NATIONAL SORGHUM PRODUCERS
THE NEXT FARM BILL: COMMODITY POLICY, PART I
TESTIMONY

Presented to:

House Subcommittee on General Farm Commodities
and Risk Management

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Introduction

Chairman Crawford, Ranking Member Nolan and Members of the Subcommittee, thank you for this opportunity to come before you and present the views of the National Sorghum Producers regarding the next Farm Bill as it relates to commodity policy and Crop Insurance. These policies are critically important to America's farmers and ranchers, so we greatly appreciate the subcommittee's focus here today.

My name is Dan Atkisson, and I farm near Stockton, Kansas. I am a true family farmer, working alongside my father, my wife, Amanda, and our 4-year-old boy, Eli, who I hope might also take care of our land and make a living from it one day. We grow sorghum, wheat, and forages to support herds of commercial and registered black Angus cattle. I am very honored to serve as Chairman of the National Sorghum Producers Legislative Committee. I am also Vice Chairman of the NSP board of directors and have been very involved since becoming a member of the second Leadership Sorghum class just a couple years ago. I am a proud graduate of Kansas State University with a bachelor's degree in Agricultural Technology Management and a minor in Animal Science. I am humbled to be here today, and I hope my testimony as a farmer and on behalf of NSP will be helpful to you.

State of Sorghum and the Sorghum Economy

Although sorghum is considered an ancient grain, it has recently gained tremendous popularity for its positive health benefits for both people and pets. However, the fact remains most Americans wouldn't recognize sorghum if they saw it, and even in the world of agriculture where it is more common, sorghum has lost ground over the last 30 years to higher value crops.

Before getting into the specifics of the farm safety net, I want to begin by telling you a bit about this very important crop, and then I want discuss the current economic realities facing sorghum farmers. Sorghum is a highly adaptable crop with many varieties and uses. It produces a grain for livestock feed but is also chopped for silage or hay or simply used as a forage which is often referred to as hay-grazer. As a feedstock for renewable fuels, sorghum is uniquely positioned as both a source of starch, sugar, and cellulose all in a single crop. What makes sorghum really special is that it uses up to one-third less water than corn. It is grown throughout the U.S. – even in Minnesota and the Dakotas where it makes excellent pheasant habitat – but its water efficiency, drought tolerance, and soil conditioning qualities make it particularly valuable as a low input cash crop in the more arid western Great Plains and hotter regions like South Texas. The top two sorghum states are in fact Kansas and Texas, followed by Arkansas, Oklahoma, Colorado, and Nebraska.

Due to its health and environmental benefits, we believe sorghum has unique advantages and is well suited for growth on more U.S. acres. As such, our policies reflect the promise sorghum has as a crop. Sorghum acres, nationally, plummeted through the late 1980s and 1990s, and have only begun to recover in the last few years. We want to see that positive trend continue.

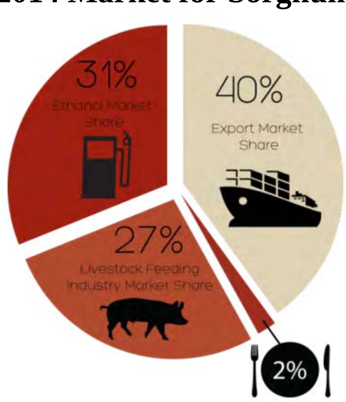
The first table in my testimony contains average planted acres for sorghum in five-year increments. The steep decline in the late 1980s can be directly tied to certain farm policies. For example, the Conservation Reserve Program took millions of acres in the western Great Plains out of production. Further declines in sorghum acreage were the result of economic and agronomic changes coinciding with the planting flexibility gained in the mid-1990s. During this time, many farms that had previously utilized sorghum in rotation with other crops began to focus on producing their highest yielding and grossing crops like cotton, corn and soybeans. Please do not misunderstand me. We support a targeted CRP and the planting flexibility farmers now enjoy. We just need to be careful in the development of farm policy to avoid unintended consequences.

Period	Average Planted Acres
1982-‘86	17,757,000
1987-‘91	11,268,000
1992-‘96	11,074,000
1997-‘01	9,682,000
2002-‘06	7,894,200
2007-‘11	6,707,000
2012-‘16	7,324,400

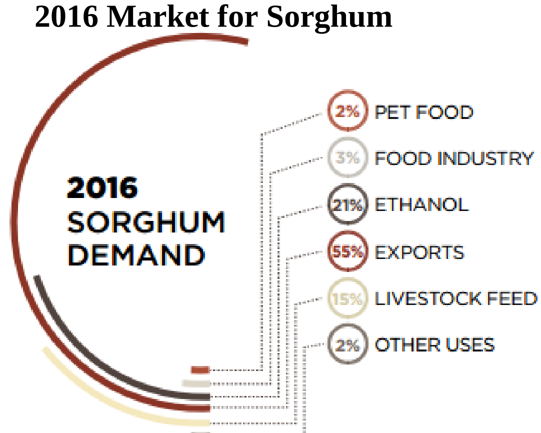
While sorghum has been knocked down over the years, we are not out. Recently, sorghum demand and markets have increased significantly. In fact, for an extended period in 2015 and 2016, sorghum was actually trading at a premium relative to corn. China has accounted for much of the increase in demand by importing sorghum to feed geese and ducks for their domestic market and to supply distillers who prefer its unique flavors. The domestic ethanol and feed markets are also growing. And, sorghum is also experiencing greater demand in the high-end food markets, catching the eye of top chefs, nutritionists, and bloggers as a healthy, versatile whole grain alternative that also meets niche consumer requests, being non-GM and gluten-free.

For years, the sorghum market was roughly as follows: one-third for domestic livestock feeding; one-third for biofuels; and one-third to exports, with significant volumes used abroad for food aid. However, in the last years, the sorghum market has changed dramatically as shown in the charts included below.

2014 Market for Sorghum



2016 Market for Sorghum



Seed genetics and productivity are also on the rise for sorghum. In fact, 2016 was a record year for sorghum yields with a national average production of 77.9 bushels per harvested acre. This is further evidence of a real and exciting trend as the 2014 through 2016 average of 73.8 bushels per acre exceeds the previous 10-year average by 16 percent. Our sorghum yield contests are also highlighting remarkable productivity gains as winners in the last few years have consistently approached or exceeded 200 bushels per acre. This is truly remarkable.

With this backdrop, you can appreciate why we feel these are exciting times for sorghum in the big picture and for the long-term. But, as this subcommittee well knows, times on the farm are not as encouraging. Depressed commodity markets are yielding prices below cost-of-production. This is a function of many things, including but not limited to strong production worldwide, a strong U.S. dollar, unpredictable export markets, and predatory trade practices used by foreign countries. As is nearly always the case in agriculture, the situation we find ourselves in today is not the result of anything that we as farmers or ranchers can control. All we can do is develop a good strategy for what might work best this year; do our best to implement the plan as efficiently as possible, cutting costs wherever we can; and pray the rain will fall right, that our crop will be better than we could hope for, and prices rebound.

Since passage of the 2014 Farm Bill, prices received by sorghum farmers have fallen precipitously, as is the case with most crops. In the five years prior to the enactment of the current Farm Bill, sorghum prices averaged $5.10 per bushel. For the 2014 crop, prices fell to $4.03 per bushel – a 21 percent drop. For the 2015 crop, it fell even further, to $3.31 per bushel – a 35 percent drop compared to the five-year benchmark. Worse yet, for the 2016 crop that was just harvested last fall, USDA is projecting the price received by farmers will be $2.70 per bushel – that is 53 percent of the benchmark price, meaning it takes twice the bushels to generate the same revenue for a farm. For the 2017 crop we are planting this spring, most farmers are again facing the sorry prospect of burning through savings or equity. Today, in farming, it is not a question of how to make a profit, but how to minimize our losses to survive.

For sorghum specifically, we have also had to battle a very significant emerging pest threat. The sugarcane aphid (SCA) is pressing up costs of production even as market prices decline. In 2016, the SCA reached all sorghum producing regions in the United States, impacting over 70 percent of the planted acres. When present, the sugarcane aphid increases operating expenses by as much as $40 per acre – an almost 30 percent spike in production costs. This translates into an additional $200 million in expenses, nationally. When added to resulting yield losses, we calculate the total burden incurred by U.S. sorghum farmers on account of the sugarcane aphid approached $430 million in the 2016 growing season alone.

In summary on the state of sorghum and the sorghum economy, there are some real reasons for optimism about growing sorghum markets and increasing productivity for the crop. But, this positive outlook is being over-shadowed by the economic reality facing our farmers right now. While this current reality is really taxing farmers, one silver lining may be that these conditions are a better lens through which to view the importance and purpose of U.S. farm policy.

Title I — What is Working and What is Not?

Before getting into the details on our thoughts concerning the Commodity Title of the Farm Bill, I do want to thank the Agriculture Committee for its very strong Budget Views and Estimates letter that rightly points out that the budget savings and contributions to deficit reduction made in the 2014 Farm Bill are more than four times the target you were expected to hit when you passed that measure. The National Sorghum Producers was proud to add its name to a letter sent last week to the Budget Committee asking that a portion of these savings be reinvested into this critical sector of the economy. There is no more basic, nor important infrastructure that serves this nation and the world than the patchwork of independent family farms and ranchers that dot the countryside and feed, clothe, and fuel America in a manner unrivaled in history.

The National Sorghum Producers believes in the need for a strong and reliable Title I safety net that is appropriately balanced and provides assistance when and where it is needed. One very real problem with the current policy that is felt very acutely in times like this has to do with something as simple as the timing of payments and the problem this poses for farmers trying to cash flow. The National Sorghum Producers asks you consider moving up the timing of Farm Bill assistance so the support is put in the hands of farmers earlier than a full calendar year following the crop year it is meant to cover. For money that will be paid either way, there should be no significant budget impact. Along these lines, we would also ask that you investigate the possibility of raising loan rates to make them more relevant, which could also relieve cash flow burdens in the marketing year.

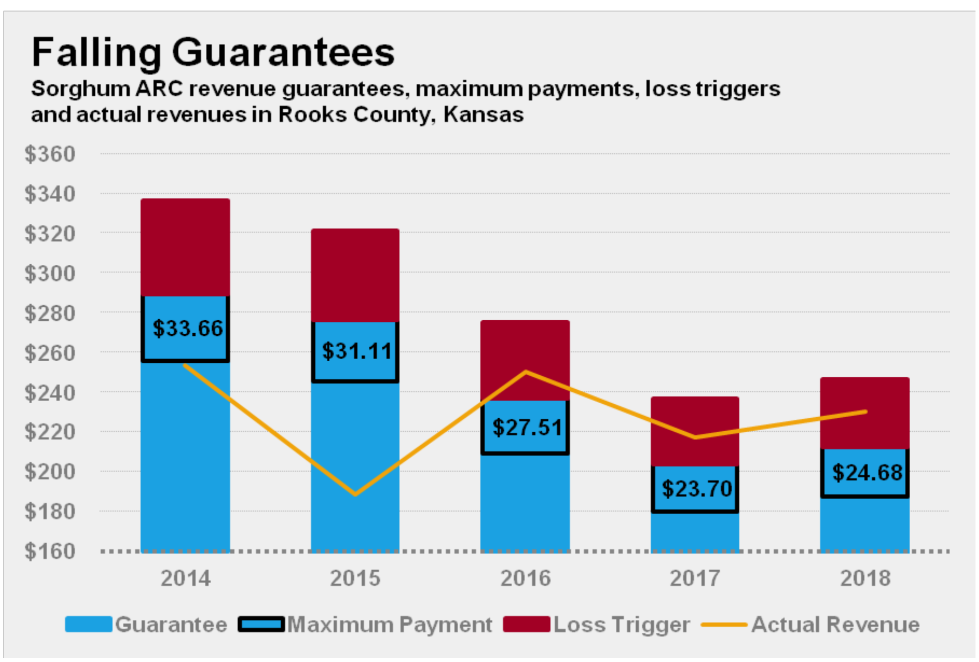
<u>ARC and PLC</u>

On the choice farmers were given under the 2014 Farm Bill, 5.966 million acres or 66 percent of the total sorghum acres were enrolled in Price Loss Coverage, while 2.998 million or 33 percent were enrolled in Agriculture Risk Coverage. In the first two years of the Farm Bill, ARC paid an average $12.14 per acre for 2014, and $17.98 per acre for 2015. It is expected that a comparable amount will be paid relative to the 2016 crop, even as crop prices have dropped to 53 percent of the original benchmark average. PLC made no payments in 2014 since the season average price of $4.03 per bushel was above the reference price of $3.95 per bushel. However, for 2015, average payments of $28.23 per acre were made, and for 2016 it is expected that relief to farmers will increase to more than $50 per acre.

Clearly, with the 20/20 vision that hindsight offers, PLC is the better safety net for sorghum farmers. PLC was very conservative upfront when prices were still above $4.00 per bushel. But, the policy is now kicking in to provide help when the help is desperately needed. In contrast, ARC assistance was a virtual certainty when farmer elections were being made. With a target county revenue generated from a $5.10 per bushel previous 5-year average, and futures prices sinking, the logic was to take the bird in hand and put it to use, hoping the market would turn around in the out-years. Unfortunately for farmers, markets have not rebounded.

When assessing the relative value of ARC and PLC, then, we do not look at the dollars generated but rather at the risk management or downside protection that is provided. To us, the safety net is more about the reliability, fairness and timeliness of help when help is most needed. On all these counts, NSP believes PLC provides the better safety net for our farmers. Going forward, we are very open to the idea that the ARC model could be improved. We also believe PLC could be improved, or that a hybrid approach might surface as the best model for Title I assistance. What follows is just our frank assessment of how these respective policies are working relative to the important goals listed above.

In regard to reliability, ARC misses the mark because of the revenue calculations that are used. The reality of PLC is that our farmers know that if national prices are below $3.95 per bushel, some help is on the way. Farmers can count on this, secure credit, make plans, and leverage dollars based on this certainty. In the highly uncertain business of farming, any certainty we can get is of tremendous value to us. This is also why Crop Insurance is so valuable – because of its rock-solid certainty. With ARC, even in the first year where, due to price decreases, it was virtually certain that some help would be on the way, no one could really count on it, and bankers could not lend on it, because it all hinged on how the county performed. In fact, many counties in heavy ARC areas did not receive ARC assistance because of strong county yields. Problems of this sort are greatly exacerbated for crops, like sorghum, that have variable yields. With large sized counties and weather events, such as hail, that can decimate one corner of the



county while the bulk of the county gets a nice rain, even counties that do receive an ARC payment have both winners and losers. In short, because ARC is not reliable, it cannot hedge risk or leverage dollars in the agricultural community as effectively as PLC.

Concerning fairness, ARC again falls short because of county variability that does not always coincide with producer experience. PLC pays the same rate based on national prices to all farmers based on the historic yields they have proven on the farm. While it is not perfect, it is fair. For both 2014 and 2015, we have counties that received significant ARC payments next to counties that received no ARC payment. And, in every county that received a payment, there are producers that yielded well above the county average and producers that yielded well below. Not to mention, the FSA's arbitrary 25 percent threshold requirement for yields to be split between irrigated and non-irrigated creates even more frustration. No policy is perfect, and the National Sorghum Producers has and will continue to defend ARC against critics of U.S. farm policy, but there is no question the county-based model creates inequities and frustrations. That is why Congress has rejected this kind of approach in the past. Perhaps some of these wrinkles can be ironed out. But, as long as ARC remains a county-wide policy, it will inherently create these kinds of issues.

And, finally on the issue of timeliness, our bedrock principle is that help under the Commodity Title should be reserved for when help is most needed. And, we believe that PLC better achieves this objective. As prices for commodities have continued to collapse, the ARC safety net has withered. In my home county of Rooks, Kansas, the ARC revenue guarantee was $289.48 for 2014, $267.55 for 2015, and $246.13 for 2016. For the 2017 crop to be planted, the revenue guarantee is significantly diminished again – to $211.04 per acre – just as the maximum assistance per acre has diminished from $33.66 when the fall started to $23.70 this year. Contrast this to PLC which, by remaining constant, has effectively increased in significance to the farmer as the economy has weakened. We believe that this is the better and more efficient model going forward.

There are three more issues I would raise relative to the Commodity Title. First is the issue of cotton and generic base. A significant number of sorghum farmers throughout the south also have generic base. The National Sorghum Producers support the National Cotton Council's efforts to designate cottonseed as an oilseed or to otherwise restore Commodity Title coverage for this important crop. The second issue is that of payment limitations and means testing. Given that the National Sorghum Producers believes the safety net should kick in to help cover significant losses when times are hard, we also believe the safety net that only partially covers losses should not be further reduced by arbitrary limits. Third, concerning the issue of the Conservation Reserve Program, which we recognize is not a Title I policy but yet has some implications for commodity policy, we would be open to ideas around shorter term CRP contracts that would use cover crops, including annual forages, with the caveat that communities and infrastructure can suffer due to decreased economic activity when land goes out of production for extended periods. We also note that if more sorghum were planted around the country, there would be a lot more pheasants and quail.

Finally, let me just reiterate again that the National Sorghum Producers strongly support an effective and reliable safety net under the Commodity Title. We are grateful to the Agriculture Committees for the diligence and work you put into crafting a reasonable compromise in the 2014 Farm Bill that is providing some important help during these hard times, putting farmers and ranchers in a better place than we would otherwise have been. However, the primary purpose of the safety net under the Commodity Title is to provide a bridge to help independent farm and ranch families stay in business through the tough times, and we are genuinely concerned that if current price predictions for the next few years come to pass, the current safety net in place will fail many of our farmers. This is why we so ardently believe the farm safety net must be strengthened. This is why we signed the letter, referenced above, asking that a portion of Farm Bill savings be reinvested to allow this Committee to patch up its weaknesses. This is why we are as frank as we have been today.

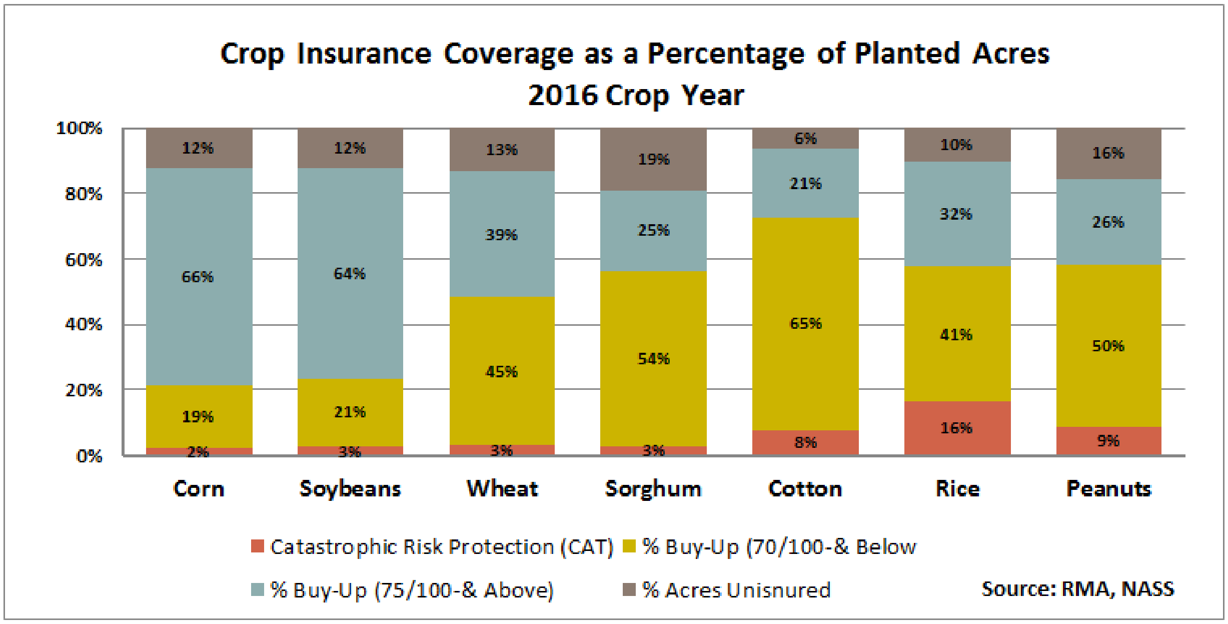
We have witnessed time and again how a struggling farm economy is left ailing for too long without a prompt and effective mitigation effort through farm policy. And, without exception, the problems that could have been fixed fairly cheaply early on mount and mount and so does the cost of repair. When it comes to economic trouble in farm country, an ounce of prevention is truly worth a pound of cure.

Crop Insurance

The National Sorghum Producers is strongly supportive of Federal Crop Insurance and urges this panel and Congress to reject any attempts to cut or weaken it. Make no mistake, proposals like that introduced by Rep. Ron Kind are crafted to kill Federal Crop Insurance. To struggling farmers and ranchers across this great country, there is absolutely nothing affirming about Ron Kind's AFFIRM Act.

Crop Insurance is indispensable for sorghum farmers, but that does not mean it cannot be improved. For sorghum particularly, participation rates and coverage levels are low when compared to other crops. As the chart in my testimony illustrates, a full 19 percent of sorghum acres are not insured – the highest among major row crops. Moreover, only 25 percent of acres have coverage at 75 percent or above compared, for example, to 66 percent in the case of corn. There are many reasons for this, but the single biggest reason is that sorghum insurance is too expensive. Over the last 10 years the loss ratio for sorghum has been 0.88 – lower than corn, for instance, and 12 percent lower than the statutory target. Considering this window of time includes three years — 2011 through 2013 — of record drought covering much of the Sorghum Belt, we believe the rates for sorghum, generally, should be lowered.

NSP is very grateful for the improvements that were made to Crop Insurance in the Farm Bill. Given the epic drought of 2011 through 2013, many of our producers have benefitted greatly from the Yield Exclusion provisions of the Bill, along with the ability to purchase different coverage levels between irrigated and non-irrigated farms. While some Supplemental Coverage Option policies have been sold, it has not met expectations. However, we expect these sales will pick up when the pricing options become more attractive, and we would encourage the subcommittee to maintain this option, which can work well in conjunction with PLC.



While all these movements are positive for farmers, we need to recognize that Crop Insurance benefits cover what is planted and, therefore, can impact plantings based on the relative competitiveness of the policies. While we argue that our average rates are too high, the real problem becomes obvious when we start comparing county by county rates relative to competing crops. This is why NSP is so focused on bringing sorghum Crop Insurance policies up to par with its competing crops in all regions. We currently are working with private partners and RMA on exploring means of improving the policies via the 508(h) process or other authorities. This is not a new effort. We have worked in the past to increase options for sorghum silage, and more recently annual forage crops. We hope to continue these efforts and will keep the Committee apprised.

Finally, NSP recognizes that many of the professional critics of agriculture policy who are not actually putting themselves at risk but only booing from the sidelines have moved their vitriol from the fixed or direct payments that were eliminated in the 2014 Farm Bill to Crop Insurance. Congressman Ron Kind is again carrying their water with the reintroduction of the AFFIRM Act. NSP believes Kind’s bill has no place in the business transaction of Crop Insurance, as previously noted. Crop Insurance is very expensive, but I appreciate the fact that I as a famer can choose to participate at whatever level I need and will have bankable and reliable support. The value of Crop Insurance is not the premium discount, or the indemnity, as the critics would have you believe, but rather it is the certainty created by this contractual arrangement where I have the peace of mind that comes with insurance on my crops. NSP is absolutely committed to protecting and improving this important tool.

Conclusion

Mr. Chairman, in closing, I want to say again how much we as farmer members of the National Sorghum Producers appreciate the task you have before you. We have focused on Title I and Crop Insurance today, but I hope from my comments you can see that we consider all aspects of the Farm Bill to be critical, from research issues like the sugarcane aphid, to rural development and bioenergy, to trade promotion and market development policies. It is all important and a part of a piece, but tough economic times like our current reality do cause us to focus on the farm and making it through the next season – an area where Title 1 and Crop Insurance rightly take center stage.

NSP appreciates what was accomplished in the 2014 Farm Bill. We look forward to working with the House Agriculture Committee and our fellow commodity organizations to make it even better going forward.