Statement by Peter Friederichs
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before the

Subcommittee on General Farm Commodities and Risk Management
Committee on Agriculture
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On behalf of the National Barley Growers Association, I want to thank the Chairman and Ranking Member as well as the Committee for this opportunity to comment on the commodity and crop insurance programs from the perspective of U.S. barley growers. I am Peter Friederichs, President of the National Barley Growers Association. I operate a 4th generation family farm in west central Minnesota near Foxhome, growing malt barley, spring wheat, soybeans, and sunflowers; as well as a registered seed sales and conditioning facility. Because most barley growers also grow a host of other crops on their farms as well, I will concur with the statements my colleagues are making here today and focus for the most part on barley specific issues.

Barley is a cool-season crop grown primarily in the Northern Plains and Pacific Northwest. This region along the U.S.-Canadian border accounts for 90 percent of the 3 to 3.5 million acres planted in the U.S. each year. The U.S. produces about 200 million bushels of barley annually and roughly 75 percent of this production is destined to become malting barley with the remainder going into the feed market. Because feed barley values are routinely less than 50 percent of malt barley values, most traditional barley growers in recent years do not plant the crop without securing a malt contract prior to seeding. The combination of good production and acceptance rates the last two crop years has reduced the demand for malt barley for the coming year. Acreage is expected to decline in 2017 because of a reduction in contracts available from the malt and beer industry, coupled with the depressed price for feed barley. Producers will substitute other crops in place of barley in their rotation this year; and for me personally, it will likely mean more wheat, soybeans, or sunflower acreage.

<u>What's working with the current farm bill?</u>

Probably to the dismay of some barley producers who see other crops receiving larger payments, the counter-cyclical nature of the 2014 Farm Bill is working as intended in barley's case. 75 percent of barley base acres were signed into the PLC program, 22 percent into ARC-CO, with the remaining 4 percent into ARC-IC. Because barley prices did not decline as sharply as other crops during the 2014 and 2015 crop years – just 15 percent from their peak in 2012 – no PLC payments were triggered and minimal ARC-CO payments were issued for the two crop years respectively. However, prices for the 2016 crop year are down another 10 percent and will trigger more payments; and 2017 crop year contracts have fallen an additional 10 percent.

Challenges facing barley:

(1) The aforementioned quality issues and the steep discount for feed barley means planting barley for the malting market is a high risk venture. For that reason, the NBGA and its industry partners worked with the Risk Management Agency to develop a Malt Barley Endorsement for barley's standard crop insurance policy to help mitigate this risk. Although this option was first available for the 2016 crop, there are still issues to be worked out regarding full coverage for these quality risks. NBGA is appreciative of RMA's willingness to continue working with us on improving this needed endorsement. And for the record, the NBGA is a staunch supporter of the overall crop insurance program.

(2) While not part of the Commodity or Crop Insurance Title, the NBGA would be remiss if this statement did not reference our concern about the status of agricultural trade in general. Mexico is our # 1 market for malt barley exports, and our recent efforts to increase sales to our customers south of the border has been put on hold indefinitely due to the current uncertainty surrounding our nation's trade policy with Mexico. If this export market is lost, agricultural prices could fall further and result in even higher Commodity Title payments than currently expected.

(3) Another challenge facing barley farmers – as well as other producers in all parts of the country – is the increasing difficulty in securing annual operating loans from local financial institutions because of the current depressed commodity prices coupled with still relatively high input costs. Each year, in order to secure operating loans, farmers need to prepare a farm plan for their banks showing their farm will generate a positive cash flow with the expected revenue from the crop mix they plan to plant as well as what they expect to pay for inputs, rent, machinery and/or land payments, and living expenses. This year, many of these plans are ***only*** showing a positive cash flow ***if*** the expected farm program support payment for the 2017 crop is included.

    However, current federal banking regulations are not allowing banks to include this expected October/November 2018 payment because the year-long discovery period for the 2017 average marketing year price does not begin until after harvest and is considered too far in the future and speculative to be included. If the farmer has working capital that can be applied to the deficit, the loan can still be approved. However, in worst case scenarios, farmers without adequate working capital may be denied operating loans and ultimately forced out of business. If the current depressed price / high input cost environment continues as predicted, this situation will only get worse as more and more farmers deplete their working capital.

In closing, the NBGA in recent years has partnered with the malting and beer industries – both large and small craft brewers – to ensure that an adequate supply of good quality malt barley is grown in the U.S. to produce the 190 million barrels of beer that are brewed annually. This cooperation came about because barley acreage had been in perpetual decline for most of the last two decades, and it became clear that a concerted effort to keep the crop viable was needed. As the brewers know very well – without barley, you have no beer. No Barley – No Beer.

Thank you Mr. Chairman for your time and attention. I will be happy to answer questions the Committee may have for me.