Testimony

Of

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On

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Chairman Crawford, Ranking Member Nolan and members of the House Agriculture Subcommittee on General Commodities and Risk Management, on behalf of the National Corn Growers Association (NCGA), I appreciate the opportunity to share with you our perspectives on the state of the corn industry and views on the performance of our current commodity programs and federal crop insurance. My name is Wesley Spurlock, and I currently serve as President of the National Corn Growers Association (NCGA). I am a farmer in the Texas panhandle. Our family has farmed and ranched there since the late 1800s. We raise corn, cotton, wheat, sorghum and cattle on irrigated farms.

The National Corn Growers Association represents more than 40,000 dues-paying corn farmers nationwide. NCGA also represents more than 300,000 corn growers who contribute through checkoff programs and 28 affiliated state corn organizations, for the purpose of creating new opportunities and markets for corn growers.

Before addressing the effectiveness of the 2014 Farm Bill's risk management programs, I first want to provide you an overview of the corn industry and how it is performing during this extended period of low commodity prices. We corn farmers are proud of our ability to sustainably produce an abundant crop that helps to feed and fuel a growing world. In 2016, we harvested 86.7 million acres that produced 15.1 billion bushels of corn, a record many thought unattainable just ten years ago. To go from an average yield of 127.1 bushels/acre in 1996 to an average yield of 174.6 bushels this past year is a remarkable achievement made possible by advances in seed technologies along with innovations in production and conservation practices. However, this success story does not come without some significant challenges. With the U.S. Department of Agriculture (USDA) estimating 2016 crop year ending stocks at more than 2.3 billion bushels, it is more important than ever to build upon on our current markets and develop new uses to increase demand for our crop.

When I think about risk management, I consider my entire operation and my total risk portfolio. Farmers know we have to look at the demand side of the equation. Trade may seem like an external force to some, but it has a very real impact on my and other farmers' bottom lines. Agricultural exports account for 20 percent[1] of U.S. farm incomes, and for the corn industry that number is closer to 30 percent[2]. The health and growth of those trading relationships, particularly during times when commodity prices are lower (like they are now), can determine whether I make a profit or a loss. The benefits from trade ripple out beyond the farm gate to create economic activity and jobs in our rural communities across the country.

Corn farmers face a lot of uncertainty right now about how changes to our trade policy will impact our market access. U.S. corn counts Mexico and Japan as its top two export markets. The North American Free Trade Agreement (NAFTA) has been a huge success for the corn industry—26 percent of U.S. corn exports go to Canada and Mexico.[3] In 2016 alone, 13.3 million metric tons of corn were exported to Mexico. In my home state of Texas, agricultural export trade to Canada and Mexico totaled more than $3.3 billion in 2016 and supported 18,674 jobs, according to research conducted by the Center for North American Studies at Texas A&M University.

As we work with Mexico and Canada to modernize NAFTA, it is vital we keep these markets open to preserve our duty-free access for corn and corn products, and build on the mutual success realized from this partnership. NCGA has also urged the President to engage early with the Asia-Pacific region to negotiate new or updated free trade agreements that provide U.S. agriculture with greater access to these growing markets and reduce non-tariff barriers to trade. We will continue to prioritize development of new

[1] USDA

[2] USGC

[3] USGC - Calculated using USDA's economic activity multiplier

markets through export promotion activities, which increase and diversify demand for our products and build valuable trading relationships. USDA's Market Access Program (MAP) and Foreign Market Development Program (FMD) function as public-private partnerships and deliver $28 in exports for every $1 invested. NCGA is seeking an increase in funding for these programs.

In addition to expanding export markets, a robust, growing livestock industry is extremely important to building new demand for U.S. corn. One of the key benefits from livestock is market consistency. While this market ebbs and flows with definitely pronounced cycles, they are usually over the course of years. Today, feed for livestock accounts for more than 38 percent of corn usage at 5.6 billion bushels. According to the USDA Economic Research Service, U.S. corn feed and residual use is expected to rise to nearly 5.8 billion bushels in 2016-17. With projections of U.S. meat exports forecast to increase in the coming years to meet the rising global demand for protein, NCGA is hopeful that this growth will result in higher incomes for corn farmers and our livestock customers.

The other key sector critical to corn farmers' economic security is a vibrant renewable fuels industry. In the last crop year, nearly one third of U.S. corn production, or 4.2 billion bushels, was used to produce more than 15 billion gallons of ethanol. Moreover, ethanol production returned 1.1 billion bushels of corn to feed livestock and poultry in the form of distiller dried grains (DDGs).

Even as ethanol production expanded to an all-time high in 2016, corn farmers still produced a large corn surplus. Contrary to conventional wisdom, total cropland acres in the United States have fallen since the Renewable Fuel Standard (RFS) was expanded, and farmer demand for conservation programs remains high. In short, we produce more than enough corn to meet our food, feed, industrial and fuel needs.

After three years of delays and uncertainty in issuing the annual renewable fuel volume levels, corn farmers were pleased to see the EPA get administration of the RFS back on track last November with final volume requirements for 2017. Keeping administration of the RFS on schedule and in line with Congressional intent provides stability and certainty, which in turn leads to more investment in the industry and more demand for ethanol and corn, exactly what our producers need right now.

Although not under the jurisdiction of the Agriculture Committee, when corn growers hear some in Congress talk about the need to reform or rewrite the RFS, we ask you to consider the negative consequences of such action. With farmers facing consecutive years of low commodity prices and an ethanol industry emerging from several years of uncertainty caused by EPA actions, we need more stability in the RFS, not less.

Looking forward, corn farmers want to build on the effective volume level of 15 billion gallons that EPA set for 2017, in line with Congressional intent. With stability in the RFS, corn growers can increase demand for home-grown ethanol that saves consumers money at the pump, generates 43 percent lower greenhouse gas emissions than gasoline, and supports thousands of jobs in our rural communities – all while supporting the bottom line of corn farmers nationwide. I cannot overemphasize how important ethanol demand is to our industry. It is crucial to our farmers and beneficial to our nation's energy security. In fact, the renewable fuel industry directly supports nearly 86,000 jobs and displaced 540 million barrels of foreign oil imports in 2016.

The precipitous decline in price from a national marketing year average of $6.22 per bushel for the 2011 crop to an estimated $3.40/bushel for the 2016 crop has resulted in a steep decline in corn farmers' income as well as a very adverse impact on the rural economy. When the annual crop value of corn falls from nearly $77 billion in 2011 to just over an estimated $51 billion five years later, increasing financial stress is being experienced from the family farm to the employees laid off by agriculture equipment manufacturers.

Prior to the downturn in commodity markets, according to USDA corn prices averaged $4.70 per bushel between 2006 through 2013, a period of positive net farm incomes for most grain farms in the United States. Since 2013, corn prices have averaged below $4.00 per bushel. In fact, the average U.S. market year corn price fell to $3.70 per bushel in 2014, then slid further to $3.61 in 2015. The 2016 crop market year does not end until September 1, 2017, but the February World Agriculture Supply and Demand Estimates Report (WASDE) projection places the price at $3.40. Long-run projections made by USDA now place the 2017 market year price at $3.50 per bushel. Currently, break-even levels for corn production are near $4.00 per bushel. As long as corn prices are below $4.00, we anticipate incomes to be very low or negative.

As a result of these price declines, revenue from selling a crop, hereafter referred to as crop revenue, has significantly decreased. USDA has reported that crop revenue from corn in the United States averaged $837 per acre in 2011 and $801 per acre in 2012. Gross revenues have decreased considerably since that time Crop revenue was $719 per acre in 2013, $602 per acre in 2014, and $611 per acre in 2015. Projections for 2016 place corn revenue at $593 per acre (174.6 national corn yields x $3.40 price).

Adding to the financial stress on farm operations is an extended lag in expenses declining to the same extent that crop revenues have decreased. According to USDA, costs for corn production reached a high of $690 per acre in 2014 before falling to $675 per acre in 2015, a decrease of only $15 per acre. When we compare this small decrease to a sharp revenue decline of $190 per acre between 2012 and 2015, we can begin to better understand the difficult transition and drain on equity that many corn farmers are experiencing.

With crop revenue decreasing, net incomes on grain farms are, of course, falling. As one example, Illinois Farm Business Farm Management (FBFM), a record-keeping service with about 25 percent of the acres farmed in Illinois enrolled in its services, estimates that net farm income declined to an average of $500 in 2015. The $500 per farm average in 2015 was the lowest farm income since FBFM began keeping records. Not surprisingly, cash reserves on farms are eroding due to successive years of declining income. Although reported incomes for 2016 have yet to be released, they are expected to be slightly higher than in 2015 due to above-average yields and sizable payments from the Agriculture Risk Coverage program.

It is important to note that for the period of 2014 through 2016, incomes would have been lower had payments from the Agricultural Risk Coverage - county level (ARC-CO) and Price Loss Coverage programs not been made. As I explain later, ARC-CO payments have been substantial, partially offsetting the revenue declines experienced in 2014 and 2015.

Overall, NCGA believes the commodity program reforms authorized in the 2014 Farm Bill program have performed as designed. These more market-oriented policy changes are delivering assistance to producers when the need for financial relief is clearly present. During the enrollment process for the 2014 Farm Bill, 94 percent of the corn base acres were enrolled in ARC-CO with most of the remaining 6 percent of base acres being enrolled in Price Loss Coverage (PLC). As a result of high enrollment in ARC, corn farmers will evaluate the 2014 Farm Bill based on the performance of ARC-CO.

ARC-CO has made significant payments to corn farmers in 2014 and 2015, and will likely make large payments in 2016. In 2014, ARC-CO payments were $3.479 billion on corn base acres, for an average payment of $39 per base acre. In 2015, ARC-CO made $4.02 billion in payments, or $45 per base acre. These ARC-CO payments have cushioned the sharp decrease in revenues occurring in 2014 and 2015. On a national basis, revenues in 2014 and 2015 were close to $200 per acre below 2011 and 2012 levels.

Obviously, ARC-CO payments have helped to reduce the net income declines sustained during 2014 and 2015. On Illinois farms, for example, net income was $500 per farm in 2015. Without commodity title payments, 2015 incomes would have been more than $30,000 lower, resulting in an average net income that was negative.

Reflecting low producer enrollment and the relationship between the market year price and corn's reference price of $3.70 per bushel, the Price Loss Coverage Program did not make large payments to corn base acres in either 2014 or 2015. PLC payments averaged $0 per base acre in 2014 and $8.07 per base acre in 2015. For most corn farmers, PLC did not reduce their exposure to lower incomes in 2014 and 2015.

Overall, ARC-CO has worked as expected. However, there are several issues regarding the Farm Service Agency's implementation of this program option and changes in commodity markets we hope this subcommittee will consider as it proceeds with crafting a new farm bill.

- In some counties, there has been a need to switch data sources from National Agricultural Statistical Service (NASS) to the Risk Management Agency (RMA) when there is an insufficient number of producer surveys for NASS to publish a yield. In some cases, source switching leads to concerns of ARC-CO underpayments due to differences in yields.

- In other situations, low or zero payments have occurred in one county while surrounding counties receive large payments. While producers should fully expect differences in payments between counties, concerns regarding equity have been raised, particularly with farms close to county lines. NCGA appreciates the efforts of the Farm Service Agency and the NASS to use the most accurate data available from NASS and RMA as well as their consideration of adjustments in payments to address disparities that occurred with the use of yields from a farm's FSA Administrative County rather than the county where the farm is actually located.

- The 86 percent coverage level and 10 percent payment zone were developed during a different price environment than what is occurring today. In particular, the high prices during the 2010 to 2012 period are not expected to repeat themselves. ARC-CO parameters in a lower price environment will be far different from those moving from a high to a low price environment.

As critical as commodity programs are to the farm safety net, federal crop insurance is consistently ranked by NCGA members as the most important risk management tool provided by USDA. U.S. corn farmers use crop insurance extensively. Comparison of Risk Management Agency (RMA) insured acre data to NASS planted acre data indicate that 87 percent of the acres planted in 2016 were insured with RMA crop insurance products.

Of the variety of crop insurance products available, corn farmers predominately choose to insure with Revenue Protection (RP), a revenue insurance using farm yields in setting guarantees and payments. RP has an increasing guarantee provision that increases crop insurance guarantees if the harvest price is above the projected price. In 2016, RP was purchased on 90 percent of the insured acres.

Moreover, corn farmers typically insure at high coverage levels. For RP insurance, 14 percent of the acres are insured at the 70 percent coverage level, 39 percent at the 75 percent coverage level, 28 percent at the 80% coverage level, and 23 percent at the 85 percent coverage level. These four highest coverage levels account for 95 percent of the use. Use is geographically related. In the heart of the Corn Belt (southern Minnesota, Iowa, northern and central Illinois, northern and central Indiana, many western Ohio counties), more than 90 percent of the acres are insured with 80 and 85 percent coverage level polices.

Coverage levels tend to decrease from the heart of the Corn Belt as yield risk increases and crop insurance premium rises. For example, in my home state of Texas, average coverage levels are well below those purchased in Iowa and Illinois. Generally speaking, with higher premiums, farmers are purchasing an average coverage level of 65 percent on smaller optional units.

The previously cited statistics and NCGA's risk management survey conducted in late 2015 indicate that farmers have a strong preference for revenue products using enterprise units that protect against revenue declines across the farm. Policies that provide protection of farm yields are far more popular than those at the county level. Our national survey also confirmed that corn farmers are very price sensitive to insurance. Increases in crop insurance premiums resulting from reduced USDA support for discounts are likely to result in purchases of lower coverage levels, just as in the past decreases in farmer-paid premiums resulted in higher use.

Overall, corn farmers seem satisfied with overall crop insurance performance. Concerns, though, have been raised over the following provisions:

- Price discounts are sometimes difficult to account for in insurance. For example, crop damage due to aflatoxins can result in difficulties in determining indemnity payments.
- Prevented planting payments and related provisions seem to cause concerns in some areas, particularly in areas where flooding is common.
- Producers in areas that are frequently struck by very low yields have expressed concerns with the approved yield setting mechanism. The yield exclusion provision and higher t-yields implemented in past farm bills may have eliminated some of these concerns.

The Need for Farm Policy

As we have stated before, the marked increases in the corn industry's productivity have been achieved in large part by farmers' investments in new technologies and more modern production practices. NCGA believes that for the corn farmer who faces a high level of financial and production risks every year, these investments were made possible by a farm safety net that offers sound risk management tools and a cost-share federal crop insurance program that serves as the foundation.

The crop insurance and commodity titles provide risk management to corn farmers. Crop insurance provides within-year risk protection against low yields or within-year price declines. The importance of this insurance was illustrated in 2012, when a major drought hit the Midwest and crop insurance provided payments for yield decreases occurring in that year. Moreover, crop insurance has replaced ad hoc disaster assistance programs. In 2012, a disaster assistance program was not passed, unlike in previous years when adversity occurred and crop insurance was not as strong or well-used of a program.

Commodity title programs provide protection against revenue or price decreases across years, a set of risks different from those addressed by crop insurance. ARC is designed to provide payments when a current year's revenue falls below a guarantee based on the five previous yields and prices. The importance of this protection is illustrated in 2014 and 2015 when ARC made payments were made in the face of revenue decreases. Without these payments, net incomes and financial deterioration would have been much worse.

In recent years, the financial positon of farms has deteriorated. However, few farms have faced the need to restructure by liquidating assets or have faced bankruptcy, although the incidence of farm bankruptcy has increased in recent years. Much of this can be attributed to crop insurance payments, particularly those occurring in 2012, and recent ARC-CO payments. Without these payments, the financial positon of many farms would be more seriously challenged.

The risk management benefits offered by crop insurance and commodity title programs are particularly important to family farms who receive the majority of their incomes from farming. In these cases, off-farm income may be limited, and any changes to the family's financial position is much more directly impacted by farm level performance. Without crop insurance and commodity title payments, the financial wherewithal of these farms would likely face serious erosion.

NCGA recognizes the daunting task now before the House Agriculture Committee to craft the next farm bill given the multiple and diverse needs of U.S. agriculture, particularly at a time of continuing budget constraints and increasing financial challenges confronting U.S. farmers and ranchers. I thank you for your time this morning and your consideration of our views regarding the impacts of the 2014 Farm Bill on corn growers.