

Testimony of Secretary Sonny Perdue
U.S. Department of Agriculture
before the
United States House Committee on Agriculture
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Good Morning Chairman Conaway, Ranking Member Peterson, and distinguished Members of the Committee. It is an honor to be with you today as the nation's 31st Secretary of Agriculture. I am truly humbled by the opportunity to serve the American people and our farmers, and I assure you I will work tirelessly on their behalf. I thank you for the opportunity to appear before you today, and I look forward to working with you in the coming months and years as we can continue our nation's agricultural preeminence, building the innovative progress of years gone by and growing to meet the needs and demands of customers and consumers here in America and around the world.

Given that this is my first time appearing before your Committee, I'd like to take a moment to share a little of my background with you. I have lived a blessed life, growing up in rural Georgia on a dairy and diversified row crop farm. Early on, I decided I wanted to become a veterinarian, so, after high school, I enrolled at the University of Georgia. As I entered Veterinary school in 1967, Viet Nam was roiling, so I signed up for an early commissioning program in the U.S. Air Force. As I finished my veterinary education in 1971, I began active duty service in Columbus, Ohio as a base veterinarian with primary responsibilities in food safety, public health, and sanitation.

Following completion of my active duty commitment, I joined a small veterinary practice in Raleigh, North Carolina. But I soon realized that I missed the farm and my former agricultural way of life. So, in 1976, my wife Mary and I and our two small girls moved back home where I partnered with my brother-in-law to build a grain elevator in my home county, which didn't yet have one. I've been in agribusiness since 1977 and was the founder and operator of three agribusiness and transportation firms serving farmers across the Southeastern United States. Farming and farmers have been my life ever since.

While I hadn't dreamed of elected politics growing up, I did understand that we all have civic rent, so I agreed to chair our local planning and zoning commission. After 10 years, a State Senate seat opened up and I was asked to run for the seat. I initially declined but a pre-planned family trip to Williamsburg, Virginia changed my mind after observing the founder's goals of citizen engagement.

In 1990, the people of District 18 elected me to serve as a member of the Georgia State Senate. I served for 11 years and during my tenure was elected by my colleagues to be Senate President pro Tem. You've probably heard, and it's interesting to note, that I served both as a Democrat and as a Republican while in the Georgia State Senate.

In 2002, I was elected the first Republican Governor of Georgia in more than 130 years. I assumed that office, believing that it was a big job, not a position. Our team worked diligently for

eight years, striving to make Georgia the best managed state in the nation. As you remember, the period from 2003 to 2011, were not the best economic times for our nation. But, we learned, with the help of a joyful state workforce, that we could continue to provide value to the citizens of Georgia, even in times of extreme budget pressures.

Even though Georgia may not compare to some of your states in some agricultural sectors, I am still proud to come from a state whose number one economic driver is agriculture. In Georgia, agriculture is one area where Democrats and Republicans consistently reached across the aisle and worked together, and I look forward to doing the same with this Committee.

Gauging the State of the U.S. Agricultural Economy

You asked me to provide an update today on the state of our agricultural economy. While I believe the farm safety net is working, we are seeing and hearing from producers that they believe it needs updates to meet the needs of the farm economy. Over the past three years, a strong dollar, generally weak global economic growth, and ample global production have combined to lower trade demand from the United States and to depress many commodity prices. As a result, we have seen a 50 percent drop in net farm income from the all-time record highs farmers experienced in 2013. This has squeezed some of our farmers and others who also contribute to the ag economy, and we are seeing it across the countryside in a broad range of areas from input dealers to food manufacturers.

According to our USDA economists, net farm income this year accounting for inflation will be the lowest since 2002. Of course farming is a cyclical business, and previous good times have helped some producers weather the current downturn in agricultural commodity prices and income. However, without the record levels of crop and livestock production we have seen over the past few years, farms would be in a much worse situation today. And we know that we can't always count on a bumper crop to pay off loans and to buy inputs for next season. Looking at the flood, fire, and snow conditions we've already seen this spring reminds us of that.

It is clear that more and more producers are increasingly exposed to financial risk: bank credit is tightening, delinquency rates on both commercial and FSA loans, while still at relatively low levels, have been trending upwards since 2014, and land values are falling in many agricultural regions. All are contributing to increased uncertainty and concern in rural America. As you could expect, those producers with high costs of production, who rent a significant portion of their land base, or who have increased borrowing to cover operating costs have been most at risk as returns decline with commodity prices. About one-in-five cotton, wheat, hog, and poultry farms have a debt-to-asset ratio of more than 40 percent and more than one-in-three of our youngest farmers are in a highly leveraged position.

Nevertheless, even as falling global commodity prices continue to depress farm income, the current farm safety net that was created during the last Farm Bill is providing support for producers. Roughly 1.8 million farms are enrolled in the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs, which are helping cushion the downturn in some commodity prices. To date, the ARC and PLC programs have provided \$5.3 billion in financial assistance for crop year 2014 to 1 million farms and \$7.8 billion to 1.7 million farms for crop

year 2015, which was paid out to producers last fall. Overall, in calendar year 2016, government farm payments totaled about \$13.0 billion in 2016 and are expected to total \$12.5 billion in 2017. On top of that, the crop insurance program offset roughly \$6.3 billion in farm losses in crop year 2015 and is expected to cover \$3.6 billion in 2016.

Yet, not all programs are functioning as producers hoped they would. For example, over 25,000 U.S. dairy farms—more than half— have enrolled in the Margin Protection Program for Dairy (MPP-Dairy), which provides payments if the margin between milk prices and feed costs falls below the coverage level selected by the producer. While many dairy producers saw milk prices fall below their overall costs of production, the margin between dairy prices and feed costs remained for the most part above the levels supported by the program. Many producers said the feed ration used in the MPP program was not representative of the rations they fed their cows. As a result, most dairy producers have been paying to participate in this program meant to insure them against tightening margins without realizing any benefits though their own margins were being squeezed. This is a critical issue for our dairy producers.

As another example, cotton was taken out of the Title I commodity programs. Cotton producers were allowed to participate in the ARC or PLC program on their base acres only by growing another crop. For cotton plantings, producers were allowed to participate in a new crop insurance program called the Stacked Income Protection Plan for Producers of Upland Cotton (STAX). While about 95 percent of cotton acres are enrolled in other types of crop insurance policies each year, only 25-30 percent of cotton acres have been covered by STAX since it began in 2015. Many cotton producers have found faults in STAX and assert it is not as beneficial as the assistance provided to other crops. Both the dairy and cotton examples are the types of issues that producers hope will be addressed in the next Farm Bill.

As I mentioned, access to credit remains a significant issue for producers, particularly as working capital on farm businesses has fallen nearly seventy percent since 2012. Demand for credit continues to be strong, particularly for farm operating loans, as farmers cope with lower commodity prices. As commercial channels become more difficult for producers, we anticipate that demand for USDA credit assistance will continue to remain high. Since 2009, USDA has provided approximately 243,000 loans totaling over \$35.2 billion to farmers and ranchers. The recent increase in demand led to full utilization of the program level for farm operating loans for fiscal year (FY) 2016, with record loan levels at \$6.3 billion. So far in 2017, we've seen a slight decline of 6 percent in loan numbers and value over the same period in 2016, but that is a small decline coming off a record year—demand for FSA financing is still strong.

Looking forward to the next farm bill, I hope we can work closely with you to identify ways to make USDA programs work better for America's farmers and ranchers. However, we have to be sure to make those programs work as a safety net that helps farmers in tough times. We don't want to see programs that encourage production choices simply to increase government payments to the farm; rather we want our producers to be responding to the market when they are deciding on what to plant for the coming year. In addition, I believe it is imperative to improve the tools the Department has to address pressing and difficult situations faced by our producers, and to react quickly and provide additional assistance if current market conditions persist or worsen. The authority of the Secretary has been limited by congressional action when

it comes to using CCC funding, Section 32, and other authorities to provide relief, while at the same time our farmers, ranchers, and constituents are asking USDA to help. I'm not suggesting that USDA would take action in every instance where a commodity sector or group of producers is hurting - we certainly must be mindful of fiscal challenges - but it would be helpful for the Secretary to have authority to evaluate the needs of U.S. agriculture and use these tools when appropriate. As another example, while not in this Committee's jurisdiction, USDA's annual appropriations is so prescriptive that it is rivaled only by the Department of Defense. For instance, I recently learned that there is language in our appropriations act that requires the Farm Service Agency to notify Congress of relocating any county based employee if the relocation would result in an office that has two or fewer employees. So even if an employee in an office of three wants to leave for a voluntary promotion, the agency could not relocate that person until Congress is notified. This kind of limiting language is what challenges USDA's ability to be a more nimble and effective organization.

Finding Opportunities, Making Progress

As I've laid out, we have a farm economy that is facing increasing financial challenges and is not going in the direction we think it should or know it can. Like you, we want to do the best for our producers and provide critical tools and resources to help them succeed. To that end, this segues into the first of four goals I have set for my time as Secretary. First, I will maximize the ability of the men and women of America's agriculture and agribusiness sector to create jobs, to produce and sell the foods and fiber that feed and clothe the world, and to reap the earned reward of their labor. We want to remove obstacles, and give them every opportunity to prosper.

Today, we need to feed some 7 billion people. By the year 2050, that population will swell to 9.5 billion, over half of which will be living in under-developed conditions. Also, the demographics of that population will change over time. If we examine the data available, we can see that our global population is aging, and by the year 2050, more of the population will be older than 65 than younger than five years of age. What this means is that as we move forward, the dietary demands of the global population are going to change. We are also going to see stronger middle classes in developing countries that will join the already strong middle classes in the developed world. This means that the demand for meat will grow exponentially as will the demand for grain production. To put the demand for food into perspective, we are going to have to double our production between now and 2050. We will have to produce more food in the next 30 years than has been produced in the last 8,000 years—a daunting task, to say the least. Rest assured it is a task that USDA is ready to take on.

That being said, we cannot feed the world if we continue to place obstacle after obstacle in front of those who produce our food and fiber. People in agriculture used to fear disease and drought as the greatest threats to their livelihoods and their mission of feeding their neighbors and the world. Those hazards remain, but now too often it is the government – through interference and regulation – that poses the most existential threat to American farmers and producers. We aim to put a stop to that. As you may know, the President recently announced the creation of the Interagency Task Force on Agriculture and Rural Prosperity. With USDA as chair, we will examine, consider and take actions to address current barriers to economic prosperity and the welfare of communities in rural America, including how innovation and modern technology and

infrastructure play a critical role in fully bringing communities into the 21st century. This multi-department group will find ways to improve regulatory flexibility and provide relief for farms and small businesses. We will examine how the federal government does business and how that impacts rural communities, and food and fiber production. And we will, at every turn, ensure that decisions and actions are founded in principles of sound science and validated facts. The questions we are asking at USDA, and that I will be asking the task force, are fundamental to this process: How do we impact jobs and job creation; are we doing things that make sense; do the costs outweigh the benefits; and, is there better way or better place we can do it?. We have a lot to tackle. It is long overdue and must and will be done.

Another key issue that I hear about is the continued instability in the agricultural workforce. This instability often limits not only farmer's ability to grow their businesses but also consumers' access to freshly grown, local products. It is my priority to ensure farmers and ranchers have access to a legal and stable workforce and I look forward to working with the President, Congress, and with the other stakeholders to find a solution.

We must also work with our producers to expand foreign markets to sell their products. Ninety-five percent of the world's consumers live outside of our borders. That means our trade agreements open a world of opportunities for American businesses. In FY 2016, American agricultural producers achieved \$129.7 billion in exports, and FY 2017 exports are projected to reach \$136 billion. Agricultural exports totaled over \$1 trillion for the period FY 2009 through FY 2016, the best eight year stretch in history, and agriculture has produced a trade surplus each year since the 1960s. Agricultural exports support more than 1 million American jobs both on and off the farm each year, a significant part of the estimated 11.5 million jobs supported by total exports all across the country. Agricultural exports support farm income, which translates into more economic activity in rural areas. Each dollar of agricultural exports is estimated to stimulate another \$1.27 in business activity.

However, the slowing global economy and appreciating dollar have put unprecedented competition on U.S. farmers. Many countries do not respect fair trading rules that have already been agreed to as part of previous agreements and many others insist on enforcing trade barriers to our products that are not based on sound science. I assure you that USDA will use all the instruments available to us to ensure our agricultural producers and products get fair treatment in foreign markets. For example, we are challenging China's trade and support measures affecting our grain exports, and we are actively engaged in addressing the discriminatory and unfair dairy policies that Canada recently implemented. This Administration will not stand idly by as other countries try to take advantage.

In addition, just last week, I directed a reorganization of USDA to focus our attention keenly on agricultural trade, consistent with direction from the 2014 Farm Bill. The Under Secretary for Trade and Foreign Agricultural Affairs will be responsible for coordinating agency efforts at opening new and protecting current markets. I believe your Committees had great forethought in including this provision in the Farm Bill, and this will strengthen USDA's ability to ensure a level playing field for U.S. farmers and ranchers in the global marketplace. Moreover, the Under Secretary for Trade will bring new energy and support to our interagency relationships with Commerce and the U.S. Trade Representative.

As part of that reorganization, and touching on the equally important priority of customer service, we are combining the critical functions in our Farm Service Agency, Risk Management Agency, and Natural Resources Conservation Service under a single umbrella to ensure our services to farmers and ranchers are efficient, streamlined, and deliver the results that our producers expect and need. Our customers will have a one stop shop, with common leadership and one voice, to provide the services they need. The walls are coming down, and our employees will be empowered to work together to serve USDA's customers. I am also elevating our Rural Development program to report directly to my office. The economic vitality of small towns across America is crucial to the future of the agriculture economy, and we will be leveraging USDA's expertise in rural development as the Administration works to increase investments in America's infrastructure.

Through these and other actions, USDA will prioritize customer service every day, across the mission areas. Our customers expect, and have every right to demand, that we conduct the people's business efficiently, effectively, and with the utmost integrity. Arguably, no other Federal agency has more direct interface with Americans than does the Department of Agriculture. In food and nutrition services alone, we interface with over 50 million Americans every year. This does not even count the children who benefit from school, summer, and child care nutrition programs. We touch millions of Americans through a host of other programs, as well. If we take into account our farm services, rural development, conservation, extension and education programs, we touch every single facet of American life. If we are to do the best for our producers and feed the world by 2050, we must not only continue to provide top rate customer service, but we must also develop strong partnerships so that we can face our challenges together. Together with our 100,000 plus employees spread across thousands of locations around the United States and the globe, I know we can make USDA the best agency in the country.

Next, since our taxpayers are also consumers, we know they expect a safe and secure food supply, and USDA is committed to continue to serve in the critical role of ensuring the food we put on the table to feed our families meets the strict safety standards we've established. By having the best science and data, we will be able to make strong strategic decisions that will transcend generations, not just the next budget cycle or farm bill.

And, last but certainly not least, we must preserve the land—and we must relentlessly pursue clean air and water. Stewardship is not optional for farmers, producers and ranchers. American agricultural bounty comes directly from the all the resources used to produce food and fiber. Today, that land and those resources sustain more than 320 million Americans and countless millions more around the globe. My father's words still ring in my ears, "Son, if you take care of the land, it will take care of you. Owned or rented, we're all stewards, and our responsibility is to leave it better than we found it." Without proper care, our resources could be squandered. Science and hard work will help us find the best ways to produce our crops, be mindful of our use of inputs, preserve the soil, keep our air and water clean, and allow us to live in a better place than we found when we started. Rather than clearing another acre of land, let's first seek out ways to produce more with what we already have. If we live by these principles, we can preserve

our wetlands, our watersheds, our forests, our prairies and our ecosystems for generations to come.

In conclusion, I want to make clear that the U.S. Department of Agriculture will make sure that our interests are represented in policy deliberations, that we will advocate for agriculture at every turn, that we will seek out and open markets for our commodities, that we will be stewards of our land and that we will meet our moral obligation to feed a hungry, anxious world. We have a farm safety net that – while not perfect – is providing assistance to many, but that can be improved to be more market oriented. And, overall, I am confident in the future of the rural economy and see opportunities for us to continue to strengthen this outlook and create opportunities for Rural America in the future.

I look forward to answering your questions.