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SUBMITTED TO THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY OF THE UNITED STATES SENATE

"Commodities, Credit, and Crop Insurance: Perspectives on Risk Management Tools and Trends for the 2018 Farm Bill"
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Room 106 Dirksen Senate Office Building
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Chairman Roberts, Ranking Member Stabenow, members of the committee,

Thank you for the invitation to testify today and the work this committee is doing to understand the challenges that face agriculture. My name is Roger Johnson, and I serve as president of the National Farmers Union (NFU). NFU represents roughly 200,000 family farmers, ranchers, and rural members. NFU works to improve the well-being and quality of life of family farmers, ranchers and rural communities by advocating for grassroots-driven policy adopted annually by our membership.

As the title of this hearing indicates, commodity programs, access to credit, and crop insurance, will be key components of the 2018 Farm Bill. This rings especially true as we continue to witness pressure in the countryside as commodity prices remain low and farmers and ranchers struggle to adjust. We are three years into this downturn, forecasts by the U.S. Department of Agriculture (USDA) point to a prolonged period of depressed prices. Given this scenario, NFU believes that the farm bill safety net should provide meaningful assistance in two fundamental circumstances: when disaster strikes and when prices are low and remain below the cost of production for extended periods of time. These two scenarios have separate solutions, the first is crop insurance and the second is commodity programs.

Our current environment has implications for producers accessing credit, negative farm budgets, depressed markets, viability of the safety net and increased demand for mediation services. In my testimony I will discuss all of these issues and also note some NFU priorities heading into this farm bill cycle.

Credit:

We face increased challenges nationwide associated with accessing credit. Farm Service Agency's (FSA) Farm Loan Program has seen significant increases in loan demand. On top of demand increase, we have also witnessed an uptick in challenges associated with loan servicing. The one year period from June 30, 2016 to June 30, 2017, FSA saw delinquencies rise in the direct loan program from 20,344 to 21,719 and from 1,392 to 1,562 among guaranteed loans. Direct delinquent loans more than 90 days past due rose from 7,492 to 8,060. Lastly, debts restructured in the same time period rose from 2,064 to 2,592.

During fiscal year (FY) 2016 FSA set a new record across its loan portfolio. Obligations of direct and guaranteed operating and farm ownership loan funds reached $6.3 billion. This was the highest volume in FSA's history.[1] As many of you know, FSA ran out of money last summer, after which reprogramming of funds was required in order to limp into the next fiscal year. Just the same, loan backlogs were reported.

Thankfully, the Appropriations Committees, led by the Senate, provided meaningful increases across the farm loan program to clear the backlog and meet increased demand in FY17. Unfortunately, the House Committee on Appropriations recently passed a bill, which cut roughly $800 million in loan authority from the FSA. While I appreciate the different jurisdictions of the respective committees that drive agriculture spending, I would be remiss if I did not highlight these proposed cuts in light of credit proposals intended for the next farm bill.

Legislation in both the Senate and House has proposed increasing current limits within various farm loan programs. Guaranteed loan limits would increase from $1.39 million to $2.5 or even $3.5 million. The direct loan limit would increase from $300,000 to $600,000. NFU appreciates the intent of the legislation as farmers have been faced with significant increases in operating and ownership expenses. We remain concerned that by increasing the limits, fewer overall loans will be made. We must see increases in overall loan appropriations in order to ensure increases to individual loan limits are appropriate. With spiking demand, I think the last thing we want to see are fewer, high-dollar loans being made.

[1] https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/funding/index

As you consider changes to the credit title, I urge members of this committee to focus loan limit increases within the direct loan programs, work to ensure higher overall lending authority for all aspects of FSA's Farm Loan program, invest mandatory money for state mediation grants, enhance the IT capabilities associated with the loan programs, maintain environmental requirements tied to loans, and ensure continued access for beginning farmers in these programs.

Commodities:

Grains and Oilseeds:

Farmers and ranchers are facing very serious financial challenges. July outlooks from USDA's Economic Research Service (ERS) provide little reason for optimism. Higher than expected yield forecasts for many crops have kept projected prices low or only modestly higher. ERS has projected corn prices down to $3.30 per bushel, sorghum down to $2.90 a bushel, soy up to an average of $8.90, all wheat up to $4.80, long-grain rice season average of $11.20-$12.20, medium-and short-grain rice average up to $12.40-$14.40 per cwt, and an upland cotton midpoint of $0.61 per pound.[2] NFU is hearing from its members that multiple years of low prices with only short-term price swings are presenting significant challenges.

While national averages tell a compelling story, I believe that it further aids this committee if a snapshot at the farm-level is captured. While I spend much of my time in Washington, I remain a farmer from Turtle Lake, ND. The North Dakota State University (NDSU) Extension Service produces annual projected crop budgets in an effort to assist producers with estimates of revenue and costs for selected crops. With a few exceptions, most notably soybeans, the projected 2017 crop budgets for North Central North Dakota paint a challenging picture. While these are averages and make a variety of assumptions, it nonetheless provides a window into the challenges that farmers face in north central North Dakota. By regionalizing the estimates we arrive at a more accurate estimate of profitability.[3]

I will use corn, spring wheat, soybeans and oats as examples. NDSU adds projected direct costs with indirect costs and compares them to projected market incomes. The resulting per acre profitability is shown below:

Crop	Projected Price	Market Income	Sum of Listed Cost	Profitability
Spring Wheat	$4.96	$233.12 Per Acre	$243.33 Per Acre	-$10.21 Per Acre
Corn	$3.30	$353.10 Per Acre	$356.68 Per Acre	-$3.58 Per Acre
Soy	$8.70	$278.40 Per Acre	$225.83 Per Acre	$52.57 Per Acre
Oats	$2.19	$159.87 Per Acre	$204.13 Per Acre	-$44.26 Per Acre

To further drive home the point of the struggles facing farmers, while the crop budget projects $3.30 a bushel corn, local cash price in Minot for delivery to CHS was $2.68 on July19, 2017. So while the crop budget shows a loss of $3.58 an acre, losses will likely be worse. This comes on top of similar losses for the last three years.

To combat periods of prolonged low prices our members believe that a strong safety net is required. Much discussion and debate has centered on programs that fit the budget. Using the budget as a starting and ending point for the nation's agriculture safety net is problematic from our perspective. Feeding the nation is a national security priority and should be treated as such. As recently as April 25, 2017, the President reaffirmed this belief.[4] We must maintain farm programs that help offset low prices until favorable prices return.

[2] https://www.ers.usda.gov/topics/farm-economy/commodity-outlook/ers-outlook-reports-and-data/
[3] https://www.ag.ndsu.edu/farmmanagement/crop-budget-archive
[4] https://www.whitehouse.gov/the-press-office/2017/04/25/presidential-executive-order-promoting-agriculture-and-rural-prosperity

NFU urges this committee to reform existing Title I programs to account for multiyear price declines and notable operational problems that surfaced in recent years. Under the Price Loss Coverage (PLC), NFU urges this committee to raise reference prices. Relative cost of production should be heavily weighed when exploring changes to PLC reference prices.

Many of our member who signed up for the Agricultural Risk Coverage (ARC) program experienced challenges with the program. This committee should work to reform the program to function better in the next farm bill. One challenge associated with ARC, which has received significant attention is the issue of the data cascade used to calculate yields and subsequently payments. NFU values the role that both the National Agriculture Statistics Service (NASS) and the Risk Management Agency (RMA) play. But for the purposes of the ARC program, we must ensure that local flexibility is provided to address unexplained variations between neighboring counties. Some of our members who participated in the ARC program were denied payments even as their neighbors in an adjacent county received them. In these cases agronomic and climatic conditions were very similar, but produced different payment outcomes. The next farm bill must address this and provide state FSA committees additional authority.

While we encourage alterations to the program, we would urge the committee to ensure that these changes don't distort the choices given to producers. As you are well aware many producers, enticed by the prospects of payments in the onset of the program, chose ARC, leaving themselves much less protected in the out years. Changes to ARC must not come at the cost of improvements to PLC.

Dairy:

NFU has also heard from dairy producers with serious concerns over the Dairy Margin Protection Program (DMPP). While this program was always intended to be a risk management tool in a sector that historically relied on direct payments, it has nonetheless fallen well short of expectations. Dairy farmers are experiencing an extended period of very low milk prices and MPP has been unable to provide meaningful relief. We have serious concerns that if this problem goes uncorrected more dairy farms will go out of business.

Low prices and volatility have dominated dairy economics over the last three years, forcing many producers to shutter dairy farms across the country. Milk prices reached $24 per hundredweight in 2014 but quickly eroded, falling to $16 per hundredweight in 2016. These prices are well below the cost of production. Meanwhile, cash receipts over the last three years demonstrate the volatility. In 2009, cash receipts were $24.3 billion, shooting up to $49.3 billion in 2014, and quickly falling to $34.2 billion in 2016.[5] Despite the unfavorable economic conditions faced by dairy producers, U.S. milk production increased for the seventh consecutive year and the dairy herd continues to expand.[6]

As dairy farmers face such headwinds, congress must develop a comprehensive dairy program to allow dairy producers across the nation to receive a profitable return on their investment. NFU believes that a multipronged approach should be considered. We support an incentives-based inventory management program that is farmer-led to balance production with consumer demand.

NFU has urged USDA to aid the Federal Crop Insurance Corporation (FCIC) board in determining that livestock and the products that livestock produce are two distinct and different types of commodities. This distinction would provide important opportunities for dairy producers who are currently subject to a cap on all livestock crop insurance policies of $20 million. Providing uncapped revenue insurance options to dairy farmers is an important first step. We urge members of this committee to express support to USDA for such steps.

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[5] https://agriculture.house.gov/uploadedfiles/brown_testimony.pdf

[6] https://www.ers.usda.gov/data-products/dairy-data/

DMPP has provided very little relief to struggling dairy producers. In 2016, about two thirds of milk production, or 140 billion pounds of production history, enrolled in DMPP did not sign up for buy-up coverage. It is widely recognized that the program has failed dairy producers. There must be an acknowledgement, especially during the farm bill drafting process, that producers paid millions of dollars into the program and did not receive assistance during troubling economic conditions. As a second step, to crop insurance, DMPP must be reformed to create a more meaningful safety net. NFU urges this committee to explore no- or low-cost coverage for $8 margins less than 5 million pounds of milk production, the removal of the $100 administrative fee, and using monthly all milk averages for margin calculations.

Cotton:

The current economic situation for cotton is anemic and is threatening to cause long-term and potentially irreversible damage to the industry and the associated infrastructure. Losses in cotton areas translate into pressure on associated businesses, infrastructure and rural economies. The infrastructure for the U.S. cotton industry (gins, warehouses, marketing coops and merchants, and cottonseed crushers and merchandizers) will continue to shrink unless there is a stabilizing policy for cotton to help sustain the industry in periods of low prices such as currently exists today.

NFU believes that Stacked Income Protection Plan (STAX) is not sufficient to solve the current situation on its own. To start, STAX only covers roughly 26 percent of cotton acres.[7] NFU is supportive of classifying cottonseed as an "other oilseed" for the purposes of PLC. At the very least, cotton should be reclassified as a covered commodity in the next farm bill. We also hope that this committee can work with the USDA towards additional steps within existing authority to provide relief along the lines of the Ginning Cost Share program.

Crop Insurance:

The assistance that Title I programs are providing is complemented by the role of crop insurance, which provides an essential risk management tool to farmers. Unfortunately, when prices are low crop insurance is woefully inadequate. On average, farmers must incur losses of almost 30 percent before their insurance coverage starts to provide assistance. Farmers also spend approximately $4 billion per year out of pocket to purchase insurance from the private sector.[8] All that being said, crop insurance, year over year, has provided a meaningful, timely and flexible program that fits individual producer demands.

Federal crop insurance is based on fundamental market principles, which means high risk areas and high value crops pay higher premiums for insurance. This emphasis on crop insurance and risk management has replaced constant demand for ad hoc disaster assistance, and was paid for entirely by the taxpayer, while frequently not being delivered in a timely manner. This committee must protect the integrity of crop insurance for the benefit of farmers and ranchers.

While often thought of as a tool designed for major commodities, crop insurance is available for roughly 120 crops, to farmers of all types and sizes, and in all states.[9] NFU supports the continuation and improvement of the federal crop insurance. To this end, NFU would urge the committee to explore additional improvements to the Whole Farm Revenue Protection (WFRP) plan included as part of the 2014 Farm Bill, improvements at the intersection of conservation and risk management, and innovative applications of the federal crop insurance program that addresses food liability issues associated with direct sales to consumers.

[7] https://agriculture.house.gov/uploadedfiles/lee_testimony.pdf
[8] http://archive.constantcontact.com/fs158/1103508273436/archive/1124126672578.html
[9] https://www.rma.usda.gov/pubs/rme/quickfacts.pdf

Changes contained in the 2014 Farm Bill pertaining to the Noninsured Crop Disaster Assistance Program (NAP) provided additional buy-up coverage not previously available. In 2015, almost 23,000 NAP applications for individual crops included buy-up coverage. Also in 2015, the number of beginning and socially disadvantaged farmers that participated in the program doubled to 16,467. These developments were recently explored by USDA's ERS.[10] Both through this report and anecdotes from the field have pointed to a rather interesting development. Beginning farmers are using NAP as a springboard into WFRP plans. While both NAP and WFRP have a long way to go in the eyes of beginning farmers, it is an important introduction to risk management for beginning farmers without prior crop insurance experience.

Beginning farmers who utilize NAP to build 3 years of crop history for WFRP are able to receive 2 years of beginning farmer discounts in the new policy. NFU would ask this committee to explore whether 5 years of discounts are sufficient, particularly since other USDA beginning farmer provisions last 10 years. We also hear that the record burdens have created a barrier to use. We ask that this committee consider improving WFRP so that it is a more accessible policy. Lastly, the livestock cap that WFRP falls under represents a significant problem for our diversified members wishing to utilize WFRP. We ask that WFRP policies that contain livestock operations not be counted towards the livestock cap and consider reworking the $1 million livestock liability limit as well. Diversity on the farm leads to less risk, we should not be punishing farmers for seeking additional diversity.

NFU believes there are minor changes that can be made within the federal crop insurance program that incentivize, rather than punish producers. For example, NFU supports the replacement of cover crop rules tied to eligibility for crop insurance coverage with the established National Resources Conservation Service's (NRCS) Good Farming Practices process.

Lastly, we urge this committee to explore insurance opportunities related to liability of direct to consumer sales of farm goods. The explosive growth of this sector is well known and well understood. In 2016, there were 8,669 farmers markets listed in USDA's National Farmers Market Directory.[11] NFU supports a national food liability insurance program to assure that unprocessed or less processed whole foods, fresh fruits, cheese and dairy products, meats and fresh vegetables continue to remain competitive in the marketplace. NFU members believe that food liability culture places the farmer in an unfair position and should be addressed if we intend to have continued growth of minimally processed foods. Our members have voiced concern that private sector commercial liability protection does not fulfil their requirements.

<u>Conclusion</u>:

There are many challenges facing agricultural today. This committee has a challenging task ahead of it as it begins to grapple with these problems. The farm bill safety net needs to be protected. There must also be recognition on our part that these programs are not perfect and will need to be modified where necessary, for the benefit of family farmers. Our collective challenge is to continue working to provide help when and where needed – and to encourage the continued growth and success of our most vital industry – agriculture.

Thank you.

[10] https://www.ers.usda.gov/publications/pub-details/?pubid=83650

[11] https://www.ams.usda.gov/services/local-regional/farmers-markets-and-direct-consumer-marketing