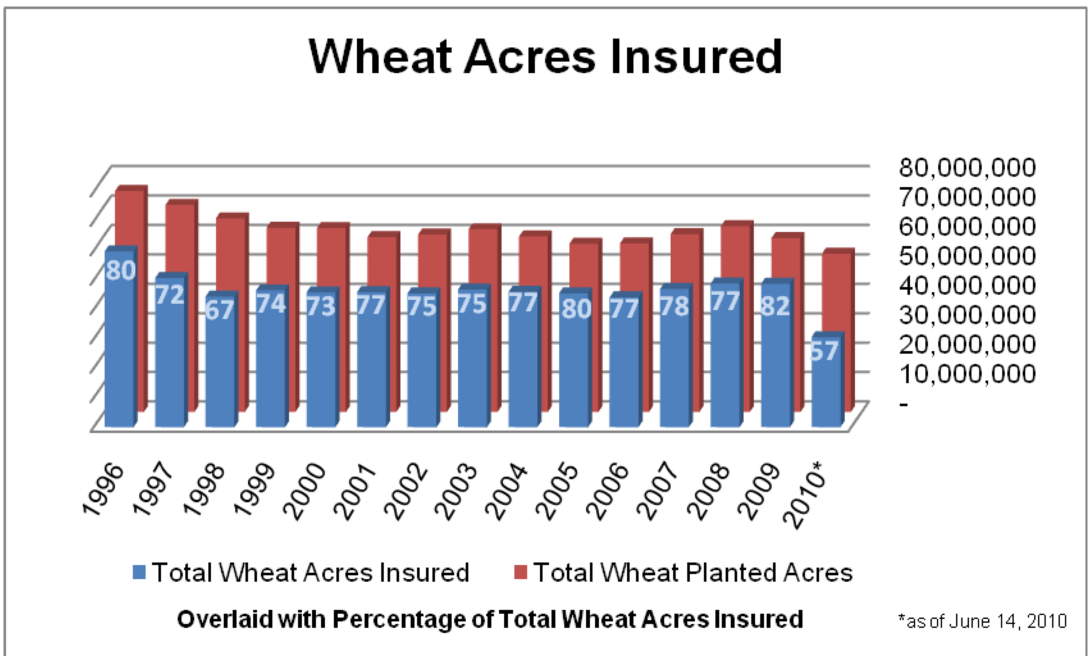
Wheat growers find varying degrees of utility in each of these programs, but some frustration has been expressed with the web of federal farm programs that is growing in complexity. Producers are growing in experience with some of the new programs and continue to find areas for improvement in programs with which we have more experience.

For the purposes of today's hearing, I'd like to give the Subcommittee some more detailed feedback on our experience with a few of these programs and then return to a more general discussion on our thoughts on future farm policy.

Crop Insurance

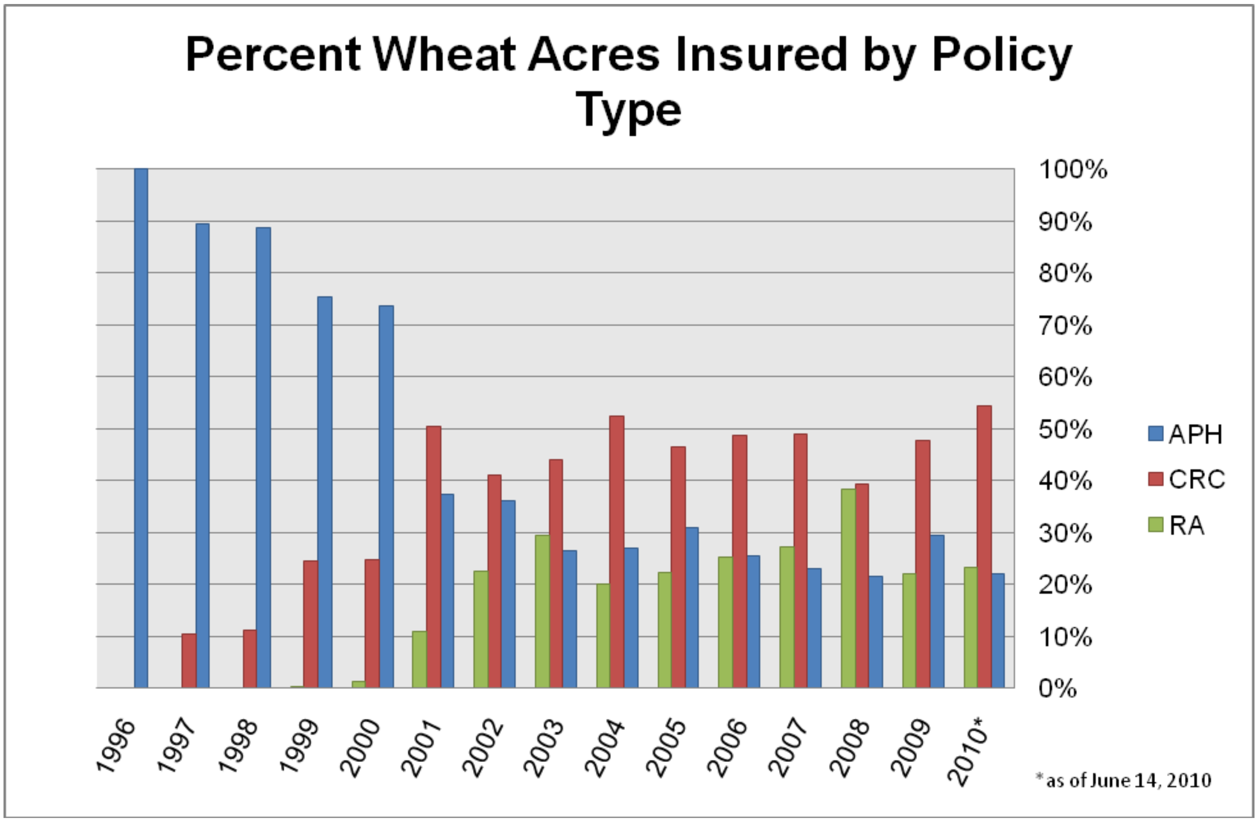
Wheat growers farm in some of the riskiest areas of the country, so the management of risk to be of utmost importance to our growers. Crop insurance is a vital tool that offers a variety of options for growers to manage this inherent risk.

Wheat growers have a long history of high adoption rates in crop insurance. In the past 10 years, between 73 and 82 percent of total wheat acres have been enrolled in some form of federal crop insurance. Nearly 49 million wheat acres were insured under some form of federal crop insurance in 2009, or more than 82 percent of the total 59 million wheat acres planted nationally.



Source: Risk Management Agency, FCIC Crop Year Statistics

Since they became available to wheat growers in the late 1990s, more and more growers have invested in revenue policies as opposed to basic Actual Production History (APH) policies as depicted in the figure on the following page. In 2009, 30 percent of insured acres were covered by an APH policy, compared to 48 and 22 percent of insured acres being enrolled in Crop Revenue Coverage (CRC) and Revenue Assurance (RA), respectively. Group Risk Income Protection (GRIP), Group Risk Plan (GRP) and Income Protection (IP) policies are minimally utilized by producers, with combined enrollment of less than one percent.



Source: Risk Management Agency, FCIC Crop Year Statistics

Despite the clear popularity of the program demonstrated by consistently high adoption rates over the years, wheat growers still recognize room for improvement in the crop insurance program.

As with any type of insurance, your coverage is only as good as what you can afford to buy. In 2009, only 8.3 million acres (or 17 percent of insured acres) were insured under a revenue policy (either RA or CRC) with coverage of 75 percent or greater. The ability to purchase higher coverage levels at affordable premiums is the most-cited desire related to improving crop insurance by wheat growers in informal conversations, at our Board table and in our surveys of NAWG members. We believe a re-evaluation of the subsidy levels that correspond to higher buy-up coverage may be warranted to create ways to further incentivize buy-up.

The ability of crop insurance, even at high levels, to cover actual on-farm losses is also hindered significantly by continued challenges related to the calculation of APH. We've known for years that a few bad crops can diminish a producer's APH such that he or she can buy a high level of insurance, but still not have, overall, a good level of protection in the case of a severe disaster. This is a priority wheat growers feel must be addressed.

As input prices and world markets become more volatile, we also urge an emphasis on incentivizing stronger revenue policies. Different from "traditional" crop insurance that covers bushels produced, these policies provide producers some assurance that a portion of their expenses will be recovered during times of adverse market or weather conditions. In particular, our industry is supportive of the development of new, next generation crop insurance products that will provide added protection for variable cost risk associated with wheat production.

Direct Payment

During the last round of policy debates, NAWG fought to maintain the direct payment as it was the most reliable, World Trade Organization-compliant safety net mechanism for wheat growers beyond crop insurance. March Congressional Budget Office (CBO) projections for 2011-2020 show that 94 percent of wheat payments issued under farm programs will be delivered in the form of the direct payment, followed by six percent from ACRE and zero percent from counter-cyclical and marketing loan programs.

The direct payment continues to be popular among wheat producers for the same reasons we advocated it in the 2008 Farm Bill discussions. It is simple, predictable, reliable and trade-friendly. Bankers have also come to rely on the predictability of this cash flow stream when giving operating loans to producers. NAWG is evaluating the effectiveness of current programs and new ideas in achieving a consistent safety net on which producers can rely.

Average Crop Revenue Election (ACRE) Program

In the ACRE program's first year of active enrollment in 2009, more than nine million of the 72 million total wheat base acres (or nearly 13 percent) were entered into the program on approximately 61,000 operations in the U.S. USDA predicts payouts in the $300 million range for wheat producers, constituting roughly 75 percent of the total ACRE payments expected to be issued.

The state of Washington led the way in farm participation in the new program with 26.8 percent of the state's wheat farms enrolling in ACRE (constituting over 43 percent of eligible wheat acres in the state), though it was closely followed by eight other wheat states that showed participation rates exceeding 10 percent.

Oklahoma, North Dakota, Washington and South Dakota led the charts with total base acres enrolled in the program, each with more than one million acres enrolled in 2009. Oklahoma farmers topped the list by entering more than 2.5 million acres in the program.

2009 Wheat Enrollment in ACRE

States	Acres in Program	Percentage of Wheat Acres Enrolled	Number of Farms Enrolled
OKLAHOMA	2,514,648	36.71%	12,107
NORTH DAKOTA	1,590,078	12.64%	5,320
WASHINGTON	1,067,418	43.18%	2,467
SOUTH DAKOTA	1,035,823	27.81%	5,420

MONTANA	612,181	9.43%	895
NEBRASKA	365,858	15.25%	6,758
IDAHO	322,077	20.20%	878
OREGON	290,646	28.46%	488
KANSAS	215,442	1.80%	1,405
MINNESOTA	177,979	6.86%	1,681
UNITED STATES	9,143,849	12.68%	61,875

Source: Farm Service Agency

The high payout levels projected in 2009 are largely attributable to the fact that the guarantee price was calculated on years of high prices for wheat due to worldwide wheat shortages. The price discovery period and timing of the signup deadline allowed producers to make well-informed decisions regarding potential for program benefits. Signup levels may have been even greater had more growers had a greater understanding of the detailed workings of the program and the potential payout for the year.

We expect participation in the program to continue to rise as growers gain familiarity with it. This is evidenced in recent analyses from USDA, Kansas State University and the Food and Agriculture Policy Research Institute (FAPRI), all of which indicate that wheat farmers may have even more incentive to participate in ACRE in the future. Recent price depressions and price projections for the 2010/2011 growing season indicate that wheat farmers in 23 states could expect substantial ACRE payments should they decide to enroll this year. FAPRI predicts a rise from the current 12.68 percent enrollment rate to rates of roughly 19 percent, 20 percent and nearly 22 percent in 2010, 2011 and 2012, respectively.

However, with only one year under their belt and payments yet to be issued, wheat growers have largely continued to withhold judgment on the value and effectiveness of the ACRE program to provide reliable risk management protection on their operations over the life of the farm bill.

Despite the considerable efforts of USDA, academics and others offering information, webinars and analysis of the program, it remains poorly understood by a large number of growers and Farm Service Agency (FSA) county office employees alike. Therefore, absent comfort with the program, growers will often simply opt to remain with what they know.

Recommended Improvements

- One of the biggest pitfalls to the program is the state-level trigger. Though producers recognize the budgetary constraints associated with the change, there is a strong preference to move the trigger down as close to the farm level as possible due to significant fluctuations in prices and revenue guarantees particularly in larger, diverse states.

- A common problem heard among producers is ACRE's use of an Olympic average yield, particularly in those states that experience more than one year of losses in a five-year period. Colorado wheat is proving to be an extreme example of this, showing three years of low yields, meaning the five-year Olympic yield won't reach a realistic yield level until 2011 at the earliest.

- The lack of NASS data is also a significant problem for the ACRE program. FSA lists 21 crops as eligible for the ACRE program, but NASS lacks data on a number of these crops in many states, particularly for minor crops often used in wheat rotations such as lentils. This lack of NASS data also poses a significant problem with respect to considering a county-based ACRE program.

Supplemental Revenue Assistance (SURE) Program

NAWG supported the development of the Supplemental Revenue Assistance (SURE) program to help cover some of the shallow losses experienced by wheat growers in disaster years. Growers are continuing to gather experience with this program, though initial feedback shows it to be relatively popular and effective in helping to fill the income gap beyond coverage available through crop insurance in times of disaster.

The program seems to be operating as intended, as growers are being rewarded for higher buy-up coverage levels. However, there are a number of significant hurdles to this program meeting its maximum potential in providing needed assistance to producers.

As is no surprise to the Subcommittee, the program involves a complex sign-up process under the best of circumstances. Because of the late and continuously changing rules in the program, FSA offices have been left unable to give clear or consistent answers to growers on eligibility, leaving growers less able to make sound management decisions. Add to that grossly inadequate IT infrastructure in the local FSA offices – which are already short-staffed and underfunded – and growers find themselves frustrated and wasting a great deal of time working through program details and sign-up when they would much prefer to be farming.

A few concerns have arisen with respect to the program that may require attention prior to the next re-write of farm policy. Programmatically, one potential pitfall of the program is that it seems to work best for single enterprise farms in high risk growing regions as the whole farm requirement provides the least amount of protection for diversified farms. Although it shows a marked improvement in terms of predictability over *ad hoc* disaster programs, concerns remain regarding the timeliness of payments being issued. In addition to these delivery hurdles, there is widespread concern about the program's funding over time as it is set to sunset in 2011, leaving SURE spending out of the 2012 Farm Bill baseline.

Consideration for Trade

While the core farm bill safety net programs are our focus today, I would be remiss not to also discuss with you an aspect of our business that is less traditionally thought of as part of our safety net, but which is vital to the continued profitability of wheat producers - trade.

We are all aware of the challenges that have faced the trade agenda over the past few years. The reality is that the wheat industry is trade dependent - fully half of our crop goes overseas in a typical year. We see this as a strength, as we are feeding the world while boosting our bottom lines here at home. But in order for trade to work, we have to have a robust trade agenda focused on opening markets and reducing trade barriers.

The delay in passage of pending free trade agreements with Colombia, Panama and South Korea, and further delay in making common sense changes with respect to trade with Cuba, has real-world implications. Those implications are being acutely felt by producers in hard red winter wheat states that have been facing extremely high basis levels this harvest season. Many of these growers are left with no option but to accept a price for their wheat that is far below the cost of production, with little assistance available as basis risk is one of those risks not easily covered by traditional farm programs.

This year's extraordinary basis situation has been caused by a perfect storm of high supplies, low protein and little storage available. However, we know for certain that one of the only remedies to this situation is moving wheat to some of these export markets that are being kept from their full potential due to the political situation in Washington, D.C.

As you begin to consider the 2012 Farm Bill, we encourage you to keep in mind that a robust trade agenda and properly-funded market development programs are key components of farm policy.

Farm Bill Budget Baseline

We are very well aware that the most significant challenge facing the next rewrite of federal farm policy will be the budget baseline with which Committee Members have to work. We appreciate the commitment of the Subcommittee members to preserving as much of the farm bill baseline as possible throughout the last farm bill debates and in legislative activity since.

The CBO projected commodity program spending for the current farm bill will be less than one-quarter of one percent of the federal budget. For each American, that's about 25 cents out of every $100 paid in taxes. U.S. farm policy as a whole costs Americans just three cents per meal or nine cents per day – minimal costs compared to the enormous social benefit provided by a stable rural economy and a stable and affordable food supply.

We are committed to working with you as policymakers, others in our government and with our fellow producers to demonstrate this value and present the case over the next few years for a strong federal farm policy.

Looking Ahead to 2012

The farm bill policy development process is not unlike decisions facing farmers about what to do with aging equipment. You might go so far as to compare our current farm policy – for which we have accumulated up to 14 years of experience with some components – with a trusty combine that has accumulated a whopping 2,800 hours of use. We're familiar with and appreciate the general predictability of the overall system, despite the glitches that come with age and known limitations compared to what we know might be available with newer models. It was given some "new additions" in 2008, but the core hasn't been replaced for a long time.

The question facing growers now with respect to farm policy is this: should our energies be directed toward further tweaking and improving the current structure of farm policy considering the "age" and known challenges associated with it? Or is there a newer model – a next generation safety net – available that we might explore to better achieve our risk management goals?

That question, Mr. Chairman, is precisely the one we are committed to wrestle with through our policy development process.

I don't have an answer for you today. But what I can share are some results of an initial survey we undertook with our members to explore some of the basic elements that make our current farm policy effective, some of those elements that leave room for improvement and some new ideas that maybe have not yet been fully explored.

Farm Bill Survey Results Preview

The National Association of Wheat Growers provided an online survey to our states for their members' input over a period of about a month this spring. Overall, 558 survey responses were collected, with 90 percent of respondents identifying themselves primarily as growers and 65 percent identifying wheat as their primary crop. Other "primary crops" represented were corn (8 percent of respondents), soybeans (6 percent) and cotton (4 percent). Twenty-one states were represented in the survey responses, with highest participation from Minnesota (15 percent) followed by Montana, North Dakota and Colorado – each just under 13 percent. Fifty-one percent of survey respondents were between 51 and 65 years of age, with 28 percent between 35 and 50 years of age.

When asked to rate the effectiveness of the current farm bill in providing a safety net for their farms, survey respondents responded in a near-bell-curve, with a slight bias toward less effective than more effective. Forty percent (161 individuals) of those that answered the question gave rankings between 1 and 3 (less effective) and 34 percent (140 individuals) gave rankings between 5 and 7 (more effective). Thirty-four percent (105 individuals) were neutral on the rating of effectiveness.

Some of the comments received with respect to the effectiveness of the current safety net included:

- Crop insurance is viewed as contributing greatly to the overall effectiveness of the safety net structure;
- Direct payments make for a dependable, predictable safety net;
- Target prices and loan rates are set too low and are therefore largely outdated for current production systems;
- The programs have become too complicated in nature;
- The current safety net does not directly address risk associated with volatility in farm costs; and
- The safety net is largely effective in helping farmers manage enough risk to keep farming despite volatile weather and/or market conditions.

Input was also gathered with respect to recommended improvements to the current structure of farm programs as well as “out-of-the-box” ideas not already addressed in the farm bill. Crop insurance was by far the most-cited program with opportunities for improvement, with several of those recommended improvements cited previously in this testimony.

These responses and others are being explored by NAWG’s leaders through our committee system. Based on the results of this survey, NAWG grower-leaders will be exploring the best possible ways to “fill in the gaps” in current programs – whether that is to continue improvements to the current structure or to recommend new concepts that can even better meet the needs of the next generation of American agriculture. We look forward to sharing the results of that consultative process with Members of this Subcommittee and others in the future.

Conclusion

As an agricultural producer and a grower-leader of a national farm organization, I feel a responsibility to help your Subcommittee gather the best possible information as it relates to current and future farm programs. Holding this hearing demonstrates your commitment to the responsibilities you have taken on as a Member of this legislative body, and I very much appreciate the opportunity to testify here today. I stand ready to answer the questions you may have.

Erik Younggren
Second Vice President
National Association of Wheat Growers

Erik Younggren is a fourth-generation farmer in Hallock, Minn., where he produces wheat, sugar beets and soybeans in operation with two of his cousins.

An active member of the Minnesota Association Wheat Growers' Board of Directors, Erik has represented his state on NAWG's Domestic and Trade Policy, Operations and Planning and Budget Committees and on a subcommittee examining options for crop insurance policy.

Locally, Erik was a founding member of Rural Access (now Invisimax), a company that pioneered wireless broadband technology in rural areas. He has also served on the boards of his county economic development authority and his local curling club and been a member of his church's Board of Deacons.

Erik is a past participant in the Wheat Industry Leaders of Tomorrow (WILOT) and Wheat Organization Leaders of the Future (WOLF) programs. He holds a bachelor's degree in finance with a minor in economics from Minnesota State University at Moorhead.

In his free time, Erik likes to curl, play hockey and golf and travel. Erik and his wife Angela were married in late 2009 and are expecting their first child later this year.