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RISK MANAGEMENT AND COMMODITIES IN THE 2012 FARM BILL

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BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY UNITED STATES SENATE

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CONTENTS

RISK MANAGEMENT AND COMMODITIES IN THE 2012 FARM BILL

Thursday, March 15, 2012

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
Washington, DC

The Committee met, pursuant to notice, at 9:04 a.m., in room SH–216, Hart Senate Office Building, Hon. Debbie Stabenow, Chairwoman of the Committee, presiding.

Present: Senators Stabenow, Baucus, Nelson, Klobuchar, Bennet, Roberts, Lugar, Cochran, Chambliss, Johanns, Boozman, Grassley, and Thune.

STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR FROM THE STATE OF MICHIGAN, CHAIRWOMAN, COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

Chairwoman STABENOW. The Committee on Agriculture, Nutrition and Forestry will come to order. Good morning. We so appreciate all of you being here, and let me first start by apologizing for the need to reschedule the hearing today. We appreciate your patience and understanding with the uncertainty of the Senate schedule. But we have a lot of people to hear from today, very, very important testimony on all four of our panels, and we have been looking forward to this.

Nearly a year ago, we kicked off our farm bill work exploring the challenges for feeding the world's growing population. Today, in our final hearing on the 2012 farm bill, we will hear from American farmers about the tools they need to continue producing the world's safest, most abundant supply of food, fuel, and fiber.

Every planting season, America's farmers take a huge gamble that their investment will pay off, that the sun, the rain, the markets will come together in just the right combination so they can make a living and support their families.

We have been lucky these past few years that commodity prices have been strong and many farm balance sheets are healthy. Yet in the same year that USDA estimates America's farmers will take home a record $100 billion in net income, crop insurance paid out over $10 billion in indemnities for losses.

We cannot forget that high commodity prices are of absolutely no use to a farmer whose crop was lost in a drought or flood. One storm can wipe out an entire crop and jeopardize a farm in a matter of minutes, whether the crop is Michigan cherries or blueberries or Kansas wheat.

From the very beginning of our farm bill discussions, I have urged everyone to focus on principles, not individual programs. In every meeting, in every hearing, we have heard loud and clear that the main principle for today's farmers is risk management. At a time when all of us are struggling to lower the deficit, we cannot be focused on favored programs or share of the baseline. Our farm policies must be effective and defensible, not just in this Committee, not just to America's farmers, but to the public at large. That is why the era of direct payments is over.

We are reforming farm policy and transitioning to risk-based tools that help farmers who have suffered a loss. Today farmers will tell us about weather and market and input cost risks, how they manage them day to day, year in, year out, the decisions they wrestle with, and lessons they have learned.

In the next few weeks, the Committee will make difficult decisions about the future of America's agriculture policy. We want to hear about how you manage tight margins, volatile markets, ever rising costs, and the unknowns of weather.

I have heard over and over again from farmers and ranchers across the country—we all have—that crop insurance is the most important risk management tool. Today we want to hear more about how we can strengthen crop insurance to be more effective for you. It is absolutely imperative that we get these policies right. Sixteen million people in this country have a job because of agriculture. I urge us to keep those 16 million people in mind today.

The farm bill is a jobs bill, and no farmer in America should lose their job or lose their farm because of conditions beyond their control.

Thanks to everyone for being here. We look forward very much to all of your testimony.

I want to now turn to my friend and colleague, Senator Roberts, and I want to say that I very much have appreciated our working together through a very challenging year this past year, and I look forward to working with Senator Roberts on this farm bill. I also want to say that Senator Roberts has a long history of service to the farmers of Kansas and America. I appreciate his work on crop insurance, making it such a vital and effective tool for farmers, and all of his leadership. Senator Roberts, over to you.

STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS

Senator ROBERTS. Well, thank you, Madam Chair. I am sort of overwhelmed by that introduction. Thank you so terribly much. I think, bottom line, we both know that if we do not work together in a bipartisan way, we may not get the best possible bill but the best bill possible, and we want to get it moving. Like yourself—and I want to associate myself with your remarks, and apologies to the witnesses having them stay an extra day. The vagaries of the schedule in the Senate are renowned, but seldom do we acknowledge, at least, that some of these times, due to the uncertainty in the schedule, it causes a lot of problems for folks who have come all the way to the Nation's capital to testify. So thanks to all the witnesses and our apologies.

I could just sort of say "ditto" to your opening comments. I was looking here, when I said, "I look forward to hearing from everyone as we talk about how we can help farmers manage their risk so they can continue to produce the safest, most abundant, and least expensive food supply in the world."

We do not have the same speech writer, but I think we are on the same page.

Chairwoman STABENOW. We are on the same page.

Senator ROBERTS. I hear time and time again, just as you have said, that our producers and their lenders, especially important in regards to stressing lenders, that crop insurance is the cornerstone of the farm safety net.

Why do you have a farm safety net? I know we get in the weeds here in this farm bill hearing on the commodity section and on crop insurance and some of the details. We have got to feed 9 billion people in the next several decades. We are going to have to double ag production if we continue to follow through on our country's role of being a humanitarian country and also to try to provide food and fiber to areas of the world that cannot feed themselves. If you show me a country that cannot sustain itself in terms of its food production, you have a very chaotic situation, and then you do not have any world stability, and you get into the problems that we see today, more especially in the Mideast. That is a big-time thing, and you have got to really stop and think about the role that the farmers and the ranchers play in that. So it is just not a farm bill. This is something that affects, as I have said, world stability and not only feeding this country but a troubled and hungry world.

But let us get back to crop insurance. If you doubt its importance, just look at what crop insurance provided this past year. We had the worst drought since the Dust Bowl in Kansas, Oklahoma, and Texas, in 2011, last year. We had massive flooding along the Mississippi and the Missouri rivers, and hurricanes devastated the Northeast. Yet just months after all of this ruin, our producers are now tuning up their equipment and preparing their fields to put seed in the ground once again.

It is not because of some day-late or dollar-short ad hoc disaster package that the farmers are back on their feet producing the food that feeds, as I have said before, a troubled and hungry world. No, these farmers are able to put the seed in the ground again because they managed their risk and protected their operations from Mother Nature's destruction through the purchase of crop insurance. If that is not a success story of the partnership between Government and private industry and America's farmers, I do not know what is.

But just because the program is successful does not mean there is not room for improvement. Crop insurance is a big tent with plenty of room under it. The program already protects more than 250 million acres of cropland in the United States. That is two-thirds of the eligible acres. But there are still acres that are not protected and producers who cannot afford to purchase the kind of protection that they need. The more producers under that crop insurance tent and protected from disaster, the more stable our food supply and our rural economies will be.

We made great progress last fall in the joint committee process in improving crop insurance to bring even more people under the tent. So I look forward to continuing our work to preserve, protect, and strengthen crop insurance and to hearing the thoughts of our witnesses on how to improve upon an enormously successful program.

We are also going to hear from our witnesses about Title I farm programs. Let me emphasize that I am committed to working, as I know the Chairwoman is and has been, with all of my colleagues and those involved in agriculture to find a program or a suite of programs that will improve agriculture's safety net. I am confident that we can find solutions that we can live up to our WTO commitments—that is important—and that will be simple for our producers to understand, hopefully, and utilize and, also importantly, will be reasonable for the FSA of the Department of Agriculture to implement.

I am also confident we can find solutions that will not drive planting decisions and lead farmers to plant for Government programs instead of the marketplace.

Now, there was a time in the not-so-distant past when our farm programs greatly distorted planting decisions and led to a lot of WTO complications. I, as Chair of the House Ag Committee some years ago, along with others here in the Senate—Senator Grassley played a key role. He was here earlier. We did everything we could to eliminate those distortions. Senator Lugar as Chairman played a key, key role in that effort, and I thank you, sir, for that effort.

I generally like to talk about the good old days, but in the case of farm policy, old is not necessarily good. Madam Chairwoman, we have a lot of work ahead of us, and I look forward to hearing from our witnesses. I appreciate everybody coming, and I thank you very much.

Chairwoman STABENOW. Thank you very much.

We will ask any member who would like to submit an opening statement for the record to please do so.

We have four excellent panels today, and in order to be able to move through all of them, because they all represent voices that we very much want and need to hear from, we are going to enforce the 5-minute rule both on our witnesses and on ourselves in terms of asking questions today.

I am very pleased to have before us once again our first witness, Mr. Michael Scuse, who is the Acting Under Secretary of Farm and Foreign Agricultural Services. We are looking forward to taking away that first word, "Acting," and making that permanent. He is from the first State, better known as Delaware, and has held various positions in agriculture within the State, including Secretary of Agriculture from May of 2001 to September of 2008. While serving as Delaware's Secretary of Agriculture, Mr. Scuse also served as the vice president of the National Association of State Departments of Agriculture and president of the Northeast Association of State Departments of Agriculture.

Mr. Scuse, welcome again to the Committee, and we would look forward to hearing from you.

STATEMENT OF MICHAEL SCUSE, ACTING UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. SCUSE. Thank you very much.

Chairwoman STABENOW. Senator Roberts, and members of the Committee, I thank you very much for the opportunity to speak to you today on risk management and commodity programs in light of the 2012 farm bill.

Strong prices are fueling opportunities in rural America, both on and off the farm. However, agriculture continues to face unique challenges, particularly in regard to markets and weather. Input costs and net returns are volatile, and as we saw in 2011, farmers always face significant and unexpected weather events that pose a direct threat to their businesses.

Because of such uncertainty, which always exists, even in the good times, maintaining a strong safety net in the next farm bill is critical. This is particularly true for beginning farmers and ranchers.

For example, we know that established farmers have nearly twice the capacity to repay their debts as young farmers. Differences like this further underscore the need to ensure our safety net meets the diverse needs of today's agricultural producers. USDA's safety net consists of crop insurance administered by the Risk Management Agency as well as the farm programs offered by the Farm Service Agency.

The primary tool available when disaster strikes is Federal crop insurance. The program is delivered through a successful public-private partnership which provides diverse, sound risk management tools. Producers generally have a choice of crop policies with coverage that they can tailor to best fit their risk management needs. Reflecting the record disasters we experienced last year, the program has paid over $10 billion in claims for lost revenue and production losses.

To ensure crop insurance programs are best tailored to the needs of a diverse set of producers, RMA works closely with private entities and producer groups to provide products that cover an increasing variety of commodities. RMA has also made changes to premium rates for corn and soybeans, resulting generally in lower premiums. We anticipate that the remaining analytical work will be completed in time for any further premium rate changes to be implemented for the 2013 crop year for corn, soybeans, wheat, cotton, rice, and grain sorghum.

Recent improvements to the livestock gross margin for dairy producers resulted in significantly increased participation in the program and exhausting funding in March of fiscal year 2011, then again in January of fiscal year 2012. Sales had to be suspended because funding for the livestock insurance products is currently capped by the Federal Crop Insurance Act at $20 million in any fiscal year.

The President has proposed a number of changes to crop insurance as part of his plan for economic growth and deficit reduction, focusing on key elements which would account for more than $7.6 billion in savings over 10 years. In addition to crop insurance, since 2009 producers have been able to turn to disaster assistance programs authorized under the 2008 farm bill. These programs have paid over $3.8 billion to more than 200,000 producers since their inception. All five programs expired on September 30, 2011, and this leaves the Noninsured Crop Disaster Assistance Program as FSA's only disaster program. Recognizing the critical nature of reliable disaster assistance, the President's budget for 2013 would extend the 2008 farm bill disaster programs or implement similar programs of similar costs.

Turning to commodity programs, high market prices have limited countercyclical payments and marketing loan benefits, although marketing assistance loans are expected to continue providing about $7 billion in interim financing to help producers. The President's fiscal year 2013 budget proposes eliminating direct payments which are made regardless of economic need. This would save $31.1 billion over 10 years.

Many farmers have been struggling due to tight credit markets, and FSA credit programs are a critical piece of the safety net in such situations, particularly for beginning farmers and ranchers. For fiscal year 2010, use of the guaranteed farm ownership program reached an all-time high with direct operating and farm ownership obligations nearly double those of 2008. About 40 percent of the direct operating farm applications are now from first-time borrowers.

Finally, we recognize that these safety net programs are only as strong as our ability to deliver them efficiently to producers. In an era of tight budgets and fewer staff, USDA must continue to work towards better data sharing and streamlined delivery. We are currently working hard implementing the Acreage Crop Reporting Streamlining Initiative, which also involves NASS and NRCS. This initiative will result in common data standards for better reporting, ultimately easing the reporting burden on our farmers and ranchers. Our long-term vision is to allow producers to provide commonly required data just one time instead of two currently.

I also want to emphasize that we remain committed to investing in critical IT improvements through FSA's MIDAS project. The first version should be available in 2013.

In conclusion, looking to the future, the volatile market and weather conditions of recent years underscore the importance of a strong safety net to producers. In addition, the safety net should also take into consideration there is a difference between those who are beginning in farming and those who have been around awhile. We need to encourage and enable the next generation the opportunity to make an honest and rewarding life in agriculture.

Thank you.

[The prepared statement of Mr. Scuse can be found on page 197 in the appendix.]

Chairwoman STABENOW. Well, thank you very much. We appreciate your ongoing efforts in working with the Committee and your efforts in the Department.

Mr. Scuse, if you could talk a little bit about implementation, I know that there were some difficulties implementing new farm bill programs from the 2008 farm bill. I wonder if you might explain what were the biggest implementation challenges, what assurances you can give us about timely implementation of any changes we would make at this point, and what are the two or three main issues that you think we should keep in mind in designing any program from an implementation perspective.

Mr. SCUSE. Well, thank you, Madam Chairwoman. In the 2008 farm bill, the one we are currently working under, I believe we had to implement 15 new programs. We also had to modify, I believe, 17 existing programs.

When you look at the issues that we face, just the complexity of trying to implement these programs and to write the software that was needed to implement these programs, two very complex programs that I will use as an example would be ACRE and SURE. These programs are very complex, very different than what we had done in the past. The data that is required to make the payments under those programs, the information that has to be provided by the producers, it created a tremendous burden on the staff at USDA to come up with an implementation process for those programs.

We would encourage the Committee to have as simple and as easily understandable programs as possible going forward so that we can implement them in a timely manner and that our farmers and ranchers across the United States will have a better understanding, an easier understanding of what we are trying to accomplish.

Chairwoman STABENOW. Well, thank you. I know this is something that both Senator Roberts and I are very concerned about achieving, both from the standpoint of the Department, but particularly from the standpoint of farmers being able to use what it is we put into place and have it be effective.

When we talk about risk and the tenets of risk management, reducing the risk for farmers—which is what we are all talking about now, how do we provide that risk management—how do you see the various programs within the current farm bill meeting those criteria of risk management?

Mr. SCUSE. Well, again, I think crop insurance, as Senator Roberts pointed out, is a key component for managing risk today. It is very important. It is used by a large percentage of our farmers and ranchers today across the United States. Even those 14 underserved States historically, if you look at the numbers, the farmers in those areas have been increasing their participation. So I think it is recognized pretty much across the United States, the important role that crop insurance plays in managing the risk.

I know that the SURE program has been one of controversy because it actually has paid out a year in arrears. But when you look at what the SURE program has also accomplished, in those areas where we have had major disasters, where there has been a secretarial declaration, this provided additional assistance to those farmers in areas that did have a devastating disaster. So that helped, on top of the regular crop insurance that they have had. So I think that those two programs have been very important.

If you look at other programs, I think, the President has asked that in his budget the five programs that expired in September be renewed or programs similar at a similar cost. If you look at what these programs have also done for our livestock producers around the United States, I think for the first time ever, 2008 really helped our livestock producers for those that suffered losses, weather-related losses in areas around the United States, and it was used extensively. So these programs have been very helpful in our farmers and ranchers managing the risk that they have on a daily basis.

Chairwoman STABENOW. Great. Well, thank you very much. Rather than ask another question, I am going to yield back 20 seconds in the interest of efficiency on the Committee.

Senator Roberts.

Senator ROBERTS. Something very rare for a Chairperson of a Committee.

Chairwoman STABENOW. That is right. Remember that.

Senator ROBERTS. I will try to remember that.

Chairwoman STABENOW. That is right. Remember that.

Senator ROBERTS. Michael, I had a lot of concerns with the farm bill last fall. That is the one we submitted to the super committee. But I was generally pleased with the improvements we were able to make to crop insurance during that process, and I want to really thank you for all the technical help that you and your staff and that of the general counsel provided during that process.

Do you have any feedback or comments on the work we did on the crop insurance last fall? Your answer is, "Yes, and it was wonderful work."

Mr. SCUSE. Yes, and it was wonderful work, Senator.

Senator ROBERTS. Thank you. I appreciate that.

[Laughter.]

Mr. SCUSE. I hope the rest of the questions are that easy.

Senator ROBERTS. You know, that did not quite go the way I wanted it, but at any rate.

[Laughter.]

Senator ROBERTS. All right. Let me talk a little bit about the President's budget, and it is a blueprint. I know the Majority Leader has indicated that that is not going to be considered in the Senate, but at least it is a blueprint. It took money away from crop insurance, and it reinvested it in a disaster program, where you have indicated in the case of SURE you have to wait 18 months for little, if any, help.

I have not had a single farmer tell me that they prefer a disaster program to crop insurance. My question is: Have you?

Mr. SCUSE. No, I cannot honestly say, Senator, that I have, although in my conversations with members of the agricultural community, where they have received some of the payments such as the SURE payments, they have been very appreciative of what they have, in fact, received.

Senator ROBERTS. I am sure they have, but the process involved involves a lot of paperwork, and as you have indicated, a year to 18 months away, that is when you get the payment. I am not sure the lender really appreciates that. It would seem to me that we could come up with a better way of addressing this, if, in fact, the Crop Insurance Program that we have tried to strengthen and improve in our markup and what we did for the super committee. Obviously, if you have some kind of revenue program layered on top of that, or wherever it would be, certainly we could hope to do a little better in terms of the delivery.

I am not trying to pick on the SURE program. I know it is very helpful, especially in the Northern States.

The budget proposal just did not take cuts to the companies. That is an easy target, although the number of companies has really dramatically been reduced down through the years or fallen down through the years. But that budget proposal cut the premium assistance to farmers and ranchers, and that is right out of the producers' pocket, and I just wanted to make that comment.

How do you think the private delivery system of crop insurance is actually working?

Mr. SCUSE. Thank you for that question because I think it is the very best example that we have of a private-public partnership. Our delivery system, in my opinion and in the opinion of many others, is outstanding. We are doing a great job working with industry to deliver an outstanding product to farmers and ranchers across the whole United States. It has worked. It has been very effective. I think that for the most part everyone is happy with the way that we are currently delivering our crop insurance products. If I would have one thing to request, it would be going forward that the Risk Management Agency and the Crop Insurance Board be given some additional flexibility in helping to develop new programs, new products for our farmers and ranchers going forward.

So I would ask for that flexibility going forward, but I think the current delivery system is one that is outstanding.

Senator ROBERTS. Well, thank you for that comment. Do you think the RMA is making too many unilateral decisions and not really soliciting the industry's input? We hear that from the companies, the agents, all those folks that are responsible for delivering the crop insurance. What do you think?

Mr. SCUSE. Senator, I have to disagree with that. I think we are listening. We are meeting with industry. In fact, I just had a meeting with industry in the past 6 weeks. I have agreed to personally sit down with them on a quarterly basis and go over the issues, inform them of the direction that RMA is headed and solicit their input. My door has always been open, as has Administrator Bill Murphy's door always been open.

So we have regular contact with industry, and we do listen to the industry, and we do want and solicit their input in the decision-making process.

Senator ROBERTS. All right, sir. Thank you.

Chairwoman STABENOW. Thank you very much.

Senator Baucus.

Senator BAUCUS. Thank you, Madam Chairwoman, and thank you, Mr. Scuse, very much for attending. I just have two points I would like to explore with you: one is the livestock disaster assistance programs and, second, the need for greater assistance for beginning farmers. You have touched on both.

It is very clear to me that the disaster programs we enacted in 2008 are an improvement over prior years. In prior years, whenever there was a disaster, producers, whether grain or livestock, had to wait for Congress to decide whether or not there was going to be any assistance. When Congress finally did act, if it did, then producers had to choose between certain years, and it was kind of a hodgepodge, frankly, in my judgment, inappropriate for a sophisticated farm program.

I would just like you to tell us the degree to which you think the current disaster—I am talking now about livestock, in particular—indemnity, forage, so forth, the plans work and the degree to which you think they should be continued. As you answer the question, let me tell you that with the disasters we have had, whether it was the Mississippi Basin flooding or the drought we have had, in Texas especially, it seems to me that the livestock programs have helped significantly, provided some certainty, some assurance to producers.

So your thoughts on the livestock programs, the livestock disaster programs, the degree that they should be continued or perhaps even improved?

Mr. SCUSE. Thank you, Senator. I could not agree with you more. These programs are essential to our livestock producers. The issues that we have faced since 2008 with extreme cold in areas of the country like yours to the flooding that we have experienced this past year, the droughts that occurred this past year in the southern part of the United States, we have been able through the Emergency Livestock Assistance Program since 2008 to provide $30 million to our producers. For the Livestock Forage Program, that number is $550 million to help our livestock producers obtain hay and other grain or forage products to feed the livestock in these areas where we are facing these tremendous droughts or where flooding has occurred and have not been able to pasture. The Livestock Indemnity Program, Senator, has paid out $145 million so far.

So if you look at the assistance that we have been able to provide our livestock producers, it is extremely important in my mind, and that is one of the reasons why the President has recognized the importance of these programs, and that is why he has asked for a continuation of these or similar programs. They have been very helpful for livestock producers.

Senator BAUCUS. Would you have any suggestions to improve them? Or do you think they are working pretty well? What do you think?

Mr. SCUSE. Senator, I do not know of anything that we cannot improve upon, and we would be more than willing to work with you and with the Committee to look at ways that we can improve upon these very important products for our livestock producers.

Senator BAUCUS. I appreciate that because, I can tell you, in my home State of Montana it has made a big difference. There has been a lot of flooding at times and drought, and I have talked to a lot of producers who are very grateful, frankly, that there is something there. It is, not full indemnification, but there is something there that has helped.

Mr. SCUSE. It is. At least there is something there to help these producers get them through to the next year. But, again, we would be more than willing to work with you and the members of the Committee——

Senator BAUCUS. I appreciate that. How do we get more younger people into agriculture? You know, with land prices going up so much and input costs going up so much, it is tough to get into it.

Then with younger farmers to some degree competing with the Government under CRP, I know we have this transition program. What do you advise, how do we help get younger Americans into farming?

Mr. SCUSE. Well, we are helping young and beginning farmers enter into agriculture through our loan program at the Farm Service Agency. As you know, it is very difficult for a young or beginning person to obtain the credit necessary to get into agriculture today because of the high costs. So we are there with the Farm Service Agency to help them obtain credit to help their young and beginning farmers get started.

We are exploring ways to help those getting into agriculture, make crop insurance more affordable for them, and we will probably be coming to the Committee and working

with the Committee on suggestions to help them obtain crop insurance as well.

Senator BAUCUS. My time has expired, but I have got to tell you, kids come to me and say, "What can we do?" It just happened yesterday. Some kids from Terry, Montana, out in the eastern part of the State, that was their main question: "What can we do? We are young and we want to get into agriculture." So I hope you will work really aggressively on that.

Thank you.

Chairwoman STABENOW. Senator Baucus, just to reinforce that, we have Ryan Best, who is the president of the FFA, joining us later today. We are going to ask him exactly that.

Senator BAUCUS. Good.

Chairwoman STABENOW. That is such a critical question, so thank you very much.

Senator Johanns.

Senator JOHANNS. Thank you, Madam Chair. Good to see you.

One of the things that occurs to me about this farm bill process is that you think about the debt and the deficit and everything else going on, and keeping it simple is very, very important in delivering a farm bill that is thoughtfully crafted, straightforward policy, not wasteful. All of those things just make a tremendous amount of sense if we are to get a farm bill done this year. So let me ask you some questions specifically about keeping it simple relative to risk management.

The first question: Do you see raising target prices as an appropriate risk management tool?

Mr. SCUSE. That is a very good question, Senator, and I think that in Senator Roberts' opening statement, he pointed out that sometimes there are things that are done by the Government that have unintended consequences. So whatever is done in the farm bill, we have to be very careful that we do not have those unintended consequences.

Senator JOHANNS. I will just be very honest with you. I think it is a bad idea, and the reason I do is because I think it is market distorting. I think it sends the wrong signals. Instead of managing risk, you are enticing people to plant a certain crop because of a Government program. That is what occurs to me about raising target prices. Is that what you were referring to in reference to Senator Roberts' testimony?

Mr. SCUSE. Yes. Again, there is the opportunity that if things are done that go too far, they could have some unintended consequences, so, again, that would distort the market. So we have to be very careful going forward and crafting the next farm bill, and that is why we are willing to work with the Committee, provide staff any information that the Committee needs going forward to help in crafting a farm bill that I think you pointed out, it has to be simple. We want a farm bill that is fair across all the commodities from one part of the United States to the other and one that is defensible. You have pointed out we need to be able to defend this to our consumers and to the taxpayers of the United States.

Senator JOHANNS. Let me go to my second question then, and it relates to the SURE program. I suspect you know that I am on record many, many times being very critical of the SURE program. I thought it was—when the idea surfaced, it looked enormously complicated to implement. I think you have substantiated that today. I agree with Senator Roberts. I have been all over Nebraska asking farmers about risk management. They talk about crop insurance. Nobody supports SURE. It is seriously delayed in getting help to the farmer. I mean, it is just a very, very flawed program.

Doesn't it make more sense—and this is absolutely opposite of what the administration proposed—instead of spending $7 billion, or whatever it was, on a program that farmers do not even support, to take that and improve the Crop Insurance Program and do the things that maybe farmers say about crop insurance, like multi-year disaster, and try to deal with those situations versus investing it in a program, SURE, that does not work for farmers?

Mr. SCUSE. Well, Senator, we are going to continue to try to do what we can to improve our Crop Insurance Program. Over the last 3 years, we have developed new programs; we have come out with pilot programs. We have actually done the rate review and looked at our methodology so that we could take a look at rates that farmers and ranchers are currently paying. So we are going to continue to make those improvements with crop insurance to provide more and better products for our farmers and ranchers across the United States.

Having said that, though, in areas of extreme disaster, which we have seen this past year, crop insurance may not help some of our farmers and ranchers get entirely through to the next year.

Senator JOHANNS. But my point is that in areas of extreme disaster they are going to wait an eternity for any kind of help. So if you have now been flooded, like we were along the Missouri all last summer, waiting until a year and a half to get support does not make a lot of sense.

Mr. SCUSE. That is the complaint that I have heard from the agricultural community as well. The SURE program was developed as a whole-farm revenue where we look at the revenue from the whole farm during a disaster to determine what the payments are. So you have to wait for the marketing year to end so you can determine what the revenue for the farm was, and I understand that. But we will work with the Committee to help develop something that will fit the Committee and the farmers' needs.

Senator JOHANNS. Thank you, Madam Chair.

Chairwoman STABENOW. Thank you.

Senator JOHANNS. I took your 20 seconds plus.

Chairwoman STABENOW. That is all right. Thank you.

Senator Bennet.

Senator BENNET. Thank you, Madam Chair, and thank you for having this series of hearings. Mr. Scuse, thank you for your service.

As you know, the Chairman and the Ranking Member I think worked extremely hard to present the super committee with some recommendations about what we ought to do with respect to agriculture. Unfortunately, they did not do their job, and now we are facing an expiration date for the farm bill this year.

I wonder if you could share your thoughts with the Committee about what from your perspective the administrative challenges might be if we do not reauthorize, if we do not pass a bill. What would the USDA face if we delay reauthorization? What might it mean for Farm Service Agency offices working with producers in Colorado, just to take one State that I am familiar with?

Mr. SCUSE. Senator, as a farmer, I am more concerned about the impact of not having a farm bill on the farm community. With the high cost of production today, with the risk that our farmers and ranchers face, be it weather related or market oriented, to go into next year without a farm bill, without any certainty of what the programs are going to be, I think would have a huge negative impact and a tremendous burden on our farmers and ranchers across the United States.

We really and truly do need a farm bill going into next year, so my concern is not with USDA and what is going to happen to us. My concern is what is going to happen to our farmers and ranchers if we do not have a farm bill and they do not have the information that they need to make good, sound business decisions.

Senator BENNET. I think that is very well said. What will that lack of predictability cause for farmers, do you think?

Mr. SCUSE. The uncertainty on what types of crops to plant; a great deal of uncertainty as to when to market those products that you intend to grow; planting, what can and cannot be planted on certain acreage. So it would create a tremendous hardship.

Senator BENNET. You know, one thing I hear a lot is people talk at home about they just simply cannot understand the dysfunction in Washington. I say often that one of the bright spots is the work on the Agriculture Committee where we have a very bipartisan approach to what we are trying to do. So I am very optimistic that we are going to be able to get this done, and I think you are right to focus our attention on our farmers and ranchers as the people that are most affected if we fail to get it done.

I wanted to follow up on that question that Senator Baucus was asking you about the next generation of farmers in this country. We know that only 6 percent of farmers and ranchers in the United States are 35 years of age or younger. In my home State of Colorado, agriculture generates $40 billion in economic activity, and it is frightening to me to think that we are struggling to find the next generation to carry on this vital and historic State industry. So we need to continue to try to break down the barriers that prevent young people from pursuing agriculture, and I wonder if you could speak with more specificity about how the agency's risk management tools like crop insurance and others are helping to accomplish this goal?

Mr. SCUSE. Senator, there are a lot of different ways that we can help, in my opinion, to get young people involved in agriculture. Right now I think that the best thing that we have going for us today is our market prices. When you look at commodity prices where they are today, when you look at the livestock prices and where they are today, there is hope that they are going to be able to actually make a living in farming. Unlike in past years with low commodity prices, low livestock prices, our young people were going to be going out there working with no hope of ever really making a decent living. Today, with the prices, I think that is one encouragement.

Through our loan programs at USDA, where our young people are having difficulty obtaining credit from traditional commercial lending institutions, we are there to provide assistance for them. And, again, we are looking at ways through the Risk Management Agency to make crop insurance more affordable for them, so once they obtain the credit that we can help them buy the coverage that they need to protect their investment. So we are looking into doing that, but there are things that we are looking at doing going forward to encourage and help our young people.

Senator JOHANNS. Thank you. Thank you for your testimony.

Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much.

Senator Grassley.

Senator GRASSLEY. Thank you, Madam Chairman. Thank you, Mr. Secretary, for coming to my office where we had a chance to visit and get acquainted. I appreciated it very much. I have just a couple questions, two different subjects.

There are still people who are attempting to meet the actively engaged test by simply saying that they are involved in the management of a farming operation, but the participation seems to be one or two conference calls a year with other partners in the farming operation. These so-called managers—and I use that word loosely—of the farms who do not really provide any necessary function in my judgment should not be receiving farm payments. You know I have been involved in that issue for a long period of time, and we passed some legislation in the last farm bill that we thought would take care of it. But I do not think it has really taken care of it in a very good way.

Wouldn't you agree that people who are not providing any real management for the farm should not be allowed to get farm payments? If you agree with that, do you have any comments about what FSA is actively doing to close the loophole?

Mr. SCUSE. Well, Senator, I would agree that we should only be making payments to those who should, in fact, be receiving them. I know that there was an attempt in the last farm bill to close and restrict it additionally. There is a feeling, as you just indicated, that maybe that did not happen. But we are willing to work with you and the members of the Committee to see what can be done for further clarification.

Senator GRASSLEY. I do not think you have to work with members of the Committee. I just think you have to carry out the intent and spirit of what we passed in the last farm bill. But if you want to consult with us, I will be glad to consult with you.

Mr. SCUSE. We would appreciate the opportunity for that conversation, Senator. And, again, we thank you for the comment.

Senator GRASSLEY. Okay. The Crop Insurance Program has been a true success story. Farmers have skin in the game by paying part of the premium, and we are able to help ensure farmers make it through tough times and severe crop losses and a lot of other things that are beyond the control of farmers, like politics, international things, energy policy, the Strait of Hormuz being closed, and who knows what is going to affect farmers' income. So that is where the Crop Insurance Program comes in very well. It helps ensure that we continue to have a safe and abundant food supply as well.

That being said, I continue to hear from independent crop insurance agents regarding frustrations with the SRA process. It seems to me the biggest complaint is the lack of input that these agents feel that they had in the process. Do you have any suggestions for improving the SRA process if, in fact, you feel it needs to be improved, and if so, addressing some of the concerns of the independent agencies? Or might you think that the agents might not have a point? Although I want you to know that I believe they do have a point. Go ahead.

Mr. SCUSE. Thank you, Senator. As I stated before, my door is always open, as is Administrator Bill Murphy's door, to listen to the agents as well as the companies. I have taken several meetings with the agents, as has Mr. Murphy, but in the negotiation for the Standard Reinsurance Agreement, that is an agreement between the Government and the companies, not the agents, because the agents are working for the companies. So that agreement has to be done between the Government and the agents—or the companies.

You know, we have had discussions with the agents. I do understand that there is some frustration by some of the agents on the whole process. But, again, that is a process that because of the way it is structured, it has to be done between the Government and the companies.

Senator GRASSLEY. Madam Chairman, I will yield back time, except I am going to go down to Judiciary now, and I hope I do not lose my order, because when I come back here to ask a couple questions of the next panel, then I have got to go to the Finance Committee.

Chairwoman STABENOW. Absolutely. Well, we will protect your ranking here in terms of the ability to ask questions. So thank you very much, Senator Grassley.

Senator Klobuchar.

Senator KLOBUCHAR. Well, thank you very much, Madam Chairman. I will tell you that I was just with a number of farmers at my weekly Minnesota morning meeting, and they are really excited that we are moving ahead with these hearings. I know we have a wheat grower testifying later today, so I want to thank you and Senator Roberts for holding these hearings and moving ahead on this really important bill.

Minnesota is the Land of 10,000 Lakes, but it could easily be called the "Land of 80,000 Farms." We are sixth in the country for agriculture.

Mr. Scuse, in your testimony you point out something that all farmers are facing now, and that is the high input costs for fertilizer, seed, obviously gas. High input and farmland costs mean that farmers need more tools, not less, to manage risk. What risk do you think that this Committee should focus on as we consider the work that we need to do to reauthorize the farm bill?

Mr. SCUSE. Thank you, Senator. Again, I think the production side in the last 5 years, as you have pointed out, in many cases our production has doubled, which increases a tremendous risk on our farmers and ranchers, regardless of what you are producing. Even in the livestock industry, if you look at the cost of the livestock industry, it basically has doubled as well in the last 5 years. Then the price volatility, yes, we have experienced several years of very good prices, but as members of this Committee know, that can change, and that can change very quickly. But we need to make sure that we have sound, safe programs available that are, again, simple to administer and easy to understand and that are, in fact, defensible to the taxpayers and the consumers.

Senator KLOBUCHAR. Very good. I know that Senator Johanns and Senator Roberts asked you about crop insurance, and I oppose, as many members of this Committee do, the proposal in the President's budget that would cut $8.4 billion from the Crop Insurance Program. I do support the work we have been doing with the $23 billion in cuts, but I think we actually need to strengthen the Crop Insurance Program.

What efforts are you undertaking at the USDA, understanding the cuts we have already seen, to help improve data-sharing capabilities to streamline the implementation of crop insurance and other farm safety net programs?

Mr. SCUSE. Well, thank you. There are several things that we are doing, Senator. We have the Comprehensive Information Management System, which is an information system shared by the Farm Service Agency and the Risk Management Agency. That will help us do the data mining that is necessary to look at some of the spending that currently takes place within the programs. We have an initiative, the Acreage Crop Reporting Streamlining Initiative, right now that we are in the middle of working on. That is a project between FSA, RMA, NASS, and NRCS where we are coordinating information, as well as streamlining how we identify things.

What this ultimately will do is it will allow our farmers and ranchers to do a single crop report rather than currently reporting their acreage to the FSA office and their agent, to do one crop report and then that information will, in fact, be shared. This will also help NRCS and NASS as well in their jobs. Then there is the MIDAS project.

So ultimately where we would like to be is for a farmer and rancher to actually do a crop report at home that would go to the Farm Service Agency as well as to their crop insurance agent.

Senator KLOBUCHAR. Even though we have had a strong agriculture economy with record receipts and exports, you have said that you have seen an unusually high number of producers applying for direct operating loans from the USDA. What are lending conditions like now? What issues are banks and the Farm Credit System looking at when deciding on whether to lend to farmers?

Mr. SCUSE. Well, Senator, credit still remains tight in the agricultural community, and one of the reasons is because of the high cost. The amount of money that an individual today has to go to a bank and borrow for operating costs is tremendous. Because of the risk that is associated with farming, many of our traditional commercial lending institutions are very reluctant to lend money to those that they deem even a slight risk, or especially to a young or beginning farmer. So that is why we have seen the increase in the use of our programs over the last couple of years.

Senator KLOBUCHAR. Very good. I am going to ask a dairy question, but I am going to let my colleagues go on. I will put this in writing. I know you will look forward to getting it.

Mr. SCUSE. Thank you.

[The question of Senator Klobuchar can be found on page 243 in the appendix.]

Senator KLOBUCHAR. Thank you.

Chairwoman STABENOW. Thank you very much.

Senator Thune.

Senator THUNE. Thank you, Madam Chairwoman and Senator Roberts, for having the hearing, and I appreciate we have got a good cross-section of people who are going to be testifying today and providing some guidance as we prepare to write this farm bill, and so I look forward to the testimony.

Representing South Dakota, agriculture is our number one industry, so I take my position on this Committee very seriously and want to make sure that we get a farm bill put in place that ensures we have a good economic safety net when production and economic downturns occur, but also it preserves the Nation's food security and current affordability levels for food. I know farmers are very concerned about the issue of deficit reduction as well. I think that is something that people across this country, particularly in farm country, get and want to make sure that we are doing our part.

I want to thank you, Mr. Secretary, before I start my questions, first of all, by saying that the decision was made—I know you worked with Secretary Vilsack in the recent announcement—for an additional 1 million continuous CRP acres in the United States. I look forward to seeing more SAFE and duck-nesting habitat acres added to South Dakota's portfolio of CRP acres, but that was a really important announcement and one that we very much appreciate.

Let me just say, if I might, I think we ought to have several goals in this farm bill, particularly with regard to the commodity title. First off, we have got to make sure that agriculture continues to do its part in reducing the Federal deficit, which I mentioned earlier; provides an economic safety net only when needed; provides equitable treatment across all sectors of commodity production and does not affect farmers' planting decisions; and, finally, helps and encourages farmers to protect the sustainability of their land. Those are the five goals that I think we ought to have in mind as we write the commodity title in this farm bill.

I wanted to ask you, Mr. Secretary, about the ACRE program and perhaps your ideas and guidance as we look at what might fill the role in the commodity title in this bill. The ACRE program required that producers bring in 5 years of production records as part of determining acre eligibility and also utilized marketing year averages to calculate prices. If a revenue protection program would be created in the next farm bill to replace ACRE, SURE, and direct and countercyclical payments that is not restricted by fruit and vegetable plantings, that is not capped by base acres on a farm, and which utilizes existing records already available at USDA—and when I say that, that would include actual production history records from RMA, crop reporting district yields from NASS, RMA harvest prices, or an average of the first 5 months of the marketing year for a crop if harvest prices are not available—would you agree that developing a program using those parameters would be easier for FSA to administer than ACRE and SURE and more likely to provide timely payments?

I know there was a lot loaded in that question, but if you had something that sort of followed those basic parameters, would that make more sense than what we have today?

Mr. SCUSE. Senator, there is no doubt that ACRE and SURE were very, very difficult for us to administer. I think if you look at the low participation in ACRE, it was because it was so hard for our producers across the country to fully understand and comprehend. I am not too sure that even today I fully understand it. So it was a very difficult program to understand, and I think that is one of the reasons why we had low participation, and it was also very difficult to implement.

But, we are more than willing to work with the Committee to help in the development of programs that are going to be easy and that can be understood and easily implemented. So, we are looking for, going forward, something that we can administer and we can get out in a timely manner. So we are more than willing to work with the Committee to help develop something that can get the Committee and the members of this Committee to where they want to be.

Senator THUNE. Okay. Well, as some of my colleagues know, I have worked with some of my colleagues on this Committee to develop a program that sort of fits within those parameters I mentioned that is more timely delivered and easier to administer, I would believe, for FSA and certainly easier to understand for producers. So the ARRM program is the program to which I am referring.

In your opinion, is there a danger of having too much dependency on crop insurance as a safety net for production agriculture? Let me give you an example. If you had certain farm bill proposals out there that would add additional layers of crop insurance on existing coverage, will that make crop insurance an even greater target by increasing subsidy costs and potential indemnities further beyond the $10 billion-plus that is going to be a record that we set here in 2011?

Chairwoman STABENOW. I would ask you to be brief in your response.

Mr. SCUSE. Very brief. We are out of time.

Senator, we would have to take a look at it. Again, we would be more than willing—the Risk Management Agency and Farm Service Agency—to take a very hard look and provide you with an answer.

Senator THUNE. Okay. Thank you.

[The following information can be found on page 272 in the appendix.]

Chairwoman STABENOW. Thank you.

Senator Lugar.

Senator LUGAR. Thank you. Thank you very much, Chairman.

Let me just focus on one specific part of the farm situation, and that is, the Sugar Act. I want to include in the record with your permission, Madam Chairman, a brochure recently submitted by the trade people in Canada, and it says, "North America's location of choice for confectionary manufacturers."

The Canadians point out that manufacturers of confectionary goods in the United States ought to move to Canada, or if they are going to invest any more, they surely ought to invest in Canada. They cite the fact that the cost of sugar is 30 to 40 percent less in Canada and, furthermore, to indicate how much of a movement has occurred with these products freely traded in the NAFTA Treaty, they say the balance of payments just on confectionary goods alone has shifted to a $700 million advantage for Canada in the last year. In the charts, they show a graph that shows a huge change year by year for the last 10 years.

Now, in large part, this is because of our Sugar Act, which leaving aside confectioners and the jobs and the manufacturing that are involved, that means that each one of us who had a spoonful of sugar this morning in coffee paid 30 or 40 percent more than we should have for it because of the Sugar Act, essentially.

I raise this because it is a very specific part of farm legislation, but it seems to me a totally indefensible one, and I state that asking for your opinion as to whether the Department of Agriculture would favor removing that from the farm bill in which we are now involved. Or is there some aspect of the Sugar Act that you would like to defend?

Mr. SCUSE. Well, Senator, there are many factors that go into the price for sugar. We are required to run the sugar program at no cost, so we have to be very careful about the amount of sugar that we import on a yearly basis. But, there are a lot of factors that go into what affects the sugar price. There have been weather-related issues in other parts of the world that have caused a spike in the world sugar price. If you look at some of the countries in South America that traditionally have supplied sugar, that sugar has gone into ethanol production.

If you look at what has happened to the United States with our sugar production, just this past year alone, weather-related issues, there was a decrease in our beet crop this year. So there are a lot of factors that go into this.

There are many people that are very happy with the way that we are currently running the program, and, again, it is being run at no cost to the taxpayers of this country. We are trying to manage it as best we can, to be fair not just for the growers, not just for the refiners, but the end users as well.

Senator LUGAR. That has always been the defense, that there was no cost, and other parts of the bill cost money. The cost is to each one of us as consumers. As I stated earlier, if you used a spoonful of sugar this morning, as an American citizens you paid a whole lot more for it than you should have by any sort of supply and demand.

As a matter of fact, confectioners in this country imported sugar at very unreasonable cost, over and above all that is mandated by USDA, just to stay in business, and that is the reason the Canadians are making a plea, and it is a fairly successful one. We are talking about jobs now moving out. That affects Americans. That is a cost and the cost to each of us as consumers.

Now, I make this point because the Sugar Act is sort of hidden beneath the covers in a way. There is, as you say, no cost to it, the question of very complex administration. But clearly it is an act that raises the price of sugar for those who are growing sugar in America. It keeps out sugar so that that price remains much higher than it should by any market standards, even up and down in the world.

So I ask for your reconsideration of this. I hope you will reconsider it as we deliberate in this Committee.

I thank you.

Chairwoman STABENOW. Thank you very much, and the document, Senator Lugar, that you asked about will be included in the record.

[The document can be found on page 235 in the appendix.]

Chairwoman STABENOW. Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chair.

Thank you for being here. You just mentioned in regard to sugar a number of other factors that determine price and problems with production. In regard to target prices, I would really encourage us to keep that on the table in the sense that certainly, it depends on the price, it depends on the crop. There are a number of different issues that go into that. Also, as you mentioned, there are trade issues that distort the market. So if you look at any program that we do, I think you can make the argument that if you go too far, you can have a distortion of the market. Certainly none of us wants that in the sense we do not want everybody growing the same thing. But I would really encourage us to keep target prices on the table as we go forward and try and figure it out.

You also mentioned the importance of getting something that was equitable for everyone. The problem is that with our crops of today and the different input costs, the different input costs throughout the different parts of the country and how you are farming, it is really difficult to have a one-size-fits-all program. So I hope that you would be, amenable to that.

The other thing is you mentioned a lot of, decrease in funding in your testimony. What does all that total up to ag?

Mr. SCUSE. As decreases in funding for——

Senator BOOZMAN. In the President's budget.

Mr. SCUSE. I think it is about a $32 billion decrease.

Senator BOOZMAN. Now, I am an optometrist, and so we planned ahead. You know, we have 85 employees. What are you planning—what would be next year's decrease?

Mr. SCUSE. Well, that is the decrease that the President is recommending for the farm bill, the decrease, which would include——

Senator BOOZMAN. But ag has kind of taken it on the chin the last couple of years under the current farm bill.

Mr. SCUSE. Well, outside of the farm bill, in our daily operations of funding, the Farm Service Agency has experienced since 2010 roughly a 40-percent reduction.

Senator BOOZMAN. Okay.

Mr. SCUSE. So it has been substantial, but we have also seen a tremendous decrease in personnel since 2003. So we are, in fact, being very responsible, and we are doing more with less all across USDA, but especially at the Farm Service Agency.

Senator BOOZMAN. In regard to the Farm Service Agency, you made the point that you are listening to a number of different groups throughout the country. You had all of the hearings, and FSA is so important in implementing these programs. But, you made the point that you are listening, and yet throughout the country you had all of the input, you had farmers coming to meetings and things, and the reality is that nothing was changed. You know, I do not think a single reversal of FSA closures happened as a result of all of those meetings throughout the country. The law is pretty clear in regard to the 20-mile limit and some other things, and I guess what I would encourage is we need to listen, but we also need to act on what we are hearing.

Mr. SCUSE. I appreciate your words, Senator, but a final determination has not actually been done. We did do what was required by law, which is to notify Congress of the action that was taken. But that is not a final determination. That will not come for 90 days after the notice of Congress.

So there have been a lot of comments that were offered up that are in review. In fact, I took a phone call yesterday regarding one of the offices. But Congress has been notified, but a final determination has not yet been made.

Senator BOOZMAN. Well, in regard to the law, it is pretty clear the law says 20 miles.

Mr. SCUSE. Yes, sir.

Senator BOOZMAN. Okay. If I were talking to you about 20 miles, I would not be talking generally as the crow flies. Is that——

Mr. SCUSE. We had to use a determination, and the determination that we used at FSA was as the crow flies from one office to the other. That is how we determined the 20 miles.

Senator BOOZMAN. Now, I know that is how you determined it. I am just saying that in general conversation and general meaning, that would not be the case. I do not think, if we were visiting about 20 miles as farmer to farmer or Congressman to whomever, that we would have that connotation of as the crow flies.

So, anyway, thank you, and I appreciate your being here.

Mr. SCUSE. Thank you.

Chairwoman STABENOW. Well, thank you very much, Mr. Scuse. We appreciate your time again and your input and the ability to work closely with you as we fashion the farm bill. I will say in conclusion that you mentioned wanting more flexibility on new products under crop insurance, and certainly someone representing a diversity of crops, like specialty crops, and certainly I know other Senators who represent rice, peanuts, other areas where crop insurance currently does not provide the risk management they need, we intend to work with you to give you that flexibility and to be able to expand on new products that are very, very important to making risk management successful.

So thank you very much, and we will excuse you and ask our second panel to come forward.

Mr. SCUSE. Madam Chair and members of the Committee, we look forward to working with you in the future. Thank you very much.

Chairwoman STABENOW. Thank you very much.

Well, good morning. We appreciate all of you being here and, again, your patience as we have had to reschedule today, so I hope you have enjoyed an extra day in Washington and maybe seeing some of the cherry blossoms that we had come out just for you because you had to wait a day. So we are very appreciative that you are here as we begin the second panel.

Before I introduce our witnesses, I would like to submit for the record a letter from the American Bankers Association, Independent Community Bankers of America, and the Farm Credit Council detailing their support for the Federal Crop Insurance Program and its importance for our Nation's farmers and ranchers as a vital risk management tool. So, without objection, I will submit that for the record.

[The letter can be found on page 232 in the appendix.]

Chairwoman STABENOW. Now let me introduce our first panelists. We will introduce all four of you and then ask each of you to give 5 minutes of opening testimony.

Our first panelist is Hope Hills. She is from my home State of Michigan where she and her husband grow blueberries on their 213-acre family farm. The farm is located in Bangor, Michigan, and has been in her family since the late 1930s. The Hills are a member of the MBG Marketing-The Blueberry People and market all of their blueberries through their co-op. Mrs. Hills and her husband, Mike, have two children and three grandchildren. We very much appreciate your testimony and your being here today and appreciate your work in Michigan.

I am now going to turn to Senator Roberts to introduce our next witness.

Senator ROBERTS. Thank you, Madam Chairman. I welcome Jarvis Garetson to Washington. Jarvis is a producer from Copeland, Kansas, in the southwest corner of our State, and it is an area that was devastated by drought last year. We are hoping that Mother Nature will be kinder to us. Jarvis asked me to come out and do a rain dance in Dodge City and Copeland, and we did get a little moisture. I better get out there again.

He is a diversified farmer who raises irrigated corn, milo wheat, triticale, and soybeans and cotton, as well as dryland wheat, and milo and cotton. So he is diversified.

He and his family also have an interest in grain storage facilities, ethanol plants, and a cotton gin. He is a leader in his farming community and currently served as the Haskell County Farm Bureau President, and I would be remiss, of course, if I did not mention that Jarvis is a graduate of the ever optimistic Fighting Wildcats of Kansas State University.

Chairwoman STABENOW. I have heard of Kansas State before.

[Laughter.]

Senator ROBERTS. Even wore a purple scarf at one time, as I recall.

Chairwoman STABENOW. I did, but did you see Michigan State in the Big 10? I just want to put that in there for the record.

[Laughter.]

Senator ROBERTS. It would be a long list here if we start this.

Chairwoman STABENOW. I know. I am sorry.

Senator ROBERTS. Sorry, I started it. But, at any rate, Jarvis, thank you for joining us today, and I look forward to hearing about your farm and how it utilized crop insurance to make it through the worst drought since the Dust Bowl.

Madam Chairman, we talk about no hope. Well, Jarvis is a perfect representative of the hope that we have out in southwest Kansas and, for that matter, our entire State. I think that question was raised by Chairman Baucus.

He and his wife, Amber, have five boys, and they farm the farm that was homesteaded by his great-granddad in 1902. That is over 100 years. His parent, Jessie and Jerra, farm with him, and his brother, Jay. That is the kind of operation that you have to build and put together to survive during these very difficult times. So I am very proud that he is here. But if anybody doubts the ingenuity and the perseverance and the hope that farmers have, just let them listen to Jarvis.

Chairwoman STABENOW. Great. Well, thank you so much.

Our next witness is Mr. Bob Carden, who is from central Florida. He is sitting in today for Ruth Gerdes, who unfortunately had to go back to Nebraska today, and as many of you know, she went back because of the crop insurance closing data, and so Mr. Carden is a long-time leader in the crop insurance industry. We appreciate your flexibility and willingness to sit in today on short notice, and we very much appreciate Ruth Gerdes' willingness to be with us and, again, regret that we had to change the schedule. But we are very, very happy that you are here with us.

Finally, we have Mr. Steve Rutledge, who is here, and I know that Senator Harkin and Senator Grassley had hoped to be here. I know they will be coming back to be able to greet you and welcome you as well. Mr. Steve Rutledge is chairman of Farmers Mutual Hail in West Des Moines, Iowa. Mr. Rutledge managed to build a solid foundation of experience over the past 30 years, which included positions in all three of Farmers Mutual Hail's major departments—crop hail, multi-peril, and reinsurance— and then becoming president and CEO. He has since retired but will continue as chairman until the end of this year.

So we welcome all of you, and we would ask you, Ms. Hills, to proceed with your testimony.

STATEMENT OF HOPE HILLS, SPICEBUSH CREEK FARMS, BANGOR, MICHIGAN

Ms. HILLS. Chairwoman Stabenow, Ranking Member Roberts, and other members of the Committee, thank you for inviting me here today to talk about crop insurance. Chairwoman Stabenow, on behalf of Michigan's growers, I want to thank you for being a champion of the specialty crop industry and for your strong support of farmer co-ops. I am humbled to be here before the Committee.

Today I am here on behalf of the National Council of Farmer Cooperatives and as a member of MBG Marketing-The Blueberry People.

My husband, Mike, and I are third-generation blueberry growers in Bangor, Michigan. Mike's grandfather first planted blueberries in the late 1930s and became a MBG member in 1943.

Back in the 1930s, some local people thought Mike's grandfather was nuts. "What do you want to plant those for? You will never make any money at that." Seventy-five years later, those same bushes are still producing. They have provided income for thousands of people through the years and have pumped millions of dollars into the economy.

We started our farm in 1984 with cuttings from those bushes first planted by his grandfather. In fact, our MBG grower number is the same one his grandfather had. We farm on 213 acres, 120 of which are cultivated blueberries. The balance of our farm is woodland, wetlands, a packing facility, and farm buildings.

Being a grower is full of risk, and without crop insurance it becomes a gamble, a roll of the dice. Our operation, our livelihoods are too much to gamble on. We believe strongly in crop insurance as a safety net for our operation. We began purchasing crop insurance in 2002 and have continued each year since.

The best safety net, however, is one that you never have to use. Like most producers today, our risk management goes far beyond crop insurance. On our farm, we have invested heavily to mitigate the risks we face and give ourselves the best chance possible to have a strong crop each year.

My written testimony contains details of other things we do to mitigate risk. All of these things are the first line of defense. Crop insurance is the second.

We all know that agriculture is an unpredictable business due to factors far beyond any of our control. Having crop insurance brings stability to an otherwise volatile business and allows producers to continue farming in the event of a disaster. Even though crop insurance is our fourth largest annual expense, we continue to purchase it. That is how important it is to us.

In 2008, prices fell considerably for blueberries, and we knew it was going to be a lean year. We considered dropping our crop insurance due to the cost. But we decided that the cost of not having it was far too great. We have been fortunate not to have filed a claim in the past 10 years.

Because we have crop insurance, our lender is more willing to finance our operation, which in turn allows us to continue to invest in our business and bring money into our local economy. That said, it is worth noting that the cost of crop insurance without the USDA subsidy would be unaffordable.

Additionally, the availability of crop insurance is especially important for beginning farmers and growers, given the investment involved in establishing a farm.

While crop insurance works for my operation, it may not work for all 300 different specialty crops. Addressing the sheer number of crops and the nuances of each industry is a challenge. Crop insurance for specialty crops is complicated for a number of reasons, including the fact that most are relatively small markets; most do not have futures or options contracts for price discovery; most have complicated good farming practices compared to row crops; there are differences in potential market impacts between perennial crops like mine and annual or semiannual crops; and a large number of non-weather-related risks have to be taken into consideration.

Nevertheless, specialty crop growers must have access to a safety net. Those of us who need crop insurance really do need it.

In fact, some growers are interested in an insurance product that would protect against market disruptions, like a food safety incident that caused harm to an industry. There is room for innovation to meet the needs of specialty crops in the crop insurance arena.

Another issue surrounding crop insurance is whether conservation compliance should be required to participate in the program. NCFC opposes linking conservation compliance to crop insurance.

I would like to mention two other issues.

First, agriculture needs access to a legal, stable workforce. None of the issues that I have discussed in my testimony matter if there are not people to harvest, pack, and process these crops.

Second, given the critical nature of expanding international markets and exports, farm bill programs like the Market Access Program are very important.

In conclusion, agriculture is Michigan's second largest industry, contributing $71 billion to the economy annually. It also supports one of every four jobs across the State. We need to support American agriculture so that Americans can buy produce here. We need to have policies in place that allow American agriculture to thrive.

Thank you again for the opportunity to be here today to share my experience with crop insurance.

[The prepared statement of Ms. Hills can be found on page 141 in the appendix.]

Chairwoman STABENOW. Thank you so much.

Mr. Garetson.

STATEMENT OF JARVIS GARETSON, PRODUCER, HASKELL COUNTY, KANSAS

Mr. GARETSON. Chairwoman Stabenow, Ranking Member Roberts, and other Senators that are here on the Committee, thank you so much for having us here today. What a joy to be in our own capital. It is great to have great people sitting on a Committee as important as this Ag Committee is, and I just want to thank you so much for the opportunity to allow me as a producer to share my story.

As Senator Roberts pointed out, in 1902 my great-grandfather homesteaded in Haskell County, Kansas, broke out the sod. Through blood, sweat, and tears, keeping hold of his bootstraps to keep them pulled up and trodding through the plains of Kansas and then his tilled fields, to raising my grandfather, to him raising my father, my father raising myself and my brother or sisters, and now my wife and I raising our five boys on that original homestead means a lot.

We have got our blood in this land. It means the world to us, and the opportunity to continue operating the same soil for another 100-plus years is one of my brother and my goals of our operation.

With that, as Senator Roberts alluded to, we went through the most devastating crop year in history. We had on our farm less than 5 inches of rain in 18 months concluding on the last year of 2011. That is by far less than what we received through the Dust Bowl in Haskell County. So you take a record low annual rainfall. We had the most 100-degree days in a growing season and the highest average wind speed through a growing season and the stars perfectly aligned for a major farm disaster. Without Federal crop insurance, specifically the enterprise units that we use on our farm, we would be having a farm sale this spring instead of preparing to plant the next crop.

With that, my brother and I use Federal crop insurance as a major portion of our risk management on our farm. My brother and I started farming with money at risk in 1994 when our grandfather retired. We continue to make those payments, and without the Federal crop insurance this past year, well, absolutely we would not have been able to make them, let alone our annual payments to our lenders for our real estate, our equipment loans, and our operating loans.

Federal crop insurance is paramount to the success and longevity of our farm, and our lender has made it very clear that he wishes all of his customers carried crop insurance as we do.

My grandfather, bless his heart, decided he could afford to be self-insured. Times were a little different when he was starting. As has been alluded to, the high price of inputs, we just cannot run the risk, as Ms. Hills stated, not to carry it, and we would love to pay the premium and never have to use it. However, we all have insurance on our car or our house for just in case.

One item that I would like to suggest the Committee consider for improving the Crop Insurance Program is I would highly encourage to have the ability to have enterprise units by practice, meaning enterprise units for our irrigated farmland and enterprise units for our dryland acreage as a separate policy. That would allow us the flexibility that we would need to make better cropping rotation decisions based on what insurance available we would have.

I would also like to suggest that—it is not even a suggestion. I would reiterate the previous testimony of how efficient the delivery of our Crop Insurance Program has been through our agents. If there is a bad agent, they do not last long. We have excellent agents in our county, and I would reiterate that the delivery is very good, and I would hate to see it move away from the private sector.

Thank you.

[The prepared statement of Mr. Garetson can be found on page 107 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Carden.

STATEMENT OF BOB CARDEN, CROP INSURANCE AGENT, CARDEN & ASSOCIATES, INC., WINTER HAVEN, FLORIDA, ON BEHALF OF RUTH GERDES, PRESIDENT, THE AUBURN AGENCY CROP INSURANCE, INC., AUBURN, NEBRASKA

Mr. CARDEN. Chairwoman Stabenow, Senator Roberts, and members of the Committee, my name is Bob Carden, and I am a crop insurance agent in Winter Haven, Florida. I am here today to pitch-hit for my friend, Ruth Gerdes, who is an agent in Auburn, Nebraska. Ruth was supposed to testify yesterday, but she had to go back home because today is the sales closing date for Nebraska farmers.

The testimony I offer is on behalf of CIPA, the Big "I," the PIAA, and the Agents Division of AACI. If Ruth were here, she would tell you that years ago she and her husband almost lost their family farm after suffering back-to-back crop losses and how she figured out that they would not have been in that fix if they had proper crop insurance.

Well, Ruth ultimately became an agent because she did not want anyone else to suffer what she and her family had suffered.

Now, I have been through the same ordeal. After a freeze devastated our citrus groves in 1989, I had a lot of sleepless nights worrying if I could pay the bills. At one point I even worked three jobs to hold on to that farm. I can remember thinking then, if only we had a decent crop insurance policy.

Well, today you could fill football stadiums with families whose farms have been saved by crop insurance. In fact, one of the best witnesses on how indispensable crop insurance is to the family farm is not at this table. Yesterday he would have been seated behind Ruth, but he, too, had to get back to work. His name is Mike Woltemath. Mike and his family farm outside of Hamburg, Iowa. They saw their land, their home, their equipment, and everything they worked for all their lives go underwater during last spring's flooding.

The picture you have and the testimony you received from Ruth of Mike's farm is deceiving because it still looks beautiful in that picture. But those around this table who have seen the devastation of flooding know the wreckage that it leaves behind.

Mike and producers across this country are what crop insurance is all about. It is not about agents or companies or anyone else. It is about the farmers.

So I wish that each of you could have visited with Mike today because he traveled all this way to carry just two messages.

The first is: Do no harm to crop insurance. Do not cut crop insurance but build on it.

And, second, do not let the Government take over the delivery of crop insurance. While Government can take years to pay a producer on a loss, under private delivery of crop insurance farmers are paid in a matter of a few weeks.

As agents, we are not 9:00 to 5:00 employees. We are judged on the quality of risk management advice and service that we provide on some very high stakes decisions— decisions that could make or break a producer's operation. We are part insurer, part financial adviser, part risk management and mitigation team, part farm bill interpreter, and part shoulder of a friend to lean on during tough times.

As agents, we are not judged by when we punch in or punch out but by the results of the advice we give and being there whenever our customers call, and sometimes even when they do not.

Crop insurance was created in 1938 because, without Federal involvement, farmers would not have insurance. But run by the Government, it languished for 42 years. What happened next is what made crop insurance what it is today. In 1980, Congress turned delivery of the program over to the private sector. In 1994 and 2000, Congress passed sweeping improvements, thanks in part to the leadership of this Committee's Ranking Member. In 1996, Kansas State Professor Art Barnaby worked within industry to develop revenue products.

Crop insurance, which today covers $114 billion in liability and which farmers say is their most important risk management tool, stands on the shoulders of people like those seated around this table.

Since the 200 crop insurance bill, I believe the Government has made some mistaken policy choices that could undermine the success of crop insurance. But I am not here to dwell on these points today except to point out that we never know what we have got until we lose it.

Instead, like every farmer, I must look forward, hopefully and with confidence and faith, and see opportunity in the toughest challenges. Budget constraints and critics of farm policy that threaten to undo the important work that people around this table have done over so many years to ensure that people like Mike from Hamburg, Iowa, can continue to do what he does every day. To feed, clothe, and fuel this country and millions around the world are certainly tough challenges. But I have seen the people around this table in action before, and I have faith, hope, and confidence that you will overcome these challenges and, yes, find opportunity along the way, not only to protect crop insurance but to improve it for all our Nation's farmers.

Thank you, and thank you for letting me be here.

Chairwoman STABENOW. Thank you very much.

Mr. Rutledge, welcome.

STATEMENT OF STEVE RUTLEDGE, CHAIRMAN, FARMERS MUTUAL HAIL INSURANCE COMPANY, WEST DES MOINES, IOWA

Mr. RUTLEDGE. Madam Chairwoman, Ranking Member Roberts, and members of the Committee, I am here today to speak on behalf of the 15 companies who deliver the Federal Crop Insurance Program, and I do thank you for this opportunity.

Going last, it seems we do sing the same song a bit, but, nonetheless, you have my written testimony, and from that you know that I have been in the crop insurance business for a very long time. Many of those earlier years were spent as an adjuster, and I cannot tell you how many times I have seen the relief and gratitude on a farmer's face when they realize that, because of crop insurance, they will be back in the fields in the spring and their lives will go on uninterrupted.

This past year was no different. 2011 was perhaps one of the most destructive weather years in recent history. With large farm losses and record high indemnity payments, farmers who might otherwise be out of business are already back in the fields preparing for what we all hope will be a much better 2012 crop year.

When farmers and ranchers are left picking up the pieces after disasters, we are proud to help them by providing prompt delivery of indemnity benefits, often within 30 days or less, compared to up to 30-month delivery with other programs. The responsiveness of the private sector delivery system and the Crop Insurance Program itself is truly unmatched.

However, crop insurance is more than just periodic indemnity payments. It is the key to financial stability for America's farmers and ranchers, enabling them to supply our country with food, fiber, feed, and fuel. It helps provide a farmer access to operating capital, which might otherwise be highly restricted. And, equally important, farmers have also integrated crop insurance and marketing to the point where they are very willing to buy crop insurance at high coverage levels to ensure the adequacy of resources to cover forward marketing commitments should disaster strike.

This has not always been the case. Congress has taken great steps to enhance crop insurance over the years. Reform legislation enacted in 1994 and again in 2000 strengthened the public-private partnership of program delivery and encouraged greater farmer participation. These steps put us on the path to success by combining Federal dollars with farmers' premiums to make otherwise cost-prohibitive policies affordable to farmers of all sizes and all backgrounds, including those of limited resources and social disadvantage.

I want to share some figures with you to demonstrate just how you have made a positive impact on farmers and ranchers. In 2011, crop insurance provided over $113 billion in liability protection. That is compared with only $28 billion in 1998. Also in 2011, nearly 265 million acres were insured compared with about 180 million acres in 1998. In terms of the level of protection producers are buying, well over half the coverage is now at the 75-percent level or greater, and about a fourth is at the 80-or 85-percent level.

Today crop insurance is the cornerstone of risk management and provides coverage for more than 100 crops across the country. As development of the 2012 farm bill progresses, crop insurance is in a unique situation. Crop prices and price volatility are expected to remain well above historical levels, posing significant risks. With this vulnerability comes an increasing sensitivity to further changes to the program and the delivery system.

We respectfully caution against changes to crop insurance that could negatively impact farmers and ranchers. Since 2008, crop insurance has taken more than $12 billion in Federal funding cuts, which sets agriculture apart as one of the only sectors, if not the only, to take repeated budget cuts in order to help reduce the deficit.

Additional cuts such as those proposed in the President's budget could have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers. In short, we risk undoing the great progress made in protecting U.S. agriculture.

What Mother Nature or the extremely volatile commodity markets have in store for farmers and ranchers this year is unknown. But those of us in the crop insurance delivery system will be ready to help ensure their survival when disaster does strike.

Thank you again.

[The prepared statement of Mr. Rutledge can be found on page 179 in the appendix.]

Chairwoman STABENOW. Well, thank you so much to all of you.

Ms. Hills, let me start with you. You talked about the fact that you have never had an indemnity payment, but that it was important for you beyond the payment to have crop insurance. You mentioned that a little bit, but I wonder if you might talk a little bit more about why from your perspective it is important to have crop insurance even though you have been fortunate and not had a payout.

Ms. HILLS. The most important thing is peace of mind, especially this time of year when you wake up in the morning and you do not know. This year we have already had extreme temperatures fluctuating up to 40 degrees above normal. I talked to my husband yesterday. He said the bushes are moving way too far. So this may be a year that we do need it, and we need that protection.

Our lender is more willing to loan us that money that we need to finance our operation. We take that financing, and we invest it back into risk management, such as wind machines, irrigation, pest and disease management. Those are all things that we need, and we need that financing, and he is willing to do that.

Chairwoman STABENOW. Great. Well, thank you very much, and I share your concern, watching the weather, that we do not get an April frost or snowstorm in Michigan like we have done in the past that has wiped out crops. So let us hope we do not.

Mr. Rutledge, could you talk a little bit more about the context for—put in context the numbers you talked about. Of course, we have talked about the $10 billion in payout for 2011, and you mentioned the total liability in acres, but a little bit more context from the standpoint of the kind of crops and farmers covered and the amount of the losses that you have seen in the last year.

Mr. RUTLEDGE. In 2011, out of slightly over 1 million policies in the country, there were about 380,000 that suffered losses. Not all of those were total losses. Some were partial. But they covered over 77 different crops, over 72 million acres, and out of the 380,000 that had claims, I imagine there had to be tens of thousands who probably would have had the farm for sale, as Mr. Garetson talked about, had it not been for crop insurance.

Chairwoman STABENOW. Thank you.

Mr. Carden, talk from an agent's standpoint. What are the major factors and issues that you work through with farmers as they decide what to purchase? How has your advice in their purchase decisions changed over the last 5 or 10 years?

Mr. CARDEN. Well, I think the changes go—I will address it in reverse order.

Chairwoman STABENOW. Sure.

Mr. CARDEN. The changes really come with the level of complexity in the program, some of which ties to just the general complexity of farming in general, the increase in input costs and some of the different risks that are out there now that maybe were not there 10 or 12 years ago. I know I mainly work in a specialty crop environment with citrus, vegetables, and things like that. They have had a number of nonnative invasive pests and things like that that have come into the area, and how to manage that, we cannot really control those with crop insurance in those policies, but we do control the other sides of it and how to weigh out their expenses on the one side versus their expenses for the things that we can insure them for. So we will spend a lot of time doing that.

With those in the tree and bush crops, with the diseases that are there, it is really critical to know the numbers of trees that you actually have producing and things like that, so trying to go over those, to make sure we have got an accurate picture of what we are really insuring and that they are actually protected the way that they should be. So it is things like that. It is a process that—in our case our sales closing date is April 15th. That is a process that we started with our people in November. Then we will go through the summer reassessing at certain point what they have and making adjustments accordingly.

Chairwoman STABENOW. Great. Thank you.

Just briefly, Mr. Garetson, when you are talking about the benefits of crop insurance, could you talk about how this helps you as it relates to marketing your crop or your ability to get operating loans from the bank and the other ways in which this is important?

Mr. GARETSON. Yes. In terms of marketing our crops, we carry the 85-percent enterprise unit level, and it allows us to go out and market up to 85 percent, in essence, of what we believe we will raise or what the insured amount is. So we can be more aggressive on the marketing of our crops, so we do not have to be exposed to more of that market risk. Then on the lending side, as I stated, it is just paramount because, in essence, it is guaranteed income to our lender, and our lender recognizes that value and is willing to loan us more money because we have got that guarantee versus if we carried either a lower level or no crop insurance at all, the amount that we would be authorized to borrow would be much less.

Chairwoman STABENOW. Thank you very much. I am over my time.

Senator Roberts.

Senator ROBERTS. Madam Chairwoman, I want to acknowledge that you have already submitted for the record the letter we received from the lending community, specifically the American Bankers Association, the Farm Credit Council, and the Independent Community Bankers regarding crop insurance as an important component of lending decisions, and I think we have certainly mentioned that more than once here during this hearing.

Senator Thune brought up an interesting situation where he said if we strengthen and improve crop insurance to the point or add more on to it, it does not become a better target or a greater target. And, of course, all of agriculture is a target when people talk about cutting spending.

I just want the record to show that we cut—"we." I did not. We did cut in the farm bill in 2008 $6 billion, SRA cut $6 billion, that is $12 billion we have already cut. I know Mr. Rutledge has some real feelings about that. I just would like to ask you, Jarvis, you are sitting around the kitchen table there with Jay and your parents, and you are going through another dry year. You are talking about target prices, and that is not going to do you any good. Then the countercyclical program is not going to do you any good. The SURE program is one where you do not get a payment for 18 months, and the FSA Director has already testified he still does not understand the ACRE program.

So what do those programs do for you as opposed to crop insurance and the whole strengthen and improve it and maybe add a revenue program on top of that if that is possible? We are, looking at those options. But I do not understand this business of how if we strengthen and improve our crop insurance so that you are sitting around the kitchen table and you can go another year, hopefully, and hopefully we get some moisture. But of the four that have been mentioned, if you take all of that, it has no effect on you. Is that correct?

Mr. GARETSON. That is correct. A high target price is great, but if you do not have any bushels, it does not do much good either. The SURE payment, waiting 18 months, as stated earlier in previous testimony, does not do much for my lender. So those are kind of unacceptable risk management strategies. The direct payments, however nice, they do not fix a disaster. And, obviously, as a producer, I do not want to give up any benefit that I currently have. However, knowing the Federal budget situation and knowing that I need to be involved in helping to fix that, I am definitely willing to prioritize where I want the cuts to come and what I am willing to give up.

As I stated, I am willing to give up everything except crop insurance, and I will lobby or fight or testify or whatever I need to do for however long to make sure that that stays intact.

Senator ROBERTS. I appreciate that.

Mr. Rutledge, there is a lot of talk these days about reconfiguring the Title I farm programs to center on a revenue program. The Chairwoman and I have been wrestling with that for quite a while. Does this concern you at all? If so, can you discuss and rank some of the specific things we can do as we develop a revenue program to minimize your concerns?

Mr. RUTLEDGE. As I understand most of the proposals, they would provide benefits similar to those of crop insurance, particularly at the higher coverage levels. I think this would lead farmers to buy down, buy lower levels of coverage.

After Congress having spent 30 years or more building the program up to the level that we currently have, I see that as potentially a step backward for crop insurance. So that would be one of our primary concerns.

Senator ROBERTS. Am I out of time or is the timer off?

Chairwoman STABENOW. I am sorry. We were just—something happened with the timer, and I think that we were down to zero and it went back up to 5 minutes, and I would object to Senator Roberts getting an additional——

Senator ROBERTS. That is just like running the clock up at the University of Nebraska with Kansas State plays.

[Laughter.]

Chairwoman STABENOW. I think you were just about at zero, Senator Roberts.

Senator ROBERTS. I had one more tremendously important question, but I will have to submit it for the record. Thank you.

[The question of Senator Roberts can be found on page 259 in the appendix.]

Chairwoman STABENOW. Thank you very much, and I apologize for that. We will make sure that does not happen again.

Senator Johanns.

Senator JOHANNS. You know, I think, Madam Chair, I was called on ahead of time—or ahead of Senator Grassley last time, but he was actually sitting here when I walked in, so I think he is ahead of me.

Chairwoman STABENOW. Well, our list had you ahead of Senator Grassley, but if that is wrong, we will——

Senator JOHANNS. I will yield to the Senator from Iowa.

Chairwoman STABENOW. Senator Grassley.

Senator GRASSLEY. I will tell you how I was operating, maybe like some other Committee does. When the gavel goes down, that establishes the seniority for the questioning.

Chairwoman STABENOW. That is supposed to do that and——

Senator GRASSLEY. So I walked out just as soon as you started to talk, not because I did not want to hear you.

Chairwoman STABENOW. Okay. I will remember that.

[Laughter.]

Senator GRASSLEY. Mr. Rutledge, farmers continue to tell me that the crop insurance is a vital tool for managing risk, and they want to keep it the way it is because they know, as I think you have said, $12 billion has already been contributed from crop insurance to paying down the national debt.

My question: I certainly support maintaining crop insurance, but is there anything, in your opinion, that we can do to improve crop insurance for Iowa farmers? But maybe I should not just limit it to Iowa farmers. Any suggestions you have?

Mr. RUTLEDGE. Well, I think the major crops have fairly good programs available to them. There is always a need for new products to be developed for some crops that we just do not have a real good fit for. I think that as we work with the Risk Management Agency—Under Secretary Scuse mentioned the frequent meetings that we plan to have going forward. It would help, as we have those meetings, if we are able to be provided information on a little bit more timely basis sometimes. This past year, we were somewhat surprised by the timing of the announcements of the rate changes, which caused some scrambling around to buy reinsurance for some companies.

But I think the program works very well. The biggest fear we have, I guess, would be that changes would harm the program going forward.

Does that answer your question, Senator?

Senator GRASSLEY. Yes. I would follow up, just from what you reminded me of something. Do you feel that we have the number of people that it takes to administer the program? Very basic to the Crop Insurance Program was that we wanted to be able to service the farmers.

Mr. RUTLEDGE. Efficiency is the primary goal of most of the 15 companies that are left, and, actually, where we have—as a company, the bulk of our employees are in our IT department. It is a very complex program, as Mr. Garetson and Mr. Carden talked about. If there was any way that we could simplify it, make it work a little bit more smoothly, that would be beneficial. But it does take a tremendous number of people, not just from the company's perspective, but I think there are between 12,000 and 13,000 agents across the country. They are busy. Well, as you know, Ms. Gerdes had to go home for sales closing. We cannot really afford to lose any of the people we have and have this program continue as it is.

Senator GRASSLEY. Okay, my last question is about whatever we end up with a new commodity title, and I am not sure how much you have followed some of the proposals that have been floating around. I am not asking about any particular proposal, but if you are familiar with any of them in general, what aspects of the Revenue Assurance Program's proposals cause the crop insurance industry the most concern?

Mr. RUTLEDGE. As I tried to answer Senator Roberts when the clock went kerblooey, most of those proposals, as I understand them, do have benefits that are similar to crop insurance, and the concern would be that they would buy down coverage, buy less crop insurance. After having spent over 30 years building up the program to where it is now, that would seem like a step backward to me. So that would be our primary concern.

Senator GRASSLEY. Okay. I will yield back my time. I do not think I will be able to be here for the next panel. We have an Iowan on there. Would you welcome him for me?

Chairwoman STABENOW. I absolutely will, yes.

Senator GRASSLEY. Thank you.

Chairwoman STABENOW. Thank you very much.

Senator Johanns.

Senator JOHANNS. Madam Chair, thank you.

Madam Chair, thank you so much for mentioning Ruth Gerdes. She is somebody I go to when I have questions about crop insurance. We had a roundtable with farmers, and just so we get the benefit of her time in Washington, I would ask that the statement she prepared be made part of the record.

Chairwoman STABENOW. Without objection.

Senator JOHANNS. Great.

[The prepared statement of Ms. Gerdes can be found on page 111 in the appendix.]

Senator JOHANNS. Mr. Rutledge, let me follow right up with you because I think you are making a very, very important point here. Then I am going to, if I could, turn to—is it Mr. Garetson? Garetson. I want to kind of ask this question of both of you. As I visit with farmers in our State, and some other States, too, they talk about risk management in kind of a holistic sort of way. It is crop insurance. You know, they like their crop insurance. The message I get out of the forums I have done is do everything you can to protect what we have.

But then they also do some work on the boards. They are sophisticated and smart people, and they understand this better than I do, to be honest about it. So they are also managing their risk there.

Is that your experience, Mr. Rutledge, as you work with the industry, that there is kind of a multifaceted approach to risk management?

Mr. RUTLEDGE. Absolutely. The insurance portion is a very important part, but the revenue protection that is provided allows farmers to forward contract with minimal risk. There was a time when I think less than 5 percent of farmers had a marketing plan, and I think that number now has grown multifold with the ability to forward contract because they have the protection from the crop insurance policy. So it really does do far more than just pay for loss of bushels. It provides that flexibility to run your business the way you want to, to forward market, to have a marketing plan that fits your operation, and——

Senator JOHANNS. The banker typically expects it, too.

Mr. RUTLEDGE. Absolutely.

Senator JOHANNS. A banker is not going to loan a lot of money without you having some risk protection, a plan in terms of how you are going to deal with risk.

Mr. RUTLEDGE. Absolutely. I do not know that you could get a loan——

Senator JOHANNS. Otherwise.

Mr. RUTLEDGE. Yes, without crop insurance. In earlier questions to Under Secretary Scuse, I think the question was asked about beginning farmers. They need a lot of money to get started, and without crop insurance, they would never be able to get a loan. You know, that would be primary, I think, for them as beginning farmers.

Senator JOHANNS. Mr. Garetson, do you agree with Mr. Rutledge's assessment on this? Is this how you are managing your risk with your operation?

Mr. GARETSON. Yes, it is. I do agree with Mr. Rutledge, and it is exactly how we manage our risk. What the crop insurance revenue guarantees, it allows us to go out and forward contract a higher percentage of our expected bushels based off of our APHs, and with the assurance that if we have a crop failure or a hailstorm that hits half our farm and we lose bushels there, it would put us below our ability to deliver those bushels. We have got the crop insurance behind that to provide us with revenue to buy out of those contracts or to buy bushels to deliver in place of our own.

Senator JOHANNS. Yes. Very, very important testimony, because it leads me to an observation. I have only got 35 seconds left so I will not ask this in a question, but it leads me to an observation. Farmers tell me, "Crop insurance is working. Please protect it." All of the ideas, then, about plussing it up or adding to it or whatever I think have a real risk for crop insurance. I think you could end up taking a very good product that farmers have learned to work with, with the crop insurance and marketing and working with their banker, and you literally could disrupt that balance. Like I said, I have run out of time so I cannot even ask you about that observation, so write me a letter and let me know what you think about that.

Thank you, Madam Chair.

Chairwoman STABENOW. Thank you. Thank you very much.

Senator Klobuchar.

Senator KLOBUCHAR. Well, thank you very much, Madam Chairman and Senator Roberts. Thank you all for being here.

As Co-Chair of the Congressional Farmer Co-op Caucus with Senator Thune, I was interested to hear more about the importance of crop insurance for farm co-ops, so I thought I would ask you that, Ms. Hills. Understanding that co-ops are as diverse as the farmers that they serve, how do you see crop insurance helping to mitigate the risk your farmer owners face? How does this benefit the strength of the co-op?

Ms. HILLS. Well, if we have crop insurance, of course, then we are able to survive from year to year, and it allows us to continue to be with the co-op.

I am sorry. Could you kind of ask me that again? Then I could——

Senator KLOBUCHAR. Well, no, that is fine. It is just that I think people do not always understand that co-ops are very different depending on the farmers that they serve, the importance of farmers' co-ops, and the fact that crop insurance really helps you to mitigate the risk when you have—with the weather volatility, market volatility, whatever there is, crop insurance is especially necessary for smaller farmers that would join together in a co-op.

Ms. HILLS. Yes, it is.

Senator KLOBUCHAR. Okay. Very good. Thank you. Good answer.

Then, Mr. Garetson, I thought I would ask you about precision farming, and in your testimony you talked about developments in precision agriculture. At our conservation hearing that we had back in February, there was a farmer from Minnesota who testified, and he talked about how the technology actually saves him money and produces environmental benefits in addition to saving money. How do you think we can encourage FSA and RMA to do a better job using data from precision agriculture to help increase the delivery efficiency of our farm programs?

Mr. GARETSON. Yes, on our farm we were early adopters of technology, and I believe with the communications available now, especially through wireless communication with cell phones or smartphones and then with the GPS reference technology, I do not think FSA, given the right steps, would have to do much of a measurement service anymore because on our farm we put in boundaries that we record with GPS locations that identify how many acres are within that field by crop. And——

Senator KLOBUCHAR. Could you just explain for the viewers at home—like 50 people—how you actually do this, like how you use the GPS technology?

Mr. GARETSON. On our equipment, tractors or sprayers or combines—or I have even adapted it to use in my pickup; some use it on their four-wheelers or ATVs—you have a receiver that receives signal from the satellites that are in orbit. Typically, there are 7 to 12 that you are getting a signal from which cross-references your position on the face of the Earth, and then it just records that position as you drive at whatever interval you want, if you want it every 1 second or half second or a tenth of a second. Then it has a program within it that, once you make that boundary or border, figures the area within that circle or rectangle or polygon or whatever shape your field is. So real briefly, that is how you make that map of the field, and when I take that into FSA and compare that to how they draw their maps out, a few times I am two-tenths too many acres or two-tenths too less. But I do not know that I have ever been more than half an acre just off of what I do versus what they come up with.

So it can get real close and very accurate, and then with the technology, with cell phones, smartphones, or uplink with the satellites that are already communicating, I think we can get real-time data collection on whether it is bushels or acres or absolutely planting dates and crop.

Senator KLOBUCHAR. Right, so it just—I am going to move on to Mr. Carden here, but it just helps to make it more economical and do your smartest planting, I would guess, having that information.

Okay. Mr. Carden, crop insurance is often compared to car insurance or home insurance when people who are not as familiar with it talk about it and are trying to estimate the cost it should take for private companies to deliver it. How does the delivery of crop insurance differ from the other types of insurance like car or home insurance? Then could you also answer the question about the volatility that we have seen in today's marketplace and how it has changed the relationship with the agents and the producers? Are you seeing producers significantly re-evaluating their risk?

Chairwoman STABENOW. I will have to ask you to make that very short, please.

Mr. CARDEN. Okay. Well, basically I think there is a great deal of difference between a comparison between crop insurance and auto insurance. Auto insurance is basically something you write once, and you simply renew it at its same level year after year in most cases. You may have a visit with your agent annually afterwards to look at what is there, but it is usually a pretty short meeting. At least when I meet with my auto insurance agent, that is the way it goes.

With crop insurance, I meet with a grower at least—we have at least five contacts a year, and there is no way to get around that, no matter what. In most cases we have more than that. It just takes that much to keep up with what they are doing and make sure they are adequately protected and that they understand the protection that they have.

Chairwoman STABENOW. Thank you.

Senator KLOBUCHAR. All right. Thank you. I will do the second question in writing.

[The question of Senator Klobuchar can be found on page 243 in the appendix.]

Senator KLOBUCHAR. Thanks.

Chairwoman STABENOW. Thank you very much.

Senator Lugar.

Senator LUGAR. Madam Chair, I want to ask a question of Mr. Rutledge, although others may have some more thoughts.

On the Lugar farm in Indianapolis, Indiana, we have three basic situations: soybeans, corn, and hardwood trees. Now, last year, I purchased the 85-percent level of crop insurance, and that was a blessing because our corn was knocked over by very bad winds in one field, and we lost 50 percent of the crop, and we had prompt payment from the crop insurance people, for which we are grateful.

But nothing happened to any of my trees, but you hear from time to time about the ash bore or at least in the case of my black walnuts some disease is coming close to us, so this has led me to wonder what I ought to be doing with regard to my trees. This is shared by other walnut growers throughout Indiana or other tree people with whom I visit.

Let me expand that question and pick up Ms. Hills' thought. There are fruits and vegetables on many farms, and I think you, Mr. Carden, mentioned there may be 71 different types of crops. It is not clear at all to most of us how all of this can be covered. Some would say there are lots of complications—you did so in your testimony—about doing blueberries the same way that you do corn, for example. But if we are as a Committee trying to think of whole-farm insurance, whatever happens on the farm, how do we go about that as a practical matter? Senator Johanns has said you do not want to jeopardize a program that is working well, apparently, with the major crops, and I do not want to do that. At the same time I am impressed by constituents who really want to know if this is the way the farm bill is going, the end of various other situations, how do we provide a sense of whole-farm insurance in which something happens at the Federal level, but you can buy additional insurance for whatever your crop or your specialty may be? Do you have any thoughts about that, Mr. Rutledge?

Mr. RUTLEDGE. Senator, I know you can buy whole-farm crop insurance. I am not sure if your trees would be included in there, to be truthful.

Senator LUGAR. Probably not, but should they be? In other words, I have got a farm; I have got income coming from each of these situations. So that is very important to me to figure out, and so while we are writing a farm bill, I want to think about trees as well as blueberries and apples and whatever. I think we better think of all of this because we are in basic reform here, I think, in this farm bill. We are moving really toward the insurance and the liabilities that come whatever you do on the farm. What would you do, Ms. Hills, given your situation?

Ms. HILLS. Well, we only grow blueberries on our farm.

Senator LUGAR. Yes.

Ms. HILLS. So I can only speak for those?

Senator LUGAR. Are those insured?

Ms. HILLS. Yes, they are. They are insured through our crop insurance. We have an AGR 6575 policy and a CAT policy, so it is multi-peril. Whole farm, because we only grow blueberries, but if I had a farm that had multiple crops on it, I would probably want the ability to have insurance to cover all those—everything that brings me money on that farm.

Senator LUGAR. Is that doable given your experience as professionals in this business?

Ms. HILLS. I do not see why it could not be doable.

Mr. RUTLEDGE. If I may, the one difficulty with whole-farm insurance is the marketing aspect that we talked about with Senator Johanns. With enterprise units you have an entire crop covered, and you know exactly what you can market. You can do some of that with whole-farm insurance. But when you include crops where there is no reference prices and that type of thing, that impacts the marketing plans that you might have. So it is something that needs some work, I guess.

Senator LUGAR. So if we were writing the bill, we would need to find some reference of pricing for each of these situations. At least that would be one point, I suppose, to help you administer the payments and so forth.

Mr. RUTLEDGE. I think that is the case with a number of specialty crops, you need a reference price to provide revenue coverage, which crop insurance can do. You just need that.

Senator LUGAR. Thank you. Thank you all—yes, go ahead.

Mr. CARDEN. Senator, I was going to say there is a product out there that RMA has called "AGR," which is adjusted gross revenue. It is based on your revenue shown on your tax returns over the last 5 years. It is a product that they have not really expanded or ever utilized maybe as well as it could be. It is definitely only offered in a very limited area and a very limited basis. But that could be potentially an all-encompassing thing because it comes right off the Schedule F.

Senator LUGAR. Total farm, total tax return.

Mr. CARDEN. Total farm revenue, that is right.

Senator LUGAR. Thank you.

Chairwoman STABENOW. Well, thank you all very much, and we will proceed to our third panel, unless Senator Nelson had a question for this panel. If not, we will proceed to our third panel. Thank you very much. This is very helpful. Thank you. We will ask our third panel to join us at this time.

Well, good morning. We are very pleased to have you with us and, again, appreciate your staying an extra day to be able to be here for this very important testimony.

I am going to ask Senator Nelson to introduce our first witness. I know Senator Johanns would also like to make a comment. So, Senator Nelson?

Senator NELSON. Well, thank you, Madam Chairwoman. Before I begin, I would request unanimous consent that my introductory remarks for Ruth Gerdes, who was unable to testify during today's panel because of the hearing's changed date, be entered into the record as well.

Chairwoman STABENOW. Without objection.

Senator NELSON. Thank you.

[The remarks of Senator Nelson follow:]

Senator NELSON. Chairwoman Stabenow and Ranking Member Roberts, I have a particular honor and am very pleased today to introduce and welcome Steve Wellman, president of the American Soybean Association, to testify before the Committee this afternoon. Steve farms near Syracuse, Nebraska, where, in addition to soybeans, he grows corn, winter wheat, and alfalfa, and also manages a cow-calf herd.

Since 2006, he has served the American Soybean Association in a number of roles. In addition to his working with ASA, he has been active with Nebraska's corn growers and cattlemen and has served as both president and vice president of his local cooperative. Through Steve's many leadership roles in agriculture, I have had the opportunity to work with him on a number of issues important to both soybean producers and Nebraska's other farmers and ranchers. I am confident that today he will provide a sound understanding of how farm programs work and the benefits of Federal crop insurance as a risk management tool, while laying out proposals on how the Committee can maintain a strong safety net which benefits farmers and rural communities.

It is truly my honor today to welcome Steve and have this opportunity to introduce him as a Nebraskan. Thank you.

Chairwoman STABENOW. Thank you very much.

Senator Johanns.

Senator JOHANNS. Thank you, Madam Chair. Let me do two things very quickly.

The first thing I would like to do is to acknowledge Pam Johnson who is here. Pam and I actually went to high school together in Osage, Iowa, where I grew up on a small dairy farm, and, Pam, if you are back there in Osage and they are wondering, tell folks I found work in Nebraska. All right?

Chairwoman STABENOW. I am going to be asking for some private stories you can use along the way.

Senator JOHANNS. Be careful, Pam.

[Laughter.]

Senator JOHANNS. Then I also want to add my words of welcome to Steve Wellman. Steve is a successful farmer near Syracuse, Nebraska. He really embodies what we love about values of rural America. Not only is he eyeball deep in managing the farm and doing the work necessary there, but he has been active in the Soybean Association and other community matters.

I might also mention that Steve's daughter, Sarah, worked for me recently and just did a wonderful job.

So, Steve, glad to have you here. I do a weekly media call, so I need to step out to take care of that, but thank you for this opportunity.

Chairwoman STABENOW. Well, thank you very much.

Now it is my pleasure to introduce Ms. Pam Johnson, and I know that you heard from Senator Grassley, who was here earlier, that he sends his best wishes and thanks, as well as Senator Harkin as well. It is great to see you again and to have you on the panel.

Currently the vice president of the National Corn Growers Association, Ms. Johnson lives in Floyd, Iowa, where she and her husband raise corn and soybeans. She also manages a seed business and invests in value-added businesses such as ethanol and biodiesel. Mrs. Johnson also serves as director of the Iowa Corn Growers Association and is former chairwoman of the Iowa Corn Promotion Board. We are so glad you are here.

I would like to now turn to Senator Klobuchar for the next introduction.

Senator KLOBUCHAR. Well, thank you very much, Madam Chairman. I am pleased to introduce a witness from my home State who is going to talk about his experience with crop insurance and farm safety net programs on his farm in Minnesota. That is Erik Younggren. He is a fourth-generation farmer in Hallock. Hallock is really far up north in Minnesota. It gets a little cold. He farms alongside his two cousins and his wife, Angela. Mr. Younggren raises a variety of crops, including wheat, sugar beets, and soybeans.

On March 3rd, Mr. Younggren was elected as the president of the National Association of Wheat Growers. He has been an active member of the Minnesota Association of Wheat Growers, and he has represented his State on the Wheat Growers Domestic and Trade Policy Operations and Planning and Budget Committees. He is a graduate of Minnesota State University at Moorhead with a bachelor's degree in finance and a minor in economics.

I want to thank Erik for being here today to testify.

Chairwoman STABENOW. Great. Well, thank you very much.

Next we have Mr. Jimbo Grissom. Mr. Grissom is the president of the Western Peanut Growers Association and has been farming since 1978—when you were 5 years old, right?

[Laughter.]

Chairwoman STABENOW. He has grown everything from peanuts to corn to cotton to wheat. He credits his wife for not only taking care of him and his family, but also being a good hands-on business partner. We welcome you here today.

Now I believe Senator Cochran had wanted to make the following introduction but is not here, and so I am pleased to be able to introduce Mr. Travis Satterfield. Mr. Satterfield is a partner with Satterfield Farms in Benoit, Mississippi. He has held multiple positions, including chairman and director on various farm policy task forces, Farm Bureau federations, and committees in Mississippi and Arkansas. We are very pleased to have you here with us today as well.

Then we have Mr. Chuck Coley, and again—I just introduced—Senator Cochran, I do not know if you want to say a word. I just introduced Mr. Satterfield who is from your home State of Mississippi, and so I think I was just a minute ahead of your getting here, but certainly you are welcome to say a word of greeting.

Senator COCHRAN. Well, I am happy to join you in welcoming the panel of witnesses. Their testimony is very important to our understanding of the challenges faced by producers, and I am glad you are including rice producers and a very fine representative from our State who is knowledgeable and successful in spite of the unusual challenges that that vocation presents.

Thank you.

Chairwoman STABENOW. Thank you very much.

Last, but certainly not least, Mr. Chuck Coley is currently Chairman of the National Cotton Council of America in Vienna, Georgia. In addition, he is the president of Coley Gin and Fertilizer Company. Mr. Coley and his wife have a son and a daughter, and we very much appreciate your being on the panel today.

We will turn first to Mr. Wellman. Welcome.

STATEMENT OF STEVE WELLMAN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, SYRACUSE, NEBRASKA

Mr. WELLMAN. Well, thank you, Madam Chairwoman and members of the Committee. A special thanks to Senator Nelson and Senator Johanns for the fine introduction.

The American Soybean Association represents soybean farmers on national and international issues, and it is certainly my pleasure to appear before you all today to discuss to discuss commodity programs and risk management for the 2012 farm bill.

First of all, I want to explain why an income safety net is essential for production agriculture. U.S. agriculture has been and remains based on the family farm. As mentioned, my farm consists of several crops. We have a fourth-generation farm, over 1,800 acres and a cattle herd. We do have one full-time employee.

In 1995 and 1996, prices were relatively high, and Congress decided to phase out the target price program to reduce costs. Three years later, prices for most commodities fell sharply in the wake of the Asian financial crisis. By 2001, they were down by 45 percent, and Congress stepped in with emergency assistance. On my farm, during 1998 to 2003, Government support exceeded my net income from grain farming. Government support, including crop insurance indemnities, was vital to keeping my neighbors and myself in business.

With one out of every 12 U.S. jobs tied to agriculture, a positive trade balance for ag products, renewable fuel production, plus the security of a large portion of our country's food supply grown here, farming is an essential asset for our Nation's economy and security. Government support for risk management and crop insurance programs are investments to protect our country's valuable asset. Farmers want to make their living from the market, not from the Government. We support policies that allow and encourage us to respond to market signals. We believe we provide our country and a growing world with an abundant supply of high-quality food, feed, fiber, and fuel at reasonable prices.

When I started farming in 1981, in order to be eligible for payments, we were restricted to growing crops on acreage bases determined for each farm. This resulted in planting distortions and overproduction of crops already in surplus. It prevented farmers from responding to market signals that called for production of crops which did not have acreage bases, including soybeans.

In 1996, Congress enacted the Freedom to Farm legislation. The Government safety net was decoupled from planting decisions, and producers were allowed to plant any program crop on their farm. The result has been a return to competitiveness and greater profitability for U.S. agriculture. Soybean plantings grew from 60 million acres in 1995 to 75 million acres in 2010. For soybeans, maintaining planting flexibility is of paramount importance.

Now to ASA's position on completing a new farm bill in 2012. We recognize that agriculture should do its fair share to lower Federal spending. We also recognize that cuts in commodities will come from elimination of the direct payment program and that existing programs will need to be restructured.

ASA supports a revenue-based program that complements the existing crop insurance program. Losses that exceed a specified revenue threshold would be partially offset. This approach includes a single farm-level trigger under which farmers would be required to document losses on a commodity-specific basis, so payments would be made only when actual losses occur.

While payments under this program would be tied to current-year production, we believe it will not distort planting decisions and production. Documenting actual losses in order to receive revenue payments would be a deterrent to "planting for the program." Additionally, using recent average prices to determine the revenue threshold would make the program responsive to market price movements over time. Also, revenue payments would be made on a percentage of actual revenue losses, thereby further limiting the possibility of planting distortions.

We acknowledge that a revenue-based program may not be appropriate for all producers of certain commodities or in areas where yield variability is relatively low, so we support providing flexibility or alternative programs for these producers. However, they must not have the potential to affect planting decisions and reduce planting flexibility.

ASA strongly supports the existing Crop Insurance Program as the foundation of risk management. Soybean producers actively participate in crop insurance and oppose any restructuring of the program or reductions in its baseline. Also, ASA opposes subjecting crop insurance participation to conservation compliance requirements.

In summary, I emphasize the importance of completing the farm bill now, keeping crop insurance as the foundation for the safety net, and complementing it with a revenue program. Farm policy must maintain planting flexibility and limit the possibility of planting distortions. Allowing producers to respond to markets while managing risk has been the most valuable policy provided under the current farm program and must be maintained.

I thank you for the opportunity and look forward to answering questions.

[The prepared statement of Mr. Wellman can be found on page 214 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Ms. Johnson.

STATEMENT OF PAM JOHNSON, FIRST VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, FLOYD, IOWA

Ms. JOHNSON. Madam Chairwoman, Ranking Member Roberts, and members of the Senate Ag Committee, on behalf——

Senator ROBERTS. Mic.

Ms. JOHNSON. On behalf of the National Corn Growers Association——

Senator ROBERTS. It is still not on.

Chairwoman STABENOW. The microphone is not on for some reason.

Ms. JOHNSON. Mine says—can you hear me?

Chairwoman STABENOW. There it is.

Ms. JOHNSON. Madam Chairwoman, Ranking Member Roberts, and members of the Senate Ag Committee, on behalf of the National Corn Growers Association, I thank you for the opportunity to share our views today on the importance of risk management programs for family farmers.

My name is Pam Johnson. I am a sixth-generation farmer from Floyd, Iowa, where I raise corn and

soybeans with my husband and two sons. I serve as first vice president of the NCGA.

When we farmers go to the field this year to plant, tend, and harvest a crop, we are putting many dollars, a whole year's work, and our entire yearly income at risk. Traditionally, we worry about the risks from drought, floods, plant disease, and pests, but now the risks are broader, deeper, and larger. We are all interconnected on a global scale. Risks to agriculture come from many unexpected and diverse places: international incidents, economic crises around the world, world trade policies, and the price of a barrel of oil. The list goes on. We may do everything right with the decisions that we make on our farm for management, but there are still years when we cannot cover the losses.

These threats are hard on me, but they are even more devastating to young farm families like my two sons who are just getting started in agriculture. The ability to purchase Federal crop insurance and have access to flexible, revenue-based risk management programs to mitigate these risks is even more critical today.

The context for the 2012 farm bill and strong risk management is this: U.S. agriculture must be prepared to take on an even greater role in meeting growing demands of consumers, both here and abroad. Billions of people in the world are hungry, and the numbers rise. We simply cannot afford to underestimate these challenges as well as our ability to help respond to meet the needs for food and energy.

NCGA has invested time and resources to develop and analyze concepts for a new farm bill that would help farmers in time of need and be a good investment for taxpayer dollars. So what did we learn? That risk management is priority number one and that Federal crop insurance is the cornerstone of a sound farm safety net for the future.

Secondly, we recognize the need for a supplemental risk management tool to protect against multi-year revenue losses from adverse weather or price declines not adequately covered by crop insurance, such as happened in the 1980s farm crisis or the Asian financial collapse.

NCGA has called for a transition away from direct payments to a revenue-based risk management tool that complements crop insurance. Our growers have decided that it is time to move toward a farm policy that better addresses today's production and volatile market risks. We support building on the revenue-based program reforms that were adopted in the 2008 farm bill. In our view, we believe that the Aggregate Risk Revenue Management Program proposed by Senators Brown, Thune, Lugar, and Durbin builds on that reform to effectively address the risk management needs well into the future. ARRM would use crop reporting districts as the area to determine payments. Our analysis shows that using a crop reporting district would better serve farmers in their times of need.

Some growers prefer having a trigger closer to the farm, but the tradeoff is lower price protection that would be necessary to meet budget constraints.

While NCGA supports an area-wide revenue program, we realize that producers in every region of the country face different risks. We look forward to working with them and other commodity organizations to develop a revenue protection program for all areas of the country.

There are certain things that the Federal Government must do for its citizens. Providing food security is one of them. Countries around the world understand the important role that agriculture plays in their economies. They, too, provide assistance to farmers when they need it and robustly invest in ag programs and research. The 2012 farm bill presents an opportunity to advance needed improvements in the commodity title that can work more effectively with a strong research crop—with a strong Federal Crop Insurance Program.

NCGA appreciates the difficult task before your Committee to write a comprehensive and balanced farm bill, especially under the current budget situation. But we urge Congress to pass a farm bill this year.

I thank you for your time today and your consideration of our policy recommendations.

[The prepared statement of Ms. Johnson can be found on page 148 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Younggren, welcome.

STATEMENT OF ERIK YOUNGGREN, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, HALLOCK, MINNESOTA

Mr. YOUNGGREN. Madam Chairwoman, Ranking Member Roberts, and members of the Committee, thank you for the opportunity to address you today. I am Erik Younggren, a fourth-generation wheat farmer from Hallock, Minnesota. I also serve as current president of the National Association of Wheat Growers.

We know you and your staffs have been working diligently since last fall to craft an appropriate and well-functioning 2012 farm bill. Today I hope to share some of my experiences in working my family's farm as well as the National Association of Wheat Growers' afety net policy priorities.

First and foremost, the Nation's wheat farmers call on you to reauthorize this legislation this year before the expiration of the current bill on September 30th. Our farmers will head into their fields to begin planting the 2013 crop as soon as August of this year. They need to know what the Federal farm safety net will look like to make appropriate business decisions.

I am also here to reiterate a message you have heard for months and even today on this panel. We strongly oppose any reductions to the baseline available for the Crop Insurance Program. My farm's history shows how important crop insurance has become. We farm in the Red River Valley in the northwest corner of Minnesota. Our land is prone to frequent spring flooding, heavy thunderstorms, and late or early killing frosts. Our humid summers are also conducive to yield-robbing rains.

Because of these factors, crop insurance has been an important tool over the decades. In 1985, my dad insured 65 percent of his APH that would have paid a maximum of $115 per acre for a premium of $4.57. Comparatively, in 2011, I paid $11.40 an acre for coverage of $326 in revenue. Still, this left me with unprotected expected revenue of more than $220 an acre.

During the mid-1990s, our wheat yields were hit a tragic blow with a disease called Fusarium head blight, commonly known as "scab." Yields waffled between 15 and 25 bushels per acre, maybe up to 30, and we were thrilled to hit 40. Because crop insurance is based on historical yields, our insurance protection dropped to somewhere between $90 and $100 an acre.

By the early 2000s, researchers had started to make headway on scab, but we were predominantly wet, so our yields continued to suffer. Insurance that provided $115 of protection in 1985 shrunk to provide only $91 of protection by 2000. We started purchasing crop revenue coverage, and this allowed me to insure revenue for the first time, as opposed to just yield. Although this is a better tool, through the 2000s our crop insurance protection continued to decline while we fought to rid our insurance guarantee calculation of low yields suffered through the 1990s. Because of our crop rotation, we plant wheat only two or three times every 5 years. This means it can take 15 years to get a low yield worked out of our APH calculation. Some well-timed disaster programs kept many farms in our area afloat through the low production years of the late 1990s and early 2000s.

On behalf of the farmers in my area, I would like to thank the Committee members for creating revenue-based crop insurance. These products have evolved over time to provide economical options for the premium that is shared between farmers and the Nation's taxpayers.

While our farm has benefited tremendously from the evolution of the Crop Insurance Program, the National Association of Wheat Growers realizes crop insurance by itself is not a fully functioning safety net. We recognize different production areas of the country rely on different farm programs. Therefore, we support multiple safety net programs, including a disaster program in Title I. As you modify Title I in the 2012 bill, we urge you to outline programs that follow these principles: they must be dependable and understandable for farmers and their farm partners; they must be affordable and defensible to the taxpayer; they must be defensible to our Nation's trading partners; and we ask you to ensure that spending within Title I, including funding for direct payments, remains in Title I.

NAWG supports a revenue-based program modeled on ACRE and SURE, with an on-farm trigger and coverage by commodity on as many planted acres, versus base acres, as possible. We believe coverage close to the farm provides a more effective safety net for farms with losses than coverage at the State, crop report district, or county levels.

We also ask you to ensure that any program changes do not affect planting decisions and allow producers planting flexibility, which has been a central tenet to the last three farm bills.

On behalf of the Nation's wheat farmers, I appreciate your attention to my perspective on our Nation's agricultural risk management programs and that of the National Association of Wheat Growers. We are committed to working with you and the vast array of other stakeholders in the coming months as you outline a path forward through these serious and uncharted fiscal times. I am happy to answer any questions you may have.

[The prepared statement of Mr. Younggren can be found on page 220 in the appendix.]

Chairwoman STABENOW. Thank you very much.

I just have to say as an aside, Mr. Younggren, that the very first bill I introduced in the House in 1997 as a freshman was on wheat scab. It was creating the research project that was developed, and then I had to explain to my constituents that my first bill was on wheat scab and explaining what that was. But I am very glad that we did that, and we have actually come a long way since then.

Mr. Grissom, welcome.

STATEMENT OF JIMBO GRISSOM, PRESIDENT, WESTERN PEANUT GROWERS ASSOCIATION, SEMINOLE, TEXAS

Mr. GRISSOM. Good morning, Madam Chairman, Ranking Member, and Committee members. Thank you for the opportunity to be here today and speak on behalf of the three peanut-growing regions: the Southeast, the Virginia-Carolinas, and the Southwest. I am here to testify as a proponent for crop insurance.

From recent firsthand experience, I can say without reservation that I would not be able to farm this coming year if it were not for the availability and purchasing of a revenue insurance policy on cotton that I planted last year. This type of revenue insurance policy is not the only risk management tool that is needed by any means, but it is necessary and a valued tool.

As you are aware, the Southwest suffered from one of the worst droughts in our history. In West Texas, in the area in which I live and farm, for the entire year I received 1.2 inches of rain on my farm, and it fell two-or three-tenths of an inch at a time.

In addition to the drought, we had extreme winds and excessive heat throughout the 2011 growing season. Winds of 20 to 40 miles per hour were almost a daily event in the early growing season, plus there were several days on which the 60-mile-per-hour winds were sustained.

We had 131 days with temperatures that were 90 degrees or higher. Consistent high temperatures and no humidity will cause peanuts to quit producing. Mine and many other peanut yields were cut by two-thirds, with fields normally producing 5,000 pounds per acre only yielding 1,700 pounds. Some crops appeared or looked good, but when pulled up there was nothing there to harvest.

I am a peanut farmer, a third-generation peanut farmer. It is the commodity that I identify myself with as to what I farm. I would like to be able to continue to farm peanuts and pass the legacy on to my children, as my father did for me.

Peanuts are also a healthy treat, providing consumers with one of the cheapest sources of protein available. To keep producing peanuts, there is no doubt that we need to improve our risk management tools, starting with the need for a viable insurance program through RMA.

We need to have a revenue insurance policy similar to that which is currently available to other commodities. In the past, we have been told we could not have a policy like other commodities because the price of peanuts is not established by a futures market or a futures contract. We researched the possibility of our commodity being traded on the futures market, but were told that peanuts were too thinly traded so it was not possible.

We accepted this until 2–1/2 years ago when growers from across the Nation began working with RMA and private industry to develop a pricing mechanism and a peanut revenue policy. The good news is that we have found a pricing mechanism. Industry experts believe the Rotterdam price offers the best equitable solution to develop a revenue insurance program. We will be submitting the final proposal to RMA the first part of April.

What we are asking for in the next farm bill, since most of the commodity options that are being discussed this year seem to be based on the existence of revenue crop insurance as a foundation of the policy, we solicit your support for the proposal we are submitting to RMA, which uses the Rotterdam price. It is critical that we get a viable peanut revenue insurance program in place for the 2013 crop. We also ask that the relative price for all four peanut varieties be adjusted from the Rotterdam price.

In addition to these new improvements in peanut revenue crop insurance, we need to provide peanut farmers with a producer's choice between a countercyclical type program with a $534-per-ton target price and a $355-per-ton marketing loan, or a new revenue program based on the Rotterdam price with a $355-per-ton marketing loan.

We also ask the Agriculture Committee to continue all other elements of the peanut title from the 2008 farm bill.

We thank you for your time. We look forward to working with the Committee to fix the peanut crop insurance this year and at the same time craft a new peanut program that will work for all peanut growers.

Thank you.

[The prepared statement of Mr. Grissom can be found on page 135 in the appendix.]

Chairwoman STABENOW. Well, thank you very much, and we look forward to working with you on this.

Mr. Satterfield.

STATEMENT OF TRAVIS HENRY SATTERFIELD, PARTNER, SATTERFIELD FARMS, BOLIVAR COUNTY, MISSISSIPPI, ON BEHALF OF U.S. RICE PRODUCERS ASSOCIATION AND USA RICE FEDERATION

Mr. SATTERFIELD. Chairwoman Stabenow, Senator Roberts, and members of the Committee, thank you for holding this hearing. I appreciate the opportunity to offer the perspective of America's rice producers to you.

My name is Travis Satterfield. I am a rice, corn, soybean, and wheat producer from Benoit, Mississippi, and I have been farming now for 42 years. I serve as an officer in a number of farm groups, including the Mississippi Rice Council, the Mississippi Farm Bureau, and the Delta Council.

Rice is produced in 10 States and has a presence in 23 States where we contribute to the economy and jobs, including $34 billion in annual economic activity and supporting 128,000 jobs. We export 40 to 50 percent of our crop each year. That helps our agriculture ease part of America's mammoth trade deficit. Rice is good for the environment, creating a habitat for millions of migratory birds, and rice is good for your health as recommended by the Federal Dietary Guidelines.

Last year, we as producers spent $320 billion in communities across the country to produce $410 billion in farm goods, and as Senator Roberts has spoken many times about how important agriculture is to national and global security, with the population expected to surge to 9 billion in just a short while, farm policy is important for all these reasons, plus some others. Without U.S. farm policy, American producers would be hurt by global markets, markets distorted by high foreign subsidies and tariffs that two separate studies show are sharply increasing even as funding for U.S. farm policy sets record lows.

U.S. farmers and ranchers are locked out of markets promised to us under trade deals passed. We are locked out under the very terms of these same deals. We are even locked out by our own Government when it prohibits us from selling food to another country. U.S. farm policy has operated under budget for over a decade and has been cut by about $18 billion and today accounts for only about one-quarter of 1 percent of the total Federal budget. Meanwhile, American consumers are spending a smaller percentage of their hard-earned disposable income on groceries that are cheaper than anywhere else in the world.

We in agriculture appreciate what our congressional leaders were able to accomplish last fall. The amount of deficit reduction agreed upon in the super committee process was significant, while still providing amounts necessary to develop a comprehensive farm program.

I want to express our gratitude for the 2008 farm bill and for standing by it against heavy headwinds, and we thank you.

Looking ahead for the 2012 farm bill, I think rice farmers feel disadvantaged because of one component of the current U.S. policy that has effectively worked for rice is the direct payment, and that is apparently going away. Rice farmers strongly support existing farm policy, and our preference is for a proportional reduction in existing policy. However, we understand that the existing political climate is not conducive to that policy option. We wish that crop insurance worked effectively for rice, and many in our industry have been working for 4 years trying to make this happen. Currently we do not have an effective policy.

So what are we looking for in a farm bill? Well, for one thing we would like very much the ability for any farmer to have options to choose from a menu of risk management tools that will work best on addressing real perils that he faces on his own farm. The other thing that we think is incredibly important is to be sure that the options out there have price protection that is meaningful to today's cost and price environment. This is what farm bills are for.

Although I do not know all the details of the 2011 package developed by the Ag Committee, I think the reported framework is about right. Give producers a choice. Help producers deal with prolonged price losses and that uninsured deductible. Push to make crop insurance work for all of us, and then hope like heck that we have a healthy farm economy that we will not need any of that.

I think we need a 5-year farm bill in 2012. I believe that the political environment makes it a tall order. But if we in agriculture on and off the Hill can manage to come together on a bill, that would at least give us a fighting chance.

Thank you for the opportunity to offer my thoughts.

[The prepared statement of Mr. Satterfield can be found on page 186 in the appendix.]

Chairwoman STABENOW. Thank you very much, and we look forward to working with you.

Mr. Coley.

STATEMENT OF CHUCK COLEY, CHAIRMAN, NATIONAL COTTON COUNCIL, VIENNA, GEORGIA

Mr. COLEY. Chairwoman Stabenow and Ranking Member Roberts——

Senator CHAMBLISS. Madam Chairman?

Chairwoman STABENOW. Yes, Senator Chambliss?

Senator CHAMBLISS. Since I just walked in, can I say a word about my good friend, Mr. Coley?

Chairwoman STABENOW. You may go right ahead.

Senator CHAMBLISS. Chuck Coley is a dear friend of mine, has been for many, many years. He is a farmer in the middle part of our State, operates a gin in Vienna, Georgia. Nobody could be more appropriate to be before our Committee today to talk about cotton and other related issues relative to Southern crops. His son actually was on my staff during the last farm bill, so we took advantage of Chuck's expertise then.

So I am very pleased to have him here today making a presentation to the Committee. Thanks, Chuck.

Mr. COLEY. Thank you, Senator Chambliss.

Chairwoman STABENOW.and members of the Committee, I want to thank you for holding this hearing and for allowing me to present testimony on behalf of the U.S. cotton industry. My name is Chuck Coley, and I am a farmer and ginner from Vienna, Georgia. We have submitted detailed written testimony, so I will use my limited time to express our industry's strong support for a balanced, predictable, and sustainable commodity policy that allows farmers, their bankers, and downstream processors to manage risk over which we and they have little or no control.

We also join the other commodity and farm groups in respectfully urging you and your colleagues to be as expeditious as possible with this farm bill.

As most of you know, Texas, Oklahoma, and parts of Kansas continue to experience a prolonged drought so severe that even operations with irrigation have been unable to produce crops. Fortunately, those producers have had access to crop insurance products which will enable them to preserve sufficient resources to plans and harvest crops when the drought finally breaks.

I can cite the specific example of former Council Chairman Woody Anderson, who farms in Colorado City, Texas. Woody has invested in drip irrigation, biotech, and precision ag equipment. Even with that investment, he was unable to harvest a single acre of cotton due to the drought. Without crop insurance and other assistance, he would not be able to continue to operate his third-generation family farm.

The availability of effective risk management tools like crop insurance is important, even in so-called normal years, to provide tools that underpin the producers' ability to invest in inputs, technology, and equipment necessary to produce a market crop at a price and quality that allows the U.S. to be the most reliable cotton producer in the world.

Weather and other uncontrollable risks are one of the main reasons the council supports the development of a revenue insurance policy that complements current insurance products. I farm with my son, and I own and operate a cotton gin which I manage with my wife. As a ginner, I am responsible for preserving the value and quality of the cotton produced by my customers. I also assist them in marketing the crops. The increasing volatility of the commodity markets, particularly cotton, has made the risk of marketing the crop incredibly challenging. Even those of us who utilize futures markets and devote significant time to studying markets find market volatility increasingly difficult to manage, and the expenses associated with hedging drains our capital resources.

I would also add in the case of cotton that the traditional marketing assistance loan, set well below the market, provides important collateral for production loans and allows orderly marketing with minimal net cost to the Government and no disruption of market signals.

The farm bill is also important to U.S. textile manufacturers who purchase nearly 100 percent of the cotton they process and the cotton products from U.S. farmers. The ability of U.S. growers to invest in the varieties, technology, and equipment necessary to produce a top-quality cotton enables our yarn spinners to compete on price and quality in world markets and to provide top-paying manufacturing jobs.

The U.S. cotton industry recognizes that future farm policy must fit ever-shrinking budget parameters. In addition, I want to emphasize that the U.S. cotton industry is committed to working with Congress and the administration to find a permanent resolution to the longstanding U.S.-Brazil WTO case. We have proposed a risk management product that significantly changes the structure of the cotton program and is estimated to significantly reduce outlays compared to previous years. It is also a 30-percent reduction compared to extending the existing cotton program. The changes are substantial and will require adjustment in every segment of the cotton industry, but they are necessary for us to move forward.

I want to thank you today for your attention and the consideration of my remarks. I look forward to answering any questions you have about my testimony or the cotton industry. Thank you.

[The prepared statement of Mr. Coley can be found on page 98 in the appendix.]

Chairwoman STABENOW. Well, thank you very much to each and every one of you.

Mr. Coley, let me follow up on your testimony because, of course, cotton is in a unique position because of the WTO case that we lost to Brazil. So I wonder if you might speak a little bit more from your perspective about why the proposal from the cotton growers—and we very much appreciate your working to come up with something very important to us in our process last fall. But why do you believe that this achieves the goal as it relates to the WTO case?

Mr. COLEY. The WTO Brazil case was in two parts: the Export Credit Guarantee Program and the Upland Cotton Program. Our proposal, STAX, the insurance product, makes changes to our marketing loan and the countercyclical payment. It would eliminate the target price and introduce a formula that would allow the marketing loan to adjust lower at times of low prices. After accounting for the impacts of deficit reduction and baseline funding, the industry has proposed a revenue insurance product as a replacement for the DCP and ACRE program.

As part of the WTO case, Brazil challenged the insurance program for cotton, but the WTO panel did not find any fault with the insurance programs in terms of distorting production, trade, or price.

STAX is only triggered by a loss in revenue, and support is established and based on the current prevailing futures market. The product does not provide support above the market but simply allows the producer to insure a portion of the expected market returns.

If the provisions of this plan of STAX was in the marketing loan adjustments in the year 1999 through 2005, the years in question with the WTO case, we would have had a 60-percent reduction in support in the programs that were deemed to be economic injury by the panel.

We understand the Framework Agreement between the U.S. and Brazil calls for resolution of the dispute as part of the development of the 2012 farm bill. Our proposal addresses cotton, but not the findings regarding the Export Credit Guarantee Program, and we look forward to working with Congress and the Committee to resolve this dispute.

Chairwoman STABENOW. Okay. Thank you very much.

Mr. Younggren, in talking about managing risk, why is the wheat growers' proposal structured around planted acres rather than base acres? Could you speak a little bit more about that?

Mr. YOUNGGREN. We believe that what we have backed would help farmers that have an actual loss on what they are actually growing, and we know that base acres were set in the mid-1980s, and crop rotations and plantings have changed significantly since then.

Chairwoman STABENOW. All right. Thank you.

Mrs. Johnson, the corn growers have really led the way on our revenue program, and I wonder if you might speak a little bit more about why you believe that a supplemental revenue program is needed that goes beyond crop insurance.

Ms. JOHNSON. Well, as we all heard this morning, we pretty much agree on the cornerstone and the foundation should be crop insurance. But we found through our research that there are certain times when crop insurance does not cover a lot of the losses, and those times happened back in the 1980s farm crisis or in the financial collapse.

When a farmer needs more than 1 year's snapshot of what is going on in the marketplace and with a revenue-based risk management program you have a 5-year Olympic average to look at what is going to happen with those losses to revenue, and it gives the farmer a chance to adjust to those downward trends, and especially if you are looking at multi-year rental agreements or purchases or investments on your farm.

Chairwoman STABENOW. Thank you.

Mr. Wellman, could you talk a little bit more about how we can provide price protection without creating planting distortions?

Mr. WELLMAN. Yes, thank you for that question. We believe that a safety net program does need to protect against price declines, but it also needs to allow for planting flexibility and not distort planting decisions. We have seen programs in the past that have been tied to target prices with the results of distorting planting and plantings taking place for the program and not for the marketplace.

A revenue program with a rolling average of actual revenue would reflect the current marketplace and the current price structure and would have a minimal effect on any planting distortions.

Chairwoman STABENOW. Great. Thank you very much.

Senator Roberts.

Senator ROBERTS. Thank you.

Mr. Younggren, we are going to be working on a yield plug kind of proposal to help your situation with the lower yields due to the yield loss. We did a lot of work on that when we submitted our first proposal to the super committee, which was not very super, but at any rate, I wanted to let you know that.

There seems to be this myth floating around that if we just eliminate the direct payments, conservation compliance mysteriously disappears as well. In reality, we know that conservation compliance can be attached to any title and farm program, and it is also attached to disaster programs and conservation programs like EQIP. It seems very thorough to me.

Do you think that conservation compliance is working? Do you believe that we need to add conservation compliance to even more programs or specific situations in regards to a farming operation?

Mr. YOUNGGREN. Yes, I agree with what you said. Conservation compliance is already tied, could be continue to be tied to Title I programs. We already have the conservation title with EQIP and those things, so we believe that what is happening now is very sufficient.

Senator ROBERTS. Mr. Grissom, I do not know whether we sent that trouble down south or whether you sent it up north, but, boy, we sure do not want to go through that again.

Mr. GRISSOM. No, sir.

Senator ROBERTS. Thank you for your very graphic description of what happened to your industry. I know that you are not getting much help from the countercyclical program. I know certainly of your interest in a target price program, but let me just ask if you believe that a revenue crop insurance program would help you improve your risk management strategies.

Mr. GRISSOM. Yes, sir, it would. In West Texas, sure enough. We compete with cotton acres, and without a crop revenue type insurance program, peanuts have to compete with cotton. When you go to your banker and you ask for a loan to farm, the first thing they ask is, "What is the safety net, peanuts versus cotton?" Some people have been turned down.

Senator ROBERTS. Explain the Rotterdam situation to me again.

Mr. GRISSOM. The Rotterdam price is a methodology used to determine peanut prices, and it is the same as when it was used by the USDA and AMS, when they were reporting a U.S. shelled price for peanuts. It was a very good price that was used, even USDA used this price, and that was something that we reflected back upon, along with Dr. Stanley Fletcher who worked on it for the presentation to RMA in April.

Senator ROBERTS. So you are going to be presenting that to RMA in April?

Mr. GRISSOM. Yes, sir.

Senator ROBERTS. Well, I hope we can expedite that, and I hope we can be of help to you.

Mr. GRISSOM. Thank you.

Senator ROBERTS. That would be extremely helpful in solving a lot of problems.

Madam Chairwoman, I have a couple of questions for Mr. Satterfield, but I can ask those for the record.

[The questions of Senator Roberts follow:]

Senator ROBERTS. I did want to thank Mr. Coley. I am searching here for his son's name who used to work for us. I am sure that Saxby will be able to say that. But thank you for his—Matt, yes, Matt Coley. What a great young man, and thank you so much. Thank you for being so proactive in tackling all the challenges we face. Cotton led the way. You have sent a real message to the rest of the commodity groups and the farm organizations. You have already explained why you went from the commodity program to the Crop Insurance Program and the WTO situation, so thank you so much for your testimony, and for Matt.

Chairwoman STABENOW. Okay. Thank you very much.

Senator Chambliss.

Senator CHAMBLISS. Thanks, Madam Chair. You are right. I was talking about Matt earlier there, Mr. Ranking Member, and he is a good young man, and he has made Chuck a granddaddy, too, which is more significant than working on the farm bill. We just want to make sure that young man still has a job after this farm bill is completed and he can provide for that little baby.

Mr. Younggren, in your testimony you stated that the Countercyclical Price Program has been rendered largely ineffective due to a target price for wheat that is far below the cost of production and it really has not been triggered in 10 years or so. Would an updated target price that reflects current market conditions and cost of production make it more effective, in your opinion?

Mr. YOUNGGREN. We would be concerned about the planting intentions and how the other target prices are set as well.

Senator CHAMBLISS. Well, is that a yes or no as far as making it more effective?

Mr. YOUNGGREN. Yes, it would probably make it more effective.

Senator CHAMBLISS. You also recognized in your testimony that different production regions of the country rely on a variety of farm programs to protect the safety net, and you just alluded to that. Do you think that a producer choice between a Countercyclical Price Program and a Revenue Protection Program would address regional differences?

Mr. YOUNGGREN. A choice between the Countercyclical Program as we have now or a revenue——

Senator CHAMBLISS. Well, basically something similar to——

Mr. YOUNGGREN. Yes, we are interested in the revenue programs that work off of crop insurance. We feel that there are some holes in crop insurance that the revenue program would fill.

Senator CHAMBLISS. Okay. Mr. Coley, do any of the proposals proposed by the other commodity groups or members provide an adequate safety net? Do they seem to be configured to work better for particular commodities rather than to treat everybody equitably?

Mr. COLEY. Senator, other revenue products that are offered will not work for cotton because the Olympic average prices do not offer an effective safety net for cotton due to the fact that we had extreme prices and yield and variations in the calculated years. It would reduce the budget baseline, as I have said. A reserve product requires a producer's premium, and using current crop year prices and futures market leads to a more effective and a more bankable safety net for our cotton producers.

Senator CHAMBLISS. Mr. Grissom, apart from the improvements you listed for crop insurance, you said you would like producers to have a choice between a revenue program and a countercyclical-type program, some sort of price protection program. Can you amplify on that a little bit and tell us how you came up with that conclusion?

Mr. GRISSOM. Well, we as the industry got together on a lot of these proposals and this is one that was agreed upon. One of the reasons for raising the target price to $534, is due to the cost of production. Cost of production in peanuts has grown so much since 2008, and we were just wanting it to be an either/or, alternative with a revenue type program for peanuts as the options.

Senator CHAMBLISS. Do you feel like that kind of flexibility will give peanut farmers the opportunity, in Texas versus Georgia or Arkansas versus South Carolina, the opportunity to sit down with their banker and figure out, as you said earlier, what is the best proposal for me to be able to repay my loan?

Mr. GRISSOM. I think it would be very good when you have the choice, a farmer is better off in all growing regions, whether it is in the Southeast or whether it is in the Southwest.

Senator CHAMBLISS. Okay. You also mentioned that you grow other crops, cotton in particular, I think, and I recognize you are here to represent peanuts, but do you believe providing this producer choice idea and making that available to other commodities is a good direction to go in?

Mr. GRISSOM. Yes, sir.

Senator CHAMBLISS. Okay. Ms. Johnson, you stated in your testimony that a farmer who suffers a complete yield loss will not receive a payment under a price-based program that is tied to current production. Now, doesn't the current Crop Insurance Program cover yield loss?

Ms. JOHNSON. The current Crop Insurance Program does cover yield loss, and if I might add, our position of why we support the revenue program is I have lived through a time of farm bills when we have had countercyclical payments and target payments, and the question is for all of us, I think, how do you set a meaningful target price that provides a safety net and then does not yet cause planting distortions. I think I have heard some of that up and down the table, and I believe what I hear is that what we are all in support of and I think the general consensus is we are looking to expand those revenue management programs that would be more effective for each crop that sits at this table.

Senator CHAMBLISS. Thank you very much.

Chairwoman STABENOW. Thank you.

Senator Cochran.

Senator COCHRAN. Madam Chair, we appreciate your leadership on our Committee, and I think the presence of this panel illustrates how complicated and challenging the writing of a farm bill is going to be for this Committee and working with our colleagues over on the House side to resolve differences. I think it is very valuable for us to have the benefit of your observations here. This panel is experienced and involved in agriculture, production agriculture, and so the writing of a farm bill is really a sink or swim proposition here. If we make a mistake, we really hurt people, and we hurt our economy, and we cause disruptions in the job market and labor market. So it is a very serious undertaking.

I think that is another reason why we have seen over the years a lot of transition in agriculture, particularly in the Deep South. When I was growing up, cotton was a very important crop for my grandparents, my mother's parents, on their farm near Utica, Mississippi. Over time the family got out of the row crop business except for gardens and truck farming to a small extent. We went and borrowed some money and bought calves to put out on that nice fertile soil and grow rye grass and learn to do what you have to do to be in the cattle business. It took us about 10 years to get out of the cattle business. Some of you may have had similar experiences in the Deep South.

But we are going to look at what you have suggested to us, the entire panel. You do not agree among yourselves on everything. We noticed that, and that is natural. We benefit from the broad, wide range of diversity that this panel represents.

So I just want to thank you and assure you that we are going to be very careful and take care in the drafting of a farm bill. We will continue to depend on your reactions as challenges during that process develop.

Thank you very much.

Chairwoman STABENOW. Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chairman, and we appreciate you all being here. I think one of the concerns I have is that we have heard from the administration and ag has kind of taken it on the chin the last couple years in doing their part to help us with the financial situation we are in. One of the concerns I have—and you might want to comment on this just with your own personal stuff—is if we go forward with draconian cuts, what does that do to the price of food? We are so blessed with the country that we are in where food is very affordable as compared to the rest of the world. My concern is, what does that do to all of us, but specifically single moms, people on fixed incomes and things where they cannot keep up.

So how will that affect your—do you have any thoughts about the potential for that? Do you see that happening with significant decreases in the safety net? What will that do to the price of food, the price of the things you produce? Does anybody want to tackle that? Yes, Ms. Johnson.

Ms. JOHNSON. Well, not just by fortune, but those of us at this table that represent many commodities as American farms have been able to be successful because we have been on the cutting edge, whether it is technology or genetics or whatever helps our industry, and also what the Government helps us do that we cannot do individually on our farm.

So in order to be the most productive, competitive farmer in a changing global marketplace, I think you have hit the nail right on the head.

Senator BOOZMAN. Very good. Again, somebody can jump into this. Understanding the significant differences in production costs, practices, and yield variability across different crops and regions even within crops, do you feel like there is a widespread recognition that trying to force a one-size-fits-all approach to farm policy will leave some producers in some regions without the effective risk management tools that you need in order to compete in today's environment? Now, that is one you can sink your teeth into. There have been lots of comments.

Mr. WELLMAN. Certainly there is a lot of diversity here, but we do have some common things that we definitely agree on. I think another common thing that really has not—it has been mentioned, but the current situation with target prices where they are now really give us no revenue protection at all compared to the pricing situation, our market prices and the cost of production, the current cost of production. So that, we also share that same situation, too.

To address that, we may have to look at alternatives in different types of programs that will suit the needs of our producers across the board. But I think we also will agree that we want to maintain that planting flexibility to react to the marketplace and not distort planting decisions based on a Government program.

Specifically for soybeans, we have seen global consumption of soybeans increase 152 percent since 1990, so the ability for the U.S. farmer to be able to react to that global consumption and global demand has been very important. We would hate to see the soybean industry here in the United States, if we could not have reacted properly to that market demand and that production would have ended up in other areas of the world.

Senator BOOZMAN. Does anybody else want to jump in on that? Mr. Satterfield.

Mr. SATTERFIELD. Senator, I thank you. As has been testified here, we all know that there is a great diversity in agriculture in this country. We have different crops. We have different farming practices. We have different rainfall seasons. We have a lot of variables. So I think it is very, very difficult to have one program that fits everybody. I think, as I alluded to in my testimony, we need a program that is meaningful, financially meaningful, to the producers, and I think the best way to do that is have that section of the country or that group or that commodity to craft a program that best fits their needs. It may not be the best for everybody, but it fits——

Senator BOOZMAN. Why does——

Mr. SATTERFIELD. —a certain segment.

Senator BOOZMAN. I do not mean to interrupt, but why does crop insurance not work for rice as well?

Mr. SATTERFIELD. Well, crop insurance basically—the first component, I think, in protection of crop insurance is yield. We do not have a variability in yield that you have in other crops. In an irrigated crop, our yield is fairly constant. So our main support from a Crop Insurance Program would have to be a revenue type of program which would not be so much a yield protection, but as a price component. That is why we have grappled with trying to find a Crop Insurance Program that would fit in our rice situation where you have a pretty standard yield. But variability in price is a big factor.

Senator BOOZMAN. Good. Thank you. I am going to get gaveled on by the Chair, so thank you.

Chairwoman STABENOW. Thank you very much, and I want to take the prerogative of the Chair and take a minute from Senator Cochran that he did not use, Mr. Satterfield, to ask you a question also as well, because in your testimony you described the different needs for rice growers in different regions, and I have had different conversations. Down in Louisiana, folks said, "Just open up Cuba and we are fine." Our in California, other rice growers are looking for a county-level revenue program. So I am wondering why that approach does not work for rice growers in other regions.

Mr. SATTERFIELD. Well, along that line, we have a great rice—consumer of rice in your State, the Kellogg company.

Chairwoman STABENOW. Absolutely.

Mr. SATTERFIELD. We appreciate their interest in rice very much.

Chairwoman STABENOW. Absolutely.

Mr. SATTERFIELD. We need another Kellogg's. That would help us.

The big problem in rice is that basically in the U.S. we have two types of rice: we have long grain, which, as you mentioned, Louisiana and the mid-South are basically the producers of long-grain rice; California producers have medium or short grain, which is almost—they are different types and they go into different markets. California, their market, the medium-grain rice has a more stable type market, and it is not as—the market for long grain has a lot more flexibility. It changes quite a bit. So in order to craft a revenue program, you need a constant price in situations that you do not have in long-grain rice as you do in medium grain. So it is a little different. Although it is the same commodity, it is a different type, and there are different marketing situations. That is why we have some differences of opinion in the rice industry.

Chairwoman STABENOW. Well, thank you very much, and thank you to each and every one of you. This is very important input we are receiving, and, we are moving forward on the farm bill and the commodity title. We would love if everyone at this table and every other commodity was able to come together on one approach. We know the challenges related to that and the flexibility that we need. But we are moving forward, and so we welcome and need your input as we do that. Our obligation is to move forward and make sure farmers have the certainty they need in the marketplace, and we are looking forward to working with you to do that. Thank you very much.

Last, but absolutely no least, our fourth panel, we are asking our fourth panel to come forward, as they say, batting cleanup, very important leaders that will provide a summary today for us.

[Pause.]

Chairwoman STABENOW. Well, I was going to say, "Good morning," but it is now afternoon, and so thank you to all of you for being here. As I said, certainly the fourth panel, last but not least, we appreciate the leadership of all of you, the members you represent. After hearing this morning, we want you to have an opportunity to kind of bring this all together for us. We are hoping you all have the solutions. That is what we are looking for, to clean things up today.

Let me first start with our first panelist, who certainly is no stranger to all of us on our Committee, Mr. Roger Johnson. He is the president of the National Farmers Union and a third-generation family farmer from North Dakota. Mr. Johnson's involvement with NFU is longstanding, participating in youth programs. He was a county president. Professionally he has also served as North Dakota Agriculture commissioner and president of the National Association of State Departments of Agriculture. Roger and his wife, Anita, are the proud parents of three children and three grandchildren, so welcome.

Mr. Stallman, also no stranger to this Committee, and we very much appreciate your leadership. Since 2000 he has served as the elected president of the American Farm Bureau Federation. He has also served the organization as the president of the Texas Farm Bureau. Mr. Stallman has served on the board of trustees and advisory committees of many agricultural organizations. Mr. Stallman and his wife, Tracy, have two daughters, two sons-in-law, and eight grandchildren.

Mr. Best, I hope you do not have any grandchildren yet.

[Laughter.]

Chairwoman STABENOW. Last, but certainly not least—and we redheads have to stick together, Ryan—Mr. Ryan Best, the current president of the Future Farmers of America. He leads an organization of more than half a million students in 7,489 chapters across the United States, many in Michigan. Mr. Best is currently a junior at New Mexico State University pursuing a major in agricultural and extension education and a minor in agricultural economics and business.

We welcome all three of you, and we will ask Mr. Johnson to proceed first.

STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. JOHNSON. Thank you—is my mic on or is it off? Talk, red. Okay.

Thank you, Chairwoman Stabenow, Ranking Member Roberts, and members of the Senate Ag Committee. The National Farmers Union is grassroots organization of about 200,000 farm family members. We are organized in 33 States around the country. Our policy positions are developed by our members. Our members voted on and formally adopted our principles for this next farm bill in two special orders of business that are attached to my testimony just under 2 weeks ago at our 110th anniversary convention near Omaha, Nebraska.

Every family farmer, livestock producer, and consumer benefits from a strong, effective safety net for our commodities. If we have learned anything from the past, it is that commodity prices never stay high and do not always return a profit to our producers. When prices fall—and we know they will—it is critical that a price-based safety net be in place, because history tells us that low market prices generally last much longer than high prices.

An effective safety net, including crop insurance, allows our producers to continue to produce a safe and abundant food supply. Crop insurance is a necessary risk management tool that should be provided to a larger variety of commodities and specialty crops.

Unlike most businesses, food, fiber, and fuel production faces more uncontrollable variables than most other businesses. Therefore, a strong risk management system must be in place.

A strong safety net also needs to address extreme price volatility in commodity markets. We know that long-lasting decreases in commodity prices and artificially high price peaks are harmful to the entire production supply chain, both domestically and internationally.

NFU commissioned the University of Tennessee's Ag Policy Analysis Center to help us develop a farm program that would moderate extreme price volatility in commodity markets while allowing farmers to receive their income from the marketplace rather than from Government payments, saving the Federal Government a significant amount of money in the process. I would like to draw your attention to the special orders of business attached to my testimony that talk about the benefits of the Market-Driven Inventory System, MDIS. It is an ag commodity program that mitigates price volatility, provides advantages to livestock producers, the biofuels industry, and to hungry people in this country and around the world.

In addition, it would reduce Government expenses. It would increase the value of crop exports and would maintain net farm income over time.

The central feature of MDIS is a voluntary, farmer-owned, and market-driven inventory system based on recourse, not non-recourse, loan rates, set at a level below total costs of production but at a level above variable costs. Once crops are placed under loan, they would receive storage payments and would be required to remain off the market until a release level set at 160 percent of the loan rate is reached. At that time storage payments would stop, and the loans would be called on a first-in, first-out basis.

Inventory stocks activity would only be activated when crop prices become so low or so high that normally profitable agricultural firms are not provided with reasonable investment and production signals.

During the 1998–2010 time period studied, actual Government payments for the eight major program crops totaled $152 billion. If MDIS had been in place during this time frame, farmers would have received $56 billion from the Government, principally in storage payments, while earning roughly the same net farm income over the period as historically received, and taxpayers could have saved $100 billion.

Dr. Ray's analysis shows that if MDIS were in place, Government payments could similarly be reduced in the future by about 60 percent.

The MDIS program could have a positive impact on reducing the Federal budget deficit, provide a workable safety net for farmers for less money, including for beginning farmers, who most need market certainty; mitigate high feed costs for livestock producers; reduce our dependence on foreign oil due to the benefits to the biofuels industry; and, most importantly, reduce the number of food-insecure families in this country and around the world.

As a final thought, MDIS could work very well with the various proposals that are being considered by your Committee.

Thank you very much for the opportunity to testify, and I look forward to your questions.

[The prepared statement of Mr. Johnson can be found on page 161 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Stallman.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Mr. STALLMAN. Chairwoman Stabenow, Senator Roberts, thank you for the opportunity to share the views of the American Farm Bureau regarding the development of our new farm bill.

While some take a simple view of the current agricultural economy and conclude farmers do not need a safety net, we all know that current market prices will not continue for some commodities. We all know that weather disasters will occur in some places. History proves this.

The challenge we all face is how to draft a farm program that provides a strong, consistently viable safety net that protects farmers against crippling revenue declines, whether caused by falling markets or Mother Nature, while at the same time remaining cognizant of budget deficit challenges and changing public sentiment.

To help meet this challenge, the Farm Bureau proposes the following principles be considered when writing the 2012 farm bill:

The new farm bill must be a fiscally responsible package that meets spending reduction targets and assures taxpayers that America's farmers are making wise use of tax dollars.

Continuation of a multi-legged stool remains the best approach for providing a fair and effective safety net, which should consist of a strong crop insurance program, continuation of the current marketing loan provisions, and a catastrophic revenue loss program.

Marketing loans and crop insurance provide individual risk protection at the farm level. Directing the third leg toward protecting area-wide risk coverage at the county or crop reporting district level protects against deep losses while minimizing the potential for moral hazard and at the same time decreasing administrative costs.

While ours is a deep loss program, it would not provide producers with payments as often as other proposals contemplated. It would provide more coverage in times of catastrophic losses when assistance is most critical. Because the deep loss program would take some of the risk off the table for crop insurance providers, individual policies would be re-rated with crop insurance policy premiums paid by farmers decreasing by 9 to 22 percent per year, every year, regardless of the payout under the deep loss program.

As a general farm organization, we place high priority on ensuring the new farm bill benefits all American agricultural commodity sectors in a balanced, coordinated manner. To highlight this, our proposal would include coverage for five fruits and vegetables: apples, tomatoes, grapes, potatoes, and sweet corn. Conceptually, our proposal can cover all specialty crops that have crop insurance available, but we thought it best to learn to walk before we run.

The new farm bill must ensure that producers continue to take production signals from the marketplace rather than incentivizing them to chase Federal program benefits. Approaches that allow producers to pick and choose between various program options would impose severe challenges on U.S. lawmakers to ensure that one option does not provide more Government benefits than the next, thus driving production decisions.

The new farm bill should not allow the benefits from the various safety net components to overlap. This is why our concept requires that any payment received from the deep loss area coverage offset any corresponding indemnity received under an individual crop insurance policy.

The new farm bill should protect producers from deep loss events that typically are beyond any producer's control. Our concepts benefits would come into play only when they are needed rather than being an expected annual supplement to farm income. It would eliminate the need for ad hoc disaster programs.

There should be no changes to current farm bill payment limitations or means-testing provisions. Conservation compliance should not be required as a condition for purchase of crop insurance. The new farm bill should include the concept of Representative Collin Peterson's bill to reform and improve the dairy program.

We recognize developing a new farm bill requires flexibility from all participants in order to achieve these principles, and just last week the AFBF board reaffirmed our continued belief that our deep loss concept is the best farm policy option, particularly in light of the budget realities that face the writing of a new farm bill.

Given the difficulties inherent in this debate, our board did indicate an openness to discussing an approach that would combine the current crop insurance and marketing loan programs with a supplemental area insurance program that sits on top of individual crop insurance coverage. But I want to be clear that we do have a number of concerns about this type of approach.

To summarize and close, our deep loss proposal is one leg of a three-legged safety net that includes existing crop insurance and marketing loan programs. It protects farmers from deep systemic risk from weather or markets, and thus eliminates the need for ad hoc disaster assistance. It provides to farmers crop insurance premium reductions of 9 to 22 percent each and every year in addition to any indemnity payments. It would deliver policies through private crop insurance providers with payments occurring at the same time as other indemnity payments. It does not allow overlap of payments with individual insurance loss payments. It provides coverage beyond program crops to specialty crops. It would likely qualify to be notified in the green box non-trade-distorting category under the rules of the WTO. It is a fiscally responsible package that provides taxpayers and America's farmers with the maximum bang for the buck.

Thank you for the opportunity to present our views. We look forward to working with this Committee to craft a new farm bill that meets the future needs of America's farmers and ranchers.

[The prepared statement of Mr. Stallman can be found on page 205 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Best.

STATEMENT OF RYAN W. BEST, NATIONAL PRESIDENT, FUTURE FARMERS OF AMERICA, PORTALES, NEW MEXICO

Mr. BEST. Thank you, Chairwoman Stabenow, Ranking Member Roberts, and members of the Committee, for the opportunity to speak with you today about something that is very important to me, and that is, the future of American agriculture.

I am Ryan Best, and I am privileged to serve this year as president of the national FFA organization. I was raised on a production sheep farm in Portales, New Mexico, and I am currently a junior at New Mexico State University majoring in agricultural and extension education.

As part of my FFA and agricultural education program in high school, I developed an enterprise around sheep and diversified livestock production. For me, agriculture is not just an occupation, but it is a way of life. My family has been involved in production agriculture for seven generations. Production agriculture is in my blood, and that is what brings me here today. It is my goal to share with you the perspectives of the young men and women I represent as president of the FFA.

Today nearly a million students are enrolled in secondary agricultural education courses and are preparing for careers in agriculture. The U.S. will need the best and brightest of its young people to drive the innovation and efficiencies in agriculture that will achieve production goals and meet growing demand. We already have in place a pipeline to attract and prepare the talent needed to grow our future.

These are the more than half a million student members of the FFA and agricultural education. They are students like Cole Vculek, FFA's 2011 American Star Farmer. Cole rented land from neighbors to grow two acres of red onions. He quickly added more land to raise potatoes, and in 2009 he acquired 200 more acres for a corn and soybean rotation. Recently, Cole purchased a 640-acre farm from a neighbor. He plans to acquire more cropland and continue his business incorporating sugar beets. A fifth-generation farmer, Cole epitomizes the innovation and growth American agriculture will need to sustain in the coming years.

While many people are familiar with the FFA, less is known about the agricultural education program of which FFA is an integral part. Today there are 7,400 FFA chapters in all 50 States, Puerto Rico, and the Virgin Islands. Students are preparing for more than 300 careers in the science, business, and technology of agriculture, including production.

It is understandable if some believe that members of FFA—formerly known as the Future Farmers of America—come primarily from rural farming communities and small towns. However, this is not accurate. Today's FFA is as diverse as today's agriculture. We are reaching nontraditional agricultural education students in rural, suburban, and urban communities alike, including New York, Philadelphia, Houston, and Chicago. In fact, the Chicago High School for Agricultural Sciences was home to Corey Flournoy, the first African American National FFA President. Today's agricultural education reaches students from all backgrounds.

FFA and agricultural education are helping students to establish successful careers in production agriculture. Our supervised agricultural experience program provides opportunities for students to set career goals in high school and then pursue post-secondary education and training for entry into production agriculture. Wesley Davis from the Mason County Vocational FFA Chapter in West Virginia raises farm fresh eggs as a part of his enterprise. He says his supervised agricultural experience allows him to see the viability and profitability of supplying consumers in his community with locally grown fresh eggs. Wesley plans to turn his project into a full-time career.

FFA and agricultural education have a major role in ensuring that we have the producers, researchers, entrepreneurs, and innovators to meet the challenges we face. That is why Secretary Vilsack invited last year's national FFA officer team to offer recommendations for the farm bill with perspective to the youth. After consulting with FFA members and stakeholders, the officers delivered their report to the Secretary last December. It is attached to my comments, but it comes down to these key points:

First, the USDA and other Federal agencies should assist beginning farmers to start or continue in production agriculture.

Next, USDA should help transition farms from older farmers to younger or beginning farmers who may not come from a farm.

Next, USDA should help keep young people in rural communities and make rural communities an even more important part of our Nation's economy and society.

And, finally, the USDA should strengthen the capacity of agricultural education to produce more students who pursue production agriculture as well as related careers.

In closing, I want to underscore that agricultural education and FFA have been assets to American agriculture for the past 85 years. Given the challenges facing American as well as global systems of agriculture, investments for tomorrow must be made today. The next farm bill provides an opportunity for Congress to demonstrate that it, like FFA members across the Nation, believes in the future of agriculture "with a faith born not of words, but of deeds."

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Best can be found on page 78 in the appendix.]

Chairwoman STABENOW. Well, thank you very much, Mr. Best. You give us great confidence in the future. I was not in FFA, but I was in 4H for all my time growing up, and I know how important leadership programs like that are, and so we thank you for being here. We wanted to make sure we had our current leaders with our future leader today.

Let us start by talking about that. I want to certainly talk about the current farm bill, but we are talking about a 5-year farm bill, but we should be talking about 50 years from now, what are we going to see in agriculture. And, Mr. Johnson, from your perspective—and Mr. Stallman as well, and then we will ask Mr. Best—obstacles in terms of our future farmers? Opportunities? I mean, what should we be focused on?

Mr. JOHNSON. Well, thank you, Madam Chair. There are a number of things. I think, the previous panels have all talked about flexibility. I think that is really very important. They have also talked a lot about risk management. That is also critically important. If you are talking about beginning farmers in particular, beginning farmer leadership programs such as FFA and 4H are important. But so, too, are things like the Beginning Farmer Institute that we do where we take actual beginning farmers and match them up with other beginning farmers in other parts of the country to give them a broader perspective. I know lots of our organizations do those sorts of things.

Credit programs are very important because, as a beginning farmer, the one thing that you almost certainly do not have is equity, and so you are highly leveraged, and it is important that we have programs that are going to take some of these extreme variabilities out of the way of your business plan. That is why I would point to one of the central features of the program that we are proposing that price variability is really important for us to deal with.

You know, people sometimes forget that we had 6, 7 years of $2 corn not very long ago. The market is a whole lot higher today. During those low-price periods, farmers make suboptimal economic decisions. And, conversely, during these very, very high-price periods, we also make suboptimal economic decisions.

The exuberance that we are all experiencing at land prices is a good example of that. If there is anything certain about very high commodity prices, it is that the input costs go up instantly along with them. We can just look across the board, and we will come to understand that.

Chairwoman STABENOW. Thank you. I know Senator Conrad had hoped to be here to introduce you today. He is one of our great agricultural leaders on the Committee, but he wanted to send his best to you as well.

Mr. JOHNSON. Thank you.

Chairwoman STABENOW. Mr. Stallman.

Mr. STALLMAN. Madam Chairwoman, that is an interesting question. I contend that agriculture as an industry is changing faster than policy can keep up with in many respects. The one thing we have to do for our young farmers and ranchers that are coming up is obviously encourage them with leadership programs, try to get them familiar with what they are facing as they want to enter agriculture, and we do a lot of that as an organization. But the best thing we can do for the future is to create a business environment for them that is conducive for them to be able to pursue their dreams of being in the business of agriculture. That includes watching the regulatory environment to be sure that those restraints are not too burdensome. My colleague talks about price variability. I would point out that price variability provides the opportunity for profit, too.

So what we must do is provide those tools, and revenue risk management tools are a very good one to help adjust to that volatility, to deal with it and manage it. But you always want to be sure that Government policy does not restrict what the marketplace opportunities can offer, and I think overall, for the next 50 years, that is the best gift we can give to our young farmers and ranchers.

Chairwoman STABENOW. Thank you.

Mr. Best, what would you suggest that we be doing?

Mr. BEST. I feel that the best way to contribute to young people getting involved in agriculture is to continue and strengthen support for agricultural education. In agricultural education, we are not just providing students with data. We are not just providing students with the overall concept of what agriculture is. Students are able to actually dive in and get involved on a firsthand basis in what agriculture is. We place them on a pathway into a career in agriculture, and then we see them through that pathway throughout their years in agricultural education. So I feel that that is the best way to contribute to adding to the youth getting into agriculture.

With that being said, I feel that it is important that we convey to them that it is an exciting time to be in agriculture. Never before have we had such advances in technology and innovations that have promoted us to being the most efficient we have ever been. It is an exciting time to be involved in that and know that we have a place within that industry.

Chairwoman STABENOW. Thank you.

I am going to ask one more question. I think with the two of us here it would take just another minute.

Mr. Johnson and Mr. Stallman, you both represent large, very diverse groups of producers and very important voices in terms of farmers and ranchers across the country. You have heard today from folks from all kinds of commodities and parts of the country. What would you at this point say in terms of bringing all of this together from what you have heard today? That is what we really have to struggle with, how we take a very diverse country, regions of the country, various commodities, the need to be fair and effective for all of them. What would you suggest after listening today? Mr. Johnson.

Mr. JOHNSON. Well, I am glad I am not in your shoes.

[Laughter.]

Mr. JOHNSON. I guess I would say a couple of things.

First of all, we have been very supportive of the effort that I know you and others have been struggling with trying to figure out how do you get the right combination of programs. It is not an easy task.

We have for a long time been strong supporters of permanent disaster programs. I think if there is anything we share in common here, going back to ad hoc disaster programs is really a mistake, and we need to create an environment that makes it less likely that that will happen.

I would also provide this observation: There was a lot of conversation about crop insurance, and we all support crop insurance. Most crop insurance policies sold today are revenue-based products, and they work very well when you have high market prices. In some cases they might even work a little bit better than what we would like them to work.

I had the opportunity to buy $11.06 price protection on my wheat in North Dakota several years ago. I am not the best farmer in the county, but I know my costs are not anywhere close to that. So we need to guard against those sorts of very difficult price decisions.

More importantly, when the market collapses, and if it collapses for a long period of time, the revenue products that we have been talking about simply do not provide that long-term price protection, and we will find a hue and cry coming from the countryside, as we did in the late 1990s and early 2000s, when we had extended periods of low prices and we did not have policies that were going to deal with them. So it is important to focus on that, in our judgment.

Chairwoman STABENOW. Thank you.

Mr. Stallman.

Mr. STALLMAN. Well, the best thing about being a general farm organization is being one. The worst thing is also being one, because we have to balance all of these regional and commodity interests that this Committee will have to balance in determining what the farm bill is. We looked a lot at that in coming up with our proposal. That is why, we do not have the luxury as a general farm organization of looking at an individual commodity and saying, this is what we need for this individual commodity. So we tried to look at the aggregate and what is best in the environment that we are dealing with today, which, frankly, could be called revolutionary. Our proposal has been called revolutionary, and it is if you look at the pace of normal change in farm bills.

But these times with the budget and fiscal deficits that we are dealing with, with changing public sentiment about the role of agriculture, having high-price support programs which generate checks to producers on an annual basis is something the public is rejecting. That is what has happened with direct payments. Unfortunately. I am a rice producer. I understand direct payments very well. But the reality is that we have to look to the future and what the changes in this environment are, and, therefore, we do need something that provides a risk management tool, and that is why we looked at what was the best way of approaching that with limited Federal dollars to help provide assistance.

Once again, we must have a strong Crop Insurance Program for us to do that risk management. That is going to be key. But I think the days of us crafting separate programs for separate producers and, trying to find ways to prop up incomes where maybe the marketplace is not indicating that, I think those days are difficult and may be past.

Chairwoman STABENOW. Thank you very much.

Senator Roberts.

Senator ROBERTS. Thank you, Madam Chairwoman.

Bob, thank you for the 12 years of leadership that you have been the head of the American Farm Bureau. Thank you to your staff that has been very highly respected and ongoing. You have right behind you somebody that has your back that is now on your staff who got his teeth cut on the House Ag Committee, then with the cattlemen, and has been serving as top gun to several Secretaries. I think he set the record for that. He is also a renowned rodeo rider, which explains a lot, if you know Dale Moore. It is good to see you, Dale.

Bob, I understand from your written testimony the Farm Bureau sees the option of stacking area-wide insurance policies on top of individual policies is something that could provide value to growers, and I see that type of policy that would offer some benefits to growers in places like Kansas. Can you tell me a little more about how the Farm Bureau sees this program in terms of benefitting farmers across the country?

Mr. STALLMAN. Well, our board had a lot of discussion, and as I have indicated, we are willing to discuss that approach. Our concerns are on several levels. One is the level at which that top layer is set. I mean, the devil is always in the details. We are concerned that if you set the level of coverage too high—and there have been some proposals about 90-and 95-percent coverage levels—you are really taking too much risk out from the producer. When you do that, the law of unintended consequences kicks in. You have farmers that are willing to, leverage their equity a whole lot more than they would otherwise without that. You have the bidding up of cash rents and land prices and the normal things that occur from a purely agricultural economics perspective. Then that we believe will make it more difficult for young farmers and ranchers.

We also want to be sure that we do this, if we do go down this path, on an area basis as opposed to a farm-level trigger. We are very concerned that farm-level triggers at that high a level of coverage—there is the risk of moral hazard, and obviously the costs go up when you use a farm trigger as opposed to an area-wide trigger.

So what we are saying is we are willing to look at some of these proposals, and if the parameters are right, maybe it is something that we can come to consensus on. We still fundamentally believe that flipping it around and letting the Government take the deep loss and then giving the producers the responsibility of crafting their own risk management with existing crop insurance tools at a lower premium presents a better option because it has producers with more skin in the game, if you will, as opposed to the Government take the top layer of losses and the producers taking lower levels.

Senator ROBERTS. I appreciate that.

President Best, Mr. President, you say, "I hope to be a positive influence in the lives of fellow FFA members," "excited about the opportunity," "being an ambassador to the public to share the story of agriculture to Americans," "speaking on behalf of half a million of the FFA membership."

Mr. President, do not share it. Tell it. Shout it to everybody that moves in this town. The Chairwoman and I, when we sit down and talk to fellow members and say, "Could you just spare a moment? We would like to talk to you a little bit about the farm bill," we have 17 seconds before there is a high glaze. Some people, when you say, "I want to share some talk about a farm bill," they simply say, "Well, just pay it." That is the level of understanding.

Now, you, on the other hand, can make a difference. People are going to listen to you because of your position, your presentation, and the fact that you are a young farmer and the fact that you are a president. I know that the Government's impact on farmers and ranchers in some areas has nothing to do with the Department of Agriculture, but there are a lot of other times when regulations stemming from places like the EPA and the Department of Labor place higher hurdles in your path.

The Department of Labor actually proposed new regulations for how our young people can work and learn about agriculture, and there is not anybody on this Committee or anybody in this room that does not care or have the utmost concern for the safety and well-being of our young people, all those involved in industry, but this proposal has really gone too far. Your organization has some feeling about this as well. Could you just tell us a little bit about how the FFA views this rule from the Labor Department?

Mr. BEST. Yes, sir. As a part of our three-circle model in agricultural education, we have a classroom and laboratory section, which is where students learn basic skills, followed by the Supervised Agriculture Experience Program, and that is our experiential learning tactic where students can go out and gain hands-on experience within a job occupation. Finally is FFA, and that is the leadership aspect that comes into it as well as providing incentives for that hands-on experience.

So with that being said, FFA is very interested in protecting the student learner exemption within the Department of Labor regulations as that does affect students within our supervised agriculture experience projects.

There are four areas that supervised agriculture experience can fall under, and that would be agroscience, production agriculture, placement, and entrepreneurship. Of those four, one-third of all SAEs fall under the placement category, and that definitely affects the student learner exemption within the Department of Labor regulations because it does limit FFA members from having the opportunity to get involved in a placement type situation within their SAE. So we are definitely interested in protecting those rights, but at the same time maintaining that our students are safe and well taken care of while they are doing their projects.

Senator ROBERTS. Do you have any neighbors across the road where you live?

Mr. BEST. Yes, sir.

Senator ROBERTS. Do you feel safe crossing that road and going there to help them during the harvest even though they have motorized vehicles over there?

Mr. BEST. I do myself, yes, sir.

Senator ROBERTS. Good. I hope the Department of Labor certainly lets you do that.

When you meet with fellow FFA leaders, what are the burning issues that are discussed? What do your peers see as the biggest challenge to maintaining the strongest agriculture economy in the world for now and, more importantly, in the future? What is the big burning issue?

Mr. BEST. The big burning issue for us comes down to what we have been talking about, getting young people to pursue a career in agriculture. FFA has been dedicated to doing that for the past 85 years, teaching students about the benefits of going into agriculture, and we feel that that is one of the biggest issues. But we are taking steps to overcome that with the recent release of new curriculum, which is allowing for advanced pathways within agriculture. We are directing students down those pathways. It is not just about telling them about a career. It is about motivating them to go into a career. You can sit and talk to them all you want, but they are not going to just wake up one day and say, "You know what? I want to be a farmer." No. They have to be motivated to want to go do that. That is what our more than 11,000 agriculture education instructors are doing every day. They are motivating their students to go into a career in agriculture.

Senator ROBERTS. I especially liked your comment on different pathways. Everybody does not have to be on the farm.

Mr. BEST. No, sir.

Senator ROBERTS. There has been a lot of consolidation, a lot of economies of scale, and they are doing amazing work in terms of precision and production agriculture. But you can have some in your family and other friends that go into other areas of agriculture that are just as important.

Mr. BEST. Yes, sir.

Senator ROBERTS. Well, thank you very much. I appreciate it.

Mr. BEST. Thank you.

Senator ROBERTS. Thank you, Madam Chairman.

Chairwoman STABENOW. Well, thank you to each of you. We appreciate your leadership on an ongoing basis and look forward to working with you.

We now move to the next process in terms of putting together our recommendations and legislation, and your input will continue to be very important to us.

We will end the hearing today. Any additional questions for the record should be submitted to the Committee clerk 5 business days from today, which is 5:00 p.m. on Thursday, March 22nd. And, again, thank you very much, and, Mr. Best, we know the future is in good hands, and we thank you for being with us.

The meeting is adjourned.

[Whereupon, at 12:59 p.m., the Committee was adjourned.]

A P P E N D I X

MARCH 15, 2012

Senate Committee on Agriculture, Nutrition, and Forestry
Opening Statement for Hearing on Risk Management and Commodities in the 2012 Farm Bill
Senator Richard G. Lugar
March 15, 2012

Thank you, Madam Chairman. As both a Hoosier farmer and a United States Senator, I know firsthand the challenges that face our producers each and every day. But, like farmers in Indiana and across the country, I also know that the national debt crisis endangers the prosperity of everyone in the United States and that unnecessary farm program spending has been a contributor over the decades.

That is one reason why I introduced the Rural Economic Farm and Ranch Sustainability and Hunger (REFRESH) Act, S. 1658, on October 5, 2011. The REFRESH Act creates real reforms to U.S. farm and food support programs. These reforms create a true producer safety net that will serve more farmers more fairly, while being responsive to regional and national crises that endanger the continuing success of America's farmers. The reforms also improve accuracy and efficiency in federal nutrition programs, while protecting America's hungry. The REFRESH Act accomplishes all of this while **saving $40 billion** in taxpayer dollars over the next ten years.

The producer safety net title of the REFRESH Act is expected to save taxpayers $16 billion over the next 10 years, accounting for 40 percent of the REFRESH Act savings and a 25 percent reduction in overall commodity spending. A producer safety net should provide farmers with a genuine safety net that enables them to produce more food for consumption at home and for export. America's farmers are the envy of the world; they do not need government to tell them what to do or to pay them to do what they do best. Rather, farmers need access to affordable insurance options to manage weather and market risks.

Specifically, the REFRESH Act would eliminate the practice of writing checks every year to farmers regardless of need, which causes significant inflation of land rents and other input costs. It would do this by scrapping the $5 billion annual direct payment system that manipulates markets and restricts farmers' freedom by barring them from planting certain crops on their land.

To provide a genuine safety net for our nation's food producers, without dictating what a producer can grow, the REFRESH Act proposes an aggregate risk and revenue management program that protects farmers against "shallow-losses." Unlike direct payments currently in place, this program would not blindly send money out the door, but rather only when farm revenues actually fall and farmers are truly in need. This program would be based on a producer's actual plantings, rather than their historical base acres. And, this program would complement the proven private-public crop insurance market for catastrophic loss that covered 260 million acres last year.

The REFRESH Act also tackles other specific programs that hurt America's economy. For instance, thanks to technocratic price-fixing, U.S. consumers today pay nearly double for their sugar. Government manipulation of the sugar market levies an indirect tax of an extra $4 billion each year in food prices. Such stringent controls and artificial barriers should be the antiquated relics of the Eastern bloc, not mainstays of U.S. farm policy. This legislation would end the current system of trade quotas and tariff barriers, promoting competition and increased quality for domestic sugar users.

American dairy farmers face their own labyrinth of regulations and controls. The REFRESH Act would give dairymen simple, voluntary risk management tools. By eliminating the complicated dairy price support program and milk income loss contract program, it offers producers the option to participate in a simpler insurance system. While not perfect, these reforms would move the future of dairy toward a freer market.

I appreciate the challenges that face the Agriculture Committee as we take up commodity and risk management policies in this hearing today. I thank Senator John Thune, Senator Sherrod Brown, and Senator Dick Durbin for their cooperation in drafting the Aggregate Risk and Revenue Management Act. And I look forward to working with the rest of my colleagues on a Farm Bill commodity title that will provide an effective, fiscally-responsible safety net to America's farmers. I offer the REFRESH Act to begin those discussions and ask that it be entered into the record.

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SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

FULL COMMITTEE HEARING

Risk Management and Commodities in the 2012 Farm Bill

Thursday, March 15 – 9:00 AM

Opening Statement

Senator John Thune

Madam Chairwoman Stabenow and Ranking Member Roberts, thank you for holding today's hearing on risk management and commodities in the Farm Bill. I believe the three previous hearings have been productive and created a transparency for the public in writing the next Farm Bill. I look forward to hearing the testimony from an excellent cross section of witnesses who this Committee is counting on to provide guidance in writing the Commodity Title of the Farm Bill.

Madam Chairwoman, no one can argue that most sectors of the agriculture economy are thriving at the present time; however, farmers I have visited with over the past year, even though they are prospering at the moment, are still concerned about the future of agriculture and what the future holds for upcoming generations who will be farming their land.

Representing South Dakota, where agriculture is Number One in our economy, I take my position on this Committee very seriously as we draft a Farm Bill that needs to not only provide an economic safety when production and economic downturns occur, but also preserves this nation's food security and current affordability levels for food.

Ryan Best
Senate Agriculture Committee Testimony
March 14, 2012

Thank you Chairwoman Stabenow, Ranking Member Roberts and members of the committee for the opportunity to speak with you today about something very important to me – the future of American agriculture.

My name is Ryan Best. I have the privilege this year of serving as president of the National FFA Organization. I was raised on a production sheep farm in Portales, New Mexico, and I'm a junior at New Mexico State University majoring in agricultural and extension education.

As part of my FFA and agricultural education program during high school, I developed a production enterprise around sheep and diversified livestock. For me, agriculture is an occupation and a way of life. My family has been involved in production agriculture for seven generations.

Production agriculture is in my blood, and that's what brings me here today. My goal is to share with you the perspectives of the young men and women I represent as president of the FFA. Today nearly a million students in secondary agricultural education programs are preparing for careers in agriculture.

The U.S. will need the best and brightest of its young people to drive the innovation and efficiencies in agriculture that will achieve production goals and meet growing demand. We already have in place a pipeline to attract and prepare the talent needed to grow our future. These are the more than half-million student members of the FFA and agricultural education. They are students like Cole Vculek, FFA's 2011 American Star Farmer. Cole rented land from neighbors to grow two acres of red onions. He quickly added more land to raise potatoes, and in 2009 he added 200 acres for a corn and soybean rotation. Recently, Cole purchased a 640-acre farm from a neighbor. He plans to acquire more cropland and add sugar beets to his business. A fifth-generation farmer, Cole epitomizes the innovation and growth American agriculture will need to sustain in coming years.

While many people are familiar with the FFA, less is known about the agricultural education program of which FFA is an integral part. Today, there are 7,400 FFA chapters located in school systems throughout fifty states, Puerto Rico and the Virgin Islands. Students are preparing for over 300 careers in the science, business and technology of agriculture, including production.

It is understandable if some believe that members of FFA—formerly known as the Future Farmers of America—come primarily from rural farming communities and small towns. But that is not accurate. Today's FFA is as diverse as today's agriculture. We are reaching nontraditional agricultural education students in rural, suburban and urban communities, including New York, Philadelphia, Houston and Chicago. The Chicago High School for Agricultural Sciences was home to Corey Flournoy, the first African American National FFA President. Today's agricultural education reaches students from all backgrounds.

FFA and agricultural education are helping students establish successful careers in production agriculture. Our supervised agricultural experience program provides opportunities for students to set career goals in high school and then pursue postsecondary education and training for entry into production agriculture and to become entrepreneurs. Wesley Davis from the Mason County Vocational FFA Chapter in West Virginia raises farm fresh eggs as a part of his enterprise. He says his supervised agricultural experience allowed him to see the viability of supplying consumers in his community with fresh, locally-produced eggs. Wesley plans to turn his project into a full time job.

FFA and agricultural education have a major role in ensuring we have the producers, researchers, entrepreneurs and innovators to meet the challenges we face. That's why Secretary Vilsack invited last year's national FFA officer team to provide him with recommendations for the farm bill. After consulting with FFA members and stakeholders, the officers delivered their report to the Secretary last December. It is attached to my comments, but it comes down to these key points:

1. USDA and other federal agencies should assist beginning farmers to start or continue in production agriculture.
2. USDA should help transition farms from older farmers to younger or beginning farmers who may not come from a farm.
3. USDA should help keep young people in rural communities and make rural communities an even more important part of our nation's economy and society.
4. USDA should strengthen the capacity of agricultural education to produce more students who pursue production agriculture and related careers.

In closing, I want to underscore that agricultural education and FFA have been assets to American agriculture for 85 years. Given the challenges facing American and global systems of agriculture, investments for tomorrow must be made. The next farm bill provides an opportunity for Congress to demonstrate that it, like FFA members, believes in the future of agriculture "with a faith born not of words, but of deeds."

Thank you. I look forward to your questions.

The Secretary's Challenge

Report to the U.S. Secretary of Agriculture
From the
2010-2011 National FFA Officer Team
December 19, 2011

"I Believe in the Future of Agriculture..."

I. The Challenge

Secretary of Agriculture Tom Vilsack spoke at the National FFA Foundation Sponsors' Board meeting in Washington, D.C., Jan. 20, 2011. We, the 2010-2011 National FFA Officers, were privileged to be in attendance. During his remarks, Secretary Vilsack issued a challenge to the national officers and, by extension, to the National FFA Organization. Speaking directly to the officers, Secretary Vilsack said:

> *"I would like you to work with your fellow students and the adult leadership of the organization to develop a series of recommendations around the upcoming Farm Bill that will encourage more young people to pursue careers in farming. Over the next few years we will need 100,000 new farmers, and I am looking to you for ideas, guidance and suggestions to help make that happen. If you do this in a serious, thoughtful manner (which I know you will do) I will make myself and all of my Undersecretaries available to hear this report. So that we can utilize this information to guide our input to Congress, I would like to have your report to me one year from today."*

Clearly, this was an invitation and opportunity to which FFA had to respond. Never before had the organization been asked to submit direct input to the Secretary of Agriculture. Never before had FFA members been asked to consider ideas, suggestions and policies within the Farm Bill that could enhance the ability of agricultural education and the FFA to help students succeed and strengthen American agriculture. In the weeks following the meeting with the Secretary, the national officers sought ideas and input from FFA members, business and industry partners and leaders from the agricultural education community.

II. Our Approach

To meet this challenge, we worked with the National FFA Organization to educate our members, ask questions and solicit ideas. The work had to be executed in a relatively short period of time, with limited financial resources, and on top of an already full program of work.

We searched for opportunities and groups within the organization that could provide natural venues to begin this discussion.

First, we had to define the questions. Working with the national FFA staff, we identified twenty key questions; and while all of the questions were relevant, it soon became apparent they were probably beyond the capacity of the organization to thoroughly pursue. To ensure participation from students and teachers, we pared down that list of questions to six to collect as much information as we could. The six questions we agreed upon were used consistently throughout the process. They are:

1. How can USDA help strengthen the capacity of agricultural education to produce more students with an interest in pursuing production agriculture (farming) and other agriculturally related careers?
2. What authority, responsibility or support should USDA provide for school-based agricultural education and FFA?
3. What role should USDA play (funding, programming, actively supporting) to increase the public's knowledge of agricultural literacy?
4. What assistance can be provided to help keep young people in rural communities and make rural communities an even more important part of our nation's economy and society?
5. What incentives or assistance can or should agencies and departments such as USDA provide to young and beginning farmers that will encourage them to start or continue in production agriculture?
6. What assistance or role could USDA provide in helping the transition of farms from older related and non-related farmers to younger or beginning farmers who may not come from a farm themselves?

Two immediately available opportunities identified were the National FFA New Century Farmer Program (NCF) and the National FFA State Presidents' Conference (SPC). The New Century Farmer Program engages college-age FFA members who have made a substantial commitment to pursue careers in farming. Through an application process, forty outstanding students are selected and brought together for a week-long enrichment conference. Topics include working with their parents and others on succession and business plans, utilizing leadership skills learned in FFA, becoming involved in agricultural organizations and understanding agricultural policy. One of the outcomes is to equip them with knowledge, skills and abilities to address many of the challenges and hurdles they face in their pursuits. As part of the 2011 conference, the students were provided an overview of the current Farm Bill and given an opportunity in small group discussions to provide feedback to various questions. That feedback was one of the sources of ideas used to generate our report.

At the same time the New Century Farmer group was meeting in Iowa, our National FFA Officer team, along with 100 state FFA student leaders, met in Washington, D.C., for the annual National FFA State Presidents' Conference. A full day of the four-day conference was devoted to the Secretary's Challenge. We began that day with a briefing that provided an overview and context of the current Farm Bill. We then brought those student leaders to USDA to meet with Secretary Vilsack. We met in small groups with senior advisers to the Secretary to discuss ideas, explore options and consider alternatives. Upon returning to our hotel, we met again in small groups to further discuss and synthesize our ideas. Those ideas and recommendations are also a part of this report.

We wanted to do more. While the NCF and SPC participants provided a number of good ideas and feedback, it was only the first step of our journey. We recognized there was a "teachable moment" within the challenge the Secretary had given us. We realized early on that, while everyone recognized we have a Farm Bill, very few knew what was in the bill or why such a piece of legislation even existed. With support and resource assistance from the American Farm Bureau Federation, our education team at FFA assembled a web-based, self-guided tutorial program on the background, purpose and basic contents of the Farm Bill. Our information technology and education teams helped us create an online discussion board which served as the host site for posting our six questions and collecting feedback. We linked these two pieces together so that students who came to either website had the benefit of learning as well as sharing information. Through our various communications channels, we promoted this opportunity to our members, teachers, state leaders and supporters. The website went live in mid-July and was open through early November 2011.

Most people recognize the national FFA convention as a major event that is also the largest annual student convention in the United States. In 2011, it was attended by more than 53,000 students, teachers, parents and guests. We were honored to have Secretary Vilsack present inspiring remarks at our American FFA Degree and Stars Recognition Ceremony. Earlier in the week, with the assistance of one of our sponsors, Ice Miller, we had an opportunity to collect additional ideas and feedback. Beth Bechdol, vice president and director of agribusiness strategies with Ice Miller, conducted two student workshops on Agricultural Law and Policy. A portion of each of those workshops included education about the Farm Bill and an opportunity for students to work in small groups to address at least one of our six questions. The synthesis of those ideas is also contained within our report.

In addition, we had numerous opportunities throughout our year of travel and service to FFA to speak with students, teachers, parents and industry sponsors. We also met with leaders of the agricultural education community to ask for their input, especially as it related to strengthening the capacity of agricultural education to serve students. Many of those discussions provided ideas and guidance that are incorporated into our report.

We share this background and process to provide a sense of the seriousness with which we took Secretary Vilsack's challenge. It also indicates the commitment of the National FFA Organization to engage its members, advisors and leadership to provide ideas, suggestions and recommendations that will build a brighter future for the next generation of agricultural producers, scientists, teachers and leaders.

III. Our Recommendations

Listed below is a summary of the ideas and recommendations we gathered. They are organized around four primary themes and include the six questions posed to our stakeholders. Included are specific requests of USDA that can be addressed through the Farm Bill or in other actions by the department.

Theme 1 — Getting Started in Production Agriculture

1. **What incentives or assistance can or should agencies and departments such as USDA provide to young and beginning farmers that will encourage them to start or continue in production agriculture?**

Many comments from FFA members stressed the important relationship between FFA and USDA as a way for them to learn about and benefit from programs that can help them pursue a career in farming. There was much positive feedback regarding assistance provided by low interest loan programs. They also appreciated the risk management assistance available. Many stated a need for greater awareness of these programs and a more intentional integration of this assistance and information within agricultural education curriculum and resources.

For many FFA members, their supervised agricultural experience (SAE) programs were the key to their involvement in agriculture. While many of them have grown up and worked in agriculture most of their lives, it was their enrollment in agricultural education and the development of their own supervised agricultural experience programs that were their first real experiences in owning and managing an agricultural enterprise. If USDA wants to help beginning farmers, one of the best opportunities is to expand assistance to students who acquire, own, manage and grow enterprises through the experiential learning process of supervised agricultural experience. Because an increasing percentage of our students do not come from farms, making these SAE experiences available is even more critical for their career entry into production agriculture.

Many of our members would like to see greater focus on the continuation and expansion of programs specifically tailored to new, beginning and young farmers that provide financial and technical assistance and continuing education. One of the greatest challenges facing this group is the acquisition of capital and the financing of capital expenditures, including land and machinery. FFA members cited the need to streamline and accelerate the timelines in obtaining this assistance. Likewise, they would like to see the availability of reduced or no-credit loans extended for longer periods. Many young and beginning farmers believe the existing programs do not offer a long enough time horizon for them to take full advantage of resources necessary to establish a sustainable farming business.

One challenge identified by our New Century Farmer participants is the availability and affordability of insurance, ranging from health to liability to crop loss insurance. Because the age when most FFA members want to begin their farming careers often accompanies marriage and starting a family, the availability and affordability of insurance often deters them. Many will delay a decision to enter farming, and in some cases it completely derails their career goals.

Another interesting idea was the creation of a special scholarship program for new and beginning farmers. Many students cited the lack of scholarships and financial assistance for those wanting to pursue degrees in agriculture. Because of the complexity and intensity of production agriculture, many students see a need to pursue two- and/or four-year degrees before pursing farming careers. They would like to see special financial assistance with a loan forgiveness clause for students who forego more lucrative career opportunities to return to or start farming operations.

In addition, new and beginning young farmers need continuing education opportunities to help them keep current with advanced science, technology, marketing and financial management. This is where technology, distance learning and Internet-based study programs would be beneficial. The group also cited a need for a database of young, new and beginning farmers so that they could network face-to-face and through online communications.

Recommendations in summary:

a) Promote greater awareness of available programs and incentives that can assist beginning young farmers.

b) Continue and expand programs that provide financial and technical assistance and continuing education to beginning young farmers.

c) Ensure assistance and information available to beginning young farmers is fully integrated within the agricultural education curriculum and resources.

d) Expand USDA assistance that helps students acquire, own, manage and grow enterprises through the experiential learning process of supervised agricultural experience (SAE) within agricultural education.

e) Streamline and accelerate the processes available to beginning farmers to obtain financing for capital expenditures, including land and machinery.

f) Provide more available and affordable insurance, ranging from health insurance to liability to crop loss insurance.

g) Provide scholarships and financial assistance to students pursuing degrees in agriculture through two- and/or four-year universities, colleges and technical schools, including a loan forgiveness clause for students who forgo more lucrative career opportunities to return to or start farming operations.

h) Promote continuing education to keep beginning farmers current with advanced science, technology, marketing and financial management.

i) Provide a database of young, new and beginning farmers with whom beginning farmers can network though face-to-face meetings and online communications.

2. What assistance or role could USDA provide in helping the transition of farms from older related and non-related farmers to younger or beginning farmers who may not come from a farm themselves?

Many of our members support USDA taking a more active role in the transitioning of young people into production agriculture by assisting and incentivizing older farmers to help them. This transition would not only involve the transfer of assets but also the transfer of wisdom, knowledge and experience. Even though our students value the education and experience they receive through FFA programs, they welcome the opportunity to work with older, more experienced farmers, especially where an opportunity to eventually transition roles exists. Our students would like this to be a way for them to begin transitioning as early as when they start agricultural placement within their supervised agricultural experience programs. These could involve apprenticeships and continued mentorships with older farmers.

One of the larger challenges cited by our members is the availability and affordability of land to begin farming. The price of much of the land that comes available is based not around its agricultural value but its potential for commercial or residential development. Many older farmers have few options but to take advantage of these opportunities despite the tax consequences.

Many FFA members favor the creation of programs that provide greater incentives though the tax code and other means to allow older farmers to sell or transition the ownership of their farmland to new, beginning and young farmers. Another idea identified was financial support to new and beginning farmers and perhaps favorable income treatment to older farmers who rent or provide long-term leases to keep land in production and out of development. Many cited a program that might work much like the Conservation Reserve Program in which older farmers would be financially incentivized to commit part or all of their land to a beginning farmer. The beginning farmer would have to ensure the land is actively farmed and that effective conservation practices are developed and maintained.

The general feedback from our members is that this is an area around which USDA and farm policy should focus thinking and resources. This could be the best way to bring young people into farming, decrease the average age of farmers and provide financial security to older farmers as they reach retirement age.

Recommendations in summary:

a) Incentivize older farmers to take a more active role in the transitioning of young people into production agriculture by assisting in the transfer of assets, wisdom, knowledge and experience, possibly through apprenticeships and mentorships.

b) Provide greater incentives through the tax code and other means to allow older farmers to sell or transition ownership of their farmland to beginning young farmers.

c) Provide financial support to beginning farmers and favorable income treatment to older farmers who rent or provide long-term leases to keep land in production and out of development.

Theme 2 – Creating Vibrant Rural Communities

3. **What assistance can be provided to help keep young people in rural communities and to make rural communities an even more important part of our nation's economy and society?**

The majority of agriculture students come from small rural communities and they value the lifestyle and benefits these communities provide. Many would like to return to those communities after they complete their education and begin their careers. For many of these young people, quality of life trumps high-paying job opportunities.

For this to happen, two conditions need to exist. There must be favorable economic conditions in the form of good jobs and entrepreneurial opportunities. Working with students at an early age to help them develop knowledge, abilities, employability skills and entrepreneurship increases their chances of success. For many students, it is a combination of their agricultural education classes, supervised agricultural experiences and FFA leadership activities that create the life experiences and lessons that help them live and thrive in rural communities.

In many areas, however, the salary disparity between rural and urban communities makes it difficult for young people to pass up opportunities in more urbanized areas. One idea identified is a college loan forgiveness or assistance program that would incentivize students, especially in critical occupations such as agriculture teachers, large-animal veterinarians and doctors, to begin their careers in rural communities.

Rural development efforts at USDA that are part of the Farm Bill should address these opportunities. Rural communities, as with many inner cities, need assistance in building and maintaining infrastructure, attracting outside investment and creating economic opportunities that keep young people in those areas. Rural communities need incentives, educational opportunities and technical assistance for small businesses to be established and grow so that they provide employment for people in those communities. Perhaps the ideas around enterprise development zones can be expanded to include many of our struggling rural communities. There is also a need to utilize these programs to help rebuild the community infrastructure that has decayed along with the decline in rural populations over the past years.

Additionally, rural communities need access to technology and information. Today's young people consider lack of access to high-speed technology a deterrent to their quality of life. USDA should continue its efforts and commitment around ensuring all communities, especially those in rural areas, have access to broadband and high-speed Internet. These services are becoming increasingly essential in the operation of business, providing quality educational opportunities and maintaining a desirable quality of life. They also provide a way to erase the perceived isolation many people fear about living in rural communities. For many young people, access to the Internet, social media and cell phones are major components to their sense of community.

There is a need to build a sense of connection, ownership and responsibility around rural communities. As we look at the outward migration and economic deterioration rural communities have faced over the past several decades, it is especially important to address this today. Rural communities do offer great opportunities for young people to become involved in assessing and developing solutions that address many community concerns. However, students need education, training, experience and advisement for this purpose. This is an area in which USDA and FFA can work together to the benefit of rural communities.

Through FFA leadership development programs, and with support and funding from USDA and Congress for programs such as the Rural Youth Development grants, our FFA chapters have additional incentives to use their communities as learning laboratories for leadership and personal growth. When students have opportunities to actively address community issues and help create a better place to live, they earn a greater sense of ownership and empowerment as citizens. This is what helps build the connection and the motivation for students to return and live in those rural communities.

Recommendations in summary:

a) Help students develop agricultural knowledge, abilities, employability skills and entrepreneurship by supporting the integrated model of agricultural education, supervised agricultural experience and FFA leadership activities.

b) Expand rural development efforts at USDA to include college loan forgiveness or assistance programs that incentivize students to begin careers in rural communities, especially in critical occupations such as agriculture teachers, large-animal veterinarians and doctors.

c) Assist in building and maintaining infrastructure, attracting outside investment and creating economic opportunities in rural communities to help young people build careers in those areas.

d) Provide rural communities with incentives, educational opportunities and technical assistance that help establish and grow small businesses that provide employment to retain people in those communities.

e) Help communities gain access to technology and information, especially in rural areas, including access to broadband and high-speed Internet to facilitate operation of farms and businesses, provide quality educational opportunities and maintain a desirable quality of life.

f) Expand USDA's Rural Youth Development grants and support for FFA leadership development programs to provide FFA members with incentives to use their communities as learning laboratories for leadership, service and personal growth.

Theme 3 – Who Should Care About Agriculture and Why?

4. **What role should USDA play (funding, programming, actively supporting) to increase the public's knowledge of agricultural literacy?**

Among the critical challenges facing agriculture is the separation and lack of understanding most Americans share regarding how food is produced and delivered to their tables three times a day, every day. While production agriculture represents a very small percentage of our U.S. workforce, and the related agricultural community is so dispersed across many economic sectors, it is difficult to communicate the size and scope of our agricultural productivity and how it contributes to the favorable quality of life most Americans enjoy.

Why should they care? Because our future and quality of life depends upon the decisions of policymakers at all levels. Our future depends upon our ability to produce increasing quality and quantities of food, fiber and fuel while at the same time safeguarding our natural resources. It is because of the productivity of our agricultural system that Americans enjoy the highest quality of living with the lowest percentage of income going to purchase food. As the agriculture industry continues to accomplish this year after year, our society becomes further removed, further detached and less understanding and appreciative of modern agriculture. Lack of knowledge and understanding often results in unintended consequences of policies that threaten our capacity to feed not only this country, but also a substantial portion of the global community.

As we look ahead to challenges facing agriculture and the growing demand for agricultural products and food, we must invest in strategies for growth. Funding must be available to conduct research to increase our capacity to grow food, mitigate environmental degradation and boost efficiency. In addition, through our teaching, education and extension programs, producers should be educated in how to adopt and adapt the best available technologies to feed our nation and add significantly to the available supply of food for other countries.

Because the largest portion of the current Farm Bill and USDA budget addresses food assistance and nutrition, USDA has an opportunity to lead the effort to connect safe, nutritious, abundant, affordable food to efficiency, productivity and safety in our agricultural system. USDA should partner with and incentivize educational organizations to ensure agricultural literacy is educationally-based, begins at an early age and extends all the way to the consumer.

USDA should work much more closely with other agencies such as the Department of Labor and the Department of Education to ensure food and agricultural literacy are integral parts of instruction in all schools. Nutrition and food assistance without the accompanying nutrition, diet and health education is not a sustainable solution. Together with the Department of Education, USDA should more actively support "youth teaching younger youth" about many issues relating to food, agriculture, nutrition and diet. These activities can be done through agricultural education classes working with elementary age students around school gardens, agricultural literacy and nutrition programs.

Activities such as National Agriculture Day and National Agriculture Week provide opportunities for USDA to collaborate with agricultural organizations to educate and promote stronger connections regarding food and agriculture among our citizens. USDA should consider a grant program that would assist organizations in their promotion and educational outreach to consumers.

Because most of agriculture is 'out of sight', it is often 'out of mind' for average citizens. USDA should increase efforts around programs such as Farm to School and develop or expand Farmers Markets and School Gardens. These efforts are great ways to bring agriculture into view of most consumers and elevate their understanding of what it takes to put food on the table. They also create contextual learning opportunities that help students (and consumers) learn science and math in engaging and meaningful ways.

USDA should be actively involved in helping develop agricultural demonstrations that could be combined with high school academies such as the Chicago High School for Agricultural Sciences and the Walter Biddle Saul High School in Philadelphia. These are just two examples of high schools that teach urban students about careers in agriculture and heavily engage in agricultural literacy efforts in their communities. However, efforts should not be limited to urban areas. Much of this awareness building is also needed in rural and suburban communities.

Agricultural literacy is the first step in the education process. Literacy opens the door to bring a larger percentage of people into the agriculture and agriculturally-related workforce. As agriculture continues to face challenges, having a well-informed, engaged and supportive public will be important for it to serve our nation.

Recommendations in summary:

a) Partner with and incentivize educational organizations to ensure agricultural literacy is educationally-based, begins at an early age and extends to the consumer.

b) Work more closely with agencies such as the Department of Labor and the Department of Education to ensure food and agricultural literacy are integral parts of instruction in all schools.

c) Invest in research to increase the capacity and efficiency of agriculture. Through education, help producers adopt and adapt the best technologies.

d) With the Department of Education, actively support "youth teaching younger youth" about issues relating to food, agriculture, nutrition and diet, including agricultural education classes working with elementary age students around school gardens, agricultural literacy and nutrition programs.

e) Collaborate with agricultural organizations to educate and promote stronger connections regarding food and agriculture during opportunities such as National Agriculture Day and National Agriculture Week.

f) Develop a grant program to assist organizations in their promotion and educational outreach to consumers regarding how food is grown, produced and distributed.

g) Increase efforts around programs such as Farm to School and develop or expand Farmers Markets and School Gardens.

h) Help develop agricultural demonstrations that can be combined with high school agriculture academies such as the Chicago High School for Agricultural Sciences, the Walter Biddle Saul High School in Philadelphia and other schools that teach urban students about careers in agriculture and conduct agricultural literacy efforts in their communities.

Theme 4 – Planning for the Future

5. How can USDA help strengthen the capacity of agricultural education to produce more students with an interest in pursuing production agriculture (farming) and other agriculturally related careers?

Today, school-based agricultural education programs at the middle and high school levels reach nearly one million students across the United States and its territories. There are 7,487 FFA chapters with a record all-time national membership of 540,379. More students are enrolled in agricultural education programs and engaged in FFA today than at any time in our history. The fact that they receive rigorous STEM-based education (science, technology, engineering and mathematics) in the context of agriculture is promising and holds great potential for the future of American agriculture. These are students who have expressed interest in preparing for careers in agriculture or related areas. These are students who have the potential to pursue higher educational opportunities in agriculture. These are students who will, in the next 4-8 years, begin careers in production agriculture.

Here, then, is a paradox. Earlier, we shared concerns about the common lack of agricultural understanding and literacy among the general public; yet, today we have higher enrollments and interest than ever before. We are attracting more students from non-agricultural backgrounds and we are opening programs in some unlikely places. This success is due in large part to the connection of business, science and technology to agriculture. In fact, that is how we often describe our educational programs—we prepare young people for careers in the science, business and technology of agriculture.

Our local programs depend heavily upon highly qualified agricultural education instructors who hold degrees in agriculture and who have met all necessary certification requirements to teach in the public schools. Our programs involve integration of classroom/laboratory instruction, experiential learning through SAE projects and the leadership, personal development and career success opportunities provided through FFA. While FFA is often the most visible component, it is just one piece of a well-developed, integrated educational model. Students wishing to be members of FFA must be enrolled in agricultural education. In turn, agricultural education is just one part of career and technical education helping prepare students to be college and career ready.

Because they exist within the public school system, our programs must focus on academic achievement and education of students. Agricultural education provides a great context for the applied, STEM-based teaching of science, math and language arts. It also creates a strong bridge that helps students understand the relevance of what they are learning and what it means to their future. This is a critical part of getting young people headed down a career path in agriculture.

The feedback from our members identified several ways by which USDA can strengthen local agricultural education programs. Sharing resources, creating stronger linkages between local USDA offices and facilities and providing internships for students to learn firsthand the work of USDA are just a few. Also cited was a need for ways to gather and summarize the massive amount of information developed by USDA about the agriculture industry and to utilize that information in ways that help teachers keep instruction relevant and up to date with current agricultural practices and technology.

As demand for food and other agricultural products increases due to population growth, demand will also increase for well-trained, highly-qualified agricultural producers, scientists and related career professionals. USDA alone employs 110,000 people in myriad positions requiring extensive knowledge and understanding of the agriculture industry. It is anticipated that many current USDA workers are at or near retirement age. This is not unique to USDA; however, we heard this concern voiced by a majority of agricultural companies and organizations we met with this year during our business and industry visits.

Recommendations in summary:

a) Strengthen and support local STEM-based agricultural education programs by sharing resources, creating stronger linkages between local USDA offices and facilities and providing internships for students to learn first-hand the work of USDA.

b) Gather and summarize the massive amount of information developed by USDA regarding the agriculture industry and utilize that information in ways that help teachers ensure instruction is relevant and up to date with current agricultural practices and technology.

6. **What authority, responsibility or support should USDA provide for school-based agricultural education and FFA?**

School-based agricultural education is not a new concept. The Smith Hughes Act of 1917 is the federal law that created school-based agricultural education. The National FFA Organization came into existence 11 years later in 1928. Over the past 80-90 years our programs have served an estimated 8-9 million students.

Since its inception, school-based agricultural education and FFA have helped develop a well-trained agricultural workforce. Our programs have expanded beyond producing future farmers to also focus on future scientists, future teachers, future economists and many other professions in agriculture. Once limited exclusively to males, today young women represent more than 40 percent of the membership in FFA.

The federal authority for agricultural education/FFA resides within the Office of Vocational and Adult Education (OVAE) in the U.S. Department of Education. The National FFA Organization received a federal charter from Congress in 1950. Currently, one staff member in OVAE represents the Secretary of Education in serving as National FFA Advisor.

Even more than the U.S. Department of Education and the U.S. Department of Labor, USDA has a vested interest in the success of workforce development and career education for those in agriculture. The critical interdependency of agricultural productivity, efficiency and innovation directly relates to our nation's well-being and security, but it is not fully understood or appreciated. Very few of the high-skill, high demand job areas identified by the Department of Labor and the Department of Education have any relationship to the critical areas of employment in agriculture. Neither agency has data that supports a need for focused training in agriculture, primarily because the Department of Labor's analysis of employment data focuses only on farming and ranching.

We believe the Farm Bill should create an opportunity for shared authority, responsibility and support for school-based agricultural education between USDA and the Department of Education. There should be closer cooperation, communication and coordination between USDA, the Department of Labor and the Department of Education regarding how young people learn about and prepare for career opportunities in agriculture. We also believe there should be better coordination of agricultural employment and farming data to provide a more effective means of sharing this information with students, teachers and high school guidance counselors.

We believe more coordinated involvement of USDA in school-based agriculture can provide opportunities to integrate emerging science and technologies into the instructional programs. We support and encourage additional development of grant programs such as the Secondary Education, Two-Year Postsecondary Education, and Agriculture in the K-12 Classroom Challenge Grants Program (SPECA) that provide grants to local agricultural education programs to put in place innovative curriculum and implement state of the art technologies. These types of programs, while providing much needed resources, also provide ways to leverage investments by local school districts.

Because of the relationship and support USDA provides to land-grant and other universities, they are critically important partners for building stronger agricultural career pathways with seamless articulation programs between high school, college and career. School-based agricultural education depends heavily upon teachers trained in these institutions. The school-based agricultural education curriculum must continue incorporating STEM-based (science, technology, engineering and mathematics) standards and assessments. Programs must also include articulation programs that allow students to attend two-year community colleges before transferring to four-year institutions for completion of their degrees. These types of programs will allow students seeking careers in farming to develop their programs even as they complete their education.

In addition, there should be greater coordination and cooperation between school-based agricultural education and other USDA programs such as the Agriculture in the Classroom literacy program focused primarily on grades K-6. Many FFA chapters utilize Ag in the Classroom to conduct agricultural literacy outreach with younger elementary-age students. There are also opportunities to create stronger linkages with programs such as Know Your Food, Know Your Farmer, People's Garden and Farm to School that could be enhanced by the presence that school-based agricultural education programs already have within the school environment.

The administration of agricultural education and FFA programs in the U.S. engages local school systems, teachers, university teacher educators, state departments of agriculture and education, agriculture business and industry, parents, philanthropic organizations and other government agencies. Comparatively speaking, the investment of federal resources is small, consisting primarily of staff resources in the Department of Education and in several cooperative programs and grants made available through the Department of Agriculture. Yet there is a significant need that can be addressed in the current Farm Bill. If USDA seeks to leverage the ability of agricultural education and FFA to help prepare a workforce for American agriculture, it can do so by developing the capacity of the National Council for Agricultural Education (The Council).

The Council unites key stakeholder groups in agricultural education. It includes the Department of Education, agricultural education student organizations, classroom teachers, university teacher-educators, state supervisors of agricultural education, postsecondary and adult agricultural educators, the Association for Career and Technical Education, alumni groups and business and industry. The Council sets the national agenda for agricultural education and works to align that agenda with national priorities for preparing the next generation of leaders and workforce for agriculture. While The Council's membership is comprehensive, it lacks funding resources that can provide continuity in leadership, program management and advocacy on behalf of agricultural education. USDA can, through the Farm Bill, make a strategic investment by providing funding that strengthens The Council's structure and expands its capacity to provide leadership for the nation's agricultural education programs.

Recommendations in summary:

a) Create an opportunity for shared authority, responsibility and support for school-based agricultural education between USDA and the Department of Education resulting in closer cooperation, communication and coordination regarding how young people learn about and prepare for career opportunities in agriculture.

b) Improve coordination of agricultural employment and farming data to more effectively share this information with the Department of Education, the Department of Labor, students, teachers and high school guidance counselors.

c) Encourage additional development of grant programs such as the Secondary Education, Two-Year Postsecondary Education, and Agriculture in the K-12 Classroom Challenge Grants Program (SPECA) that provide grants to local agricultural education programs to put in place innovative curriculum and implement state of the art technologies.

d) Encourage development of articulation programs that allow students to attend two-year community colleges before transferring to four-year institutions for completion of their degrees.

e) Increase coordination and cooperation with other USDA programs such as the Agriculture in the Classroom literacy program.

f) Create stronger linkages with programs such as Know Your Food, Know Your Farmer, People's Garden and Farm to School that can be enhanced by the presence that school-based agricultural education programs have within the school environment.

g) Provide funding through the Farm Bill to strengthen The National Council for Agricultural Education and expand its capacity to provide leadership for the nation's agricultural education programs.

IV. Conclusion

Our National FFA Officer Team would like to express deep appreciation to Secretary Vilsack for inviting the voices of FFA members to be heard at the highest levels as we consider the next Farm Bill. We are proud he shares our traditions of the "Blue and Gold", and we are especially grateful for his leadership and commitment to present and future generations of American agriculturalists.

We are also grateful for the support provided to us by our fellow students and FFA members, our teachers and advisors, our supporters in business and industry and members of our communities who contribute countless hours of service helping young people succeed and grow through agricultural education and the FFA.

We believe it is in the best interest of the nation for the Department of Agriculture to affirm its commitment to develop strong, experienced leadership for agricultural education. The National FFA Organization is prepared to assist in every way possible toward this end. Given the magnitude and impact of the national agricultural education enterprise, and given the significant challenges facing American and global systems of agriculture, an investment must be made. Future generations are counting on continuing sources of safe, affordable, nutritious and abundant food and renewable energy produced sustainably and in harmony with our highest national interests. The next Farm Bill provides an opportunity for the department to demonstrate it believes in the future of agriculture "...with a faith born not of words, but of deeds."

Respectfully submitted by the 2010-2011 National FFA Officer Team

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TESTIMONY
Presented to the
U.S Senate Committee on Agriculture, Nutrition and Forestry
by
Chuck Coley
Chairman, National Cotton Council
March 14, 2012

Introduction
I would like to thank the Chairwoman Stabenow, Ranking Member Roberts, and Members of the Committee for the opportunity to offer the views of the National Cotton Council regarding U.S. farm policy. My name is Chuck Coley, and I am a third generation cotton and peanut farmer from Vienna, Georgia. I am also President of Coley Gin and Fertilizer which includes a cotton gin and warehouse; a peanut buying point and warehouse; and, a fertilizer and crop protection product distribution company. I am currently serving as Chairman of the National Cotton Council.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandisers, merchants, cooperatives, warehousemen and textile manufacturers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from the Carolinas to California. The scope and economic impact extends well beyond the approximately 19 thousand farmers that plant between 9 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year. Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200 thousand workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420 thousand workers with economic activity well in excess of $100 billion.

The National Cotton Council believes that sound farm policy is essential to the economic viability of the cotton industry. We appreciate the dedication and diligent work of this Committee during last fall's attempt at a joint deficit reduction package. While that effort did not advance a farm bill to conclusion, the U.S. cotton industry supports the Committee's commitment to conclude a farm bill in 2012. It is critically important to provide certainty to those involved in production agriculture since they make long-term investment decisions based on federal farm policy. The National Cotton Council also strongly supports farm programs specific to the needs of individual commodities versus a one-size-fits-all approach.

The combination of the marketing loan, Direct Payments (DP) and Counter-cyclical Payments (CCP), as structured in the 2008 Farm Bill, has served the cotton industry extraordinarily well and, in recent years, has required minimal federal outlays. However, deficit reduction efforts are placing unprecedented pressure on the existing structure of farm programs. Deficit reduction will lower the baseline funds available to upland cotton. Yet simply downsizing the current program structure would undermine the effectiveness of the programs to the extent that alternatives need to be evaluated to ensure growers have access to an effective safety net.

The cotton industry faces another unique challenge. In developing new farm legislation, the U.S. cotton industry must work with Congress and the Administration to resolve the longstanding Brazil WTO case and remove the imminent threat of retaliation against exports of U.S. goods, services and intellectual property.

In order to respond to the challenge of designing the most effective safety net with reduced funding and to make modifications that will lead to the resolution of the Brazil case, the industry recommends a revenue-based crop insurance program available for voluntary purchase which will result in strengthening growers' ability to manage risk. By complementing existing products, the program would provide a tool for growers to manage that portion of their risks for which affordable options are not currently available.

The revenue-based crop insurance safety net would be complemented by a modified marketing loan that is adjusted to satisfy the Brazil WTO case. In the opinion of the U.S. cotton industry, this structure will best utilize reduced budget resources, respond to public criticism by directing benefits to growers who suffer losses resulting from factors beyond their control, and build on the existing crop insurance program, thus ensuring no duplication of coverage and allowing for program simplification. The revisions will provide confidence to lenders and ensure market-oriented production decisions that ultimately serve the long-term financial health of merchandizers, processors, related businesses and rural economies.

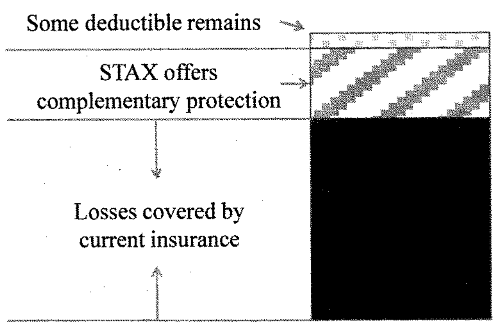
Stacked Income Protection Plan

The recent cotton market has been characterized by extremes. Cotton prices exhibited unprecedented volatility, essentially tripling between April 2010 and April 2011. However, the exorbitant surge in prices, which was in part fueled by unexpected cotton export restrictions by India, placed tremendous pressure on textile manufacturers, and cotton demand suffered as a result. By the end of 2011, cotton prices had retreated, losing much of the gains of the earlier rally. As market prices experienced greater turbulence, portions of the U.S. Cotton Belt faced extreme weather conditions. The Southwestern region, most notably Texas and Oklahoma, suffered the worst drought conditions on record in 2011. Based on USDA data, the percent of planted acres that were un-harvested reached an all-time high. Unfortunately, those dry conditions persist in many areas. Last year, portions of the Mississippi Delta region lost crops due to spring-time floods, while areas in the Southeast faced drought conditions. Unfortunately, the extreme market and weather events have come at a time when overall input costs are at an all-time high. As a result, operating margins are volatile and extremely tight.

Farmers understand that agriculture is an extremely risky endeavor, but they also understand that effective risk management is the key to long-term viability. While the goal of farm programs is not to completely remove the risk associated with farming, farm programs should strive to provide opportunities for effective risk management. The Stacked Income Protection Plan, or STAX for short, accomplishes that goal. STAX is designed to provide a fiscally responsible and effective safety net for upland cotton producers. The program will be administered in a manner consistent with current crop insurance delivery systems and is designed to complement existing crop insurance programs. This proposal does not change any features of existing insurance products.

The STAX plan is designed to address revenue losses on an area-wide basis, with a county being the designated area of coverage. In counties lacking sufficient data, larger geographical areas such as county groupings may be necessary in order to preserve the integrity of the program. The "stacked" feature of the program implies that the coverage would sit on top of the producer's individual crop insurance product (Figure 1). While designed to complement an individual's buy-up coverage, a producer would not be required to purchase an individual buy-up policy in order to be eligible to purchase a STAX policy.

Figure 1. Stacked Income Protection Plan (STAX)



The STAX revenue product would be funded using available upland cotton baseline spending related to the CCP, DP and Average Crop Revenue Election (ACRE) programs. In addition, producers would bear a portion of the cost of the program by paying some level of premium. However, producer premiums would be offset to the maximum extent possible through the use of available upland cotton spending authority for the CCP, DP and ACRE programs. The cotton industry believes that the premium offset should be no less than 80%, which is the current subsidy level for all enterprise unit policies.

The basic design of the STAX program is similar to current Group Risk Income Protection (GRIP) plans offered through the Risk Management Agency (RMA). Two notable changes relative to the current GRIP plan would be the introduction of a reference price in the formula determining reference income, and the proposed STAX plan would cover only those losses at the upper end of the producer's risk profile. Indemnities under the STAX plan would be paid on upland cotton planted acres purchasing the plan.

The following table highlights the basic design of the Stacked Income Protection Plan. The description in Table 1 is not an exhaustive list of the possible features of the program, but rather a general overview. Specific parameters and features of the program will in part be determined by budget considerations.

Table 1. Basic STAX Overview

Relevant market prices for crop insurance products are determined based on futures markets	Projected Price	Use same procedure as current insurance products. (For much of the Cotton Belt, the Projected Price is determined as the average closing value of the December contract for a relevant pre-planting period.)
	Harvest Price	Use same procedure as current insurance products. (For much of the Cotton Belt, the Harvest Price is determined as the average closing value of the December contract for a relevant harvest period.)
Determine level of price and income protection under STAX policy	Preliminary Price Protection	Higher of the Projected Price and a **Fixed Reference Price**
	Area-wide Projected Income	Preliminary Price Protection multiplied by the Expected County Yield
	Area-wide Reference Income	The higher of the Preliminary Price Protection and the Harvest Price multiplied by the Expected County Yield
Determine if indemnity is paid under the policy	Area-wide Realized Income	The Harvest Price multiplied by the Actual County Yield
	Area-wide Indemnity	If the Realized Income falls below an **Elected Percentage** of the Reference Income, then an Indemnity equal to the difference is triggered. However, the Indemnity may not exceed a **Defined Percentage** of the Reference Income.

The U.S. cotton industry proposes that growers should have the ability to purchase STAX coverage up to a 95% level. However, producers also should have the ability to adjust their upper coverage level depending on their risk profile and their ability and willingness to pay the associated premium. Producers will have the flexibility to adjust the width of the STAX coverage by selecting a lower bound of coverage, thus establishing a maximum indemnity. Furthermore, if a producer purchases an individual or traditional area-wide buy-up policy, the STAX lower bound must be a number at least as large as the coverage level selected in the buy-up policy. For example, a producer who purchases an individual revenue or yield product at an 80% coverage level and also chooses to purchase a STAX policy, the lower bound of the STAX policy can be no lower than 80%. STAX is designed to complement current insurance coverage and not overlap with that coverage.

As previously mentioned, the STAX proposal includes a reference price in the determination of the county reference income. In a manner consistent with other crop insurance products, price protection under the STAX plan is based on cotton's December futures contract during a relevant pre-planting period. Currently, the December 2012 contract is trading between $0.90 and $0.95 per pound, and the nearby December contract has averaged $0.82 between 2008 and 2012. Price projections by USDA and the Congressional Budget Office (CBO) are consistent with futures markets continuing to trade in the 80-cent range. However, the industry understands the volatility of commodity markets and the importance of downside protection during times of low prices. As a result, the U.S. cotton industry believes that a reference price of $0.65 per pound provides important protection during those times of low prices, but this should trigger on an infrequent basis given current projections for commodity markets. Also, it is important to remember that even with a reference price of $0.65, indemnities are not triggered until actual income falls below the selected trigger level. If a grower has purchased a 90% STAX policy, then futures must trade below $0.585 (i.e. 90% of $0.65) before indemnification occurs, assuming actual yields are in line with expectations.

Other Crop Insurance Issues
Across the Cotton Belt, crop insurance is an essential risk management tool for cotton producers, and the STAX plan will provide another viable option for producers to effectively address their risk profile. Given the diversity of weather and production practices, the menu of insurance choices should be diverse and customizable, thus allowing for the fullest participation and most effective coverage.

In 2008, the introduction of enterprise unit pricing gave producers one more option for insuring against those risks that are beyond their control. The U.S. cotton industry strongly supports the continuation of that option in the 2012 farm bill.

Upland Cotton Marketing Loan
The findings of the WTO Brazil case and the subsequent Framework Agreement between the U.S. and Brazilian governments require that changes be made to the marketing loan for upland cotton as part of the development of the 2012 Farm Bill. To address that requirement, the National Cotton Council proposes that the level of the upland cotton marketing loan be changed based on the historical Adjusted World Price (AWP).

The loan rate for a crop will be determined in the fall prior to planting the crop and be set equal to the average of the AWP for the two most recently completed marketing years provided the 2-year moving average falls within a set maximum and minimum loan level. If the 2-year moving average exceeds $0.52, the loan rate is set at a maximum level of $0.52. If the 2-year moving average falls below $0.47, the loan rate is set at a minimum level of $0.47. All other features of marketing loan remain unchanged from current law.

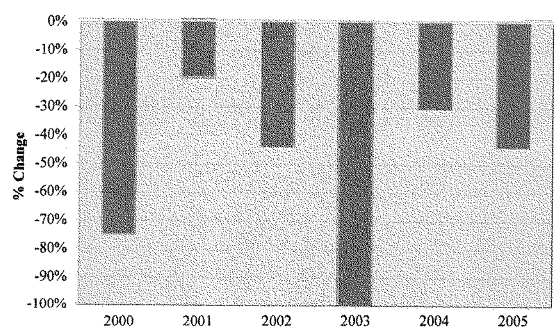
As an illustration, the loan rate for the 2013 crop would be announced in the fall of 2012 based on the average AWP prevailing over the 2010 and 2011 marketing years, which represent the two most recently completed marketing years. Once announced, the level of the loan remains fixed for the duration of the marketing year.

The WTO dispute with Brazil focused on data and market developments during the early 2000's, which was a time of chronically weak prices with the AWP below the marketing loan for extended periods. Had the proposed formula been in place during those years, the marketing loan for upland cotton would have declined to $0.47 for much of the period. With a loan rate of $0.47, any marketing loan gains would have been substantially lower than actual levels – with reductions generally above 20% and in some cases, more than 70% lower than actual levels (Figure 2).

As previously mentioned, existing features of the upland cotton marketing loan should be retained in the 2012 farm bill. These include an effective determination of the Adjusted World Price for purposes of loan redemption in times of low prices, as well as the provision of storage credits should the loan redemption price fall below the loan rate.

In order to be eligible for a marketing assistance loan, upland cotton must be stored in an approved warehouse. Unlike most bulk commodities, upland cotton cannot be farm stored, so to utilize the loan a producer has no option other than to enter cotton in a warehouse where storage and handling charges accrue until the cotton is marketed. Since cotton is stored in identity preserved units (each bale has a distinct identity), storage and shipment require more time, effort and expense than other crops. Storage credits allow the U.S. to remain competitive in times of low prices and should be maintained in new farm legislation.

Figure 2. % Change in Marketing Loan Gains with $0.47 Loan Rate



Resolution of the Brazil Dispute

The National Cotton Council understands the importance of resolving the Brazil WTO dispute within the 2012 Farm Bill. In the longstanding trade dispute between Brazil and the United States, a WTO panel previously concluded that the combination of the marketing loan, target price and former Step 2 provision of the marketing loan combined to cause significant price suppression and serious prejudice to Brazil's cotton industry.

The Step 2 provision of the upland cotton marketing loan was eliminated in 2006. In the context of the current farm program, the only remaining provisions relevant to the Brazil dispute are the marketing loan and the target price. NCC's farm policy proposal addresses both of those programs by eliminating the upland cotton target price and introducing a formula that would lower the marketing loan in times of low prices. Further, after assuming a 30% reduction in available support, the NCC proposal redirects remaining baseline funding for the target price-based countercyclical payment program and direct payment into an area-wide insurance program.

Moving upland cotton's support into an insurance program is consistent with the findings of the WTO panel that found no trade distortion or price suppression related to insurance programs. The WTO panel essentially treated insurance programs in the same light as direct payments in terms of production and price impacts. Under the NCC's proposed changes, coupled with past program eliminations, total trade-distorting support to upland cotton would have declined by 60% over the period 1999 to 2005, which is the period on which the Panel's findings are based. The NCC believes the combination of STAX and a modified marketing loan significantly reduce U.S. trade-distorting support.

Revenue triggers under STAX or any insurance program are directly related to the current level of futures markets. Fortunately, cotton prices have increased over the last two years, and as a result, price elections under crop insurance are higher. However, when the market moves lower, support under STAX and insurance programs will move lower as well. STAX does not "lock-in' high revenues through artificial means such as moving averages of prices or limits on annual changes. STAX simply looks to the market and allows growers to buy a level of coverage based on market signals. Furthermore, the higher coverage levels are not based on individual experience but rather area-wide triggers. There is no guarantee for the producer's individual income.

The industry understands that Brazil has raised concerns about the proposed changes to the upland cotton program. We look forward to the opportunity to address and clarify those concerns.

Provisions of the upland cotton program are just one aspect of the WTO dispute with Brazil. Brazil also successfully challenged export credit programs for cotton and a number of other agricultural commodities. NCC remains committed to working with the Agriculture Committees, the Administration and other commodity organizations in an effort to resolve all aspects of the case.

Economic Adjustment Assistance Program

NCC supports the continuation of the Economic Adjustment Assistance Program (EAAP) for domestic textile manufacturers. The EAAP, authorized in the 2008 Farm Bill, is a success story that is revitalizing the U.S. textile manufacturing sector and adding jobs to the U.S. economy. The program provides a payment to U.S. textile manufacturers for all upland cotton consumed, whether U.S. grown or imported. The payment rate from August 1, 2008 through July 31, 2012, is 4 cents per pound of cotton used, and will be adjusted to 3 cents per pound beginning on August 1, 2012.

Recipients must agree to invest the proceeds in equipment and manufacturing plants, including construction of new facilities as well as modernization and expansion of existing facilities. The assistance program, which is consistent with WTO commitments, is modeled after trade adjustment assistance programs and is not designed to affect the price or competitiveness of raw cotton.

The EAAP has led to higher employment and increased cotton consumption by US textile mills. Over the past 18 months, the Bureau of Labor Statistics reports that U.S. textile mills have added more than 6 thousand jobs. Based on a recent survey of EAAP recipients, 70% of respondents cited increases in the number of employees while the remaining 30% noted that labor requirements had either stabilized or more hours were required of existing employees.

The EAAP has allowed investments in new equipment and new technology. Survey responses indicated that companies had constructed new buildings, improved existing buildings, and invested in new spinning equipment and new technology for the purpose of expanding capacity and adding new product lines.

The EAAP has also allowed companies to reduce costs, increase efficiency and increase competitiveness. U.S. textile companies cited an increased ability to be more competitive against foreign competition and opportunities to reclaim market share from Asian competitors were also noted by survey respondents. Other benefits include lower energy costs, greater efficiency in style changes enabling faster adaptability to market conditions, improved quality control, increased capacity, reduced water use and more flexibility to meet customers' needs.

Future investments funded by a continuation of the EAAP will allow further recovery by the US textile industry. Companies have expressed their intent to build new plants, add additional spinning and weaving technology, and replace existing equipment with more efficient machinery.

Payment Limits and Eligibility
The National Cotton Council has always maintained that effective farm policy must maximize participation without regard to size or farm income. Artificially limiting benefits is a disincentive to economic efficiency and undermines the ability to compete with heavily subsidized foreign agricultural products. Artificially limited benefits are also incompatible with a market-oriented farm policy.

While the cotton industry understands the pressures from some in Congress for even more restrictive limits, we would like to remind the Committee that the 2008 farm bill contained significant changes with respect to payment limitations and payment eligibility. In fact, the 2008 farm law included the most comprehensive and far-reaching reform to payment limitations in 20 years. The limitations were made more restrictive, and the adjusted gross income test was substantially tightened. As part of the 2012 farm bill, the National Cotton Council would oppose any further restrictions on payment eligibility including lower limits or income means tests.

Extra-Long Staple Cotton
Pima cotton producers support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

Export Promotion Programs
Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export-dependent agricultural economy. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets – but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

We appreciate the opportunity to provide these comments and look forward to working with this Committee in the development on a 2012 farm law that effectively meets the needs of cotton producers while addressing the challenges posed by budget constraints and trade concerns.

Testimony

With regard to

Crop Insurance and Risk Management Programs

Submitted to the

United States Senate

Committee on Agriculture, Nutrition and Forestry

The Honorable Debbie Stabenow, Chairwoman

Submitted by

Jarvis Garetson

Producer

Haskell County, Kansas

March 14, 2012

Madam Chair, Ranking Member Roberts, and Members of the Committee, thank you for the opportunity to join you today to share my family's experience with crop insurance on our Kansas farm and to discuss some possible improvements to the current program.

My wife Amber and our five boys live in rural Haskell County, Kansas on the farm that my great-grandfather homesteaded in 1902. We operate in partnership with my brother Jay and our parents, Jesse and Jerra Garetson on nearly 7,000 acres in Haskell, Gray and Finney Counties. The farm raises irrigated corn, milo, wheat, triticale, soybeans, cotton, and dry land wheat, milo, and cotton on owned, cash rent and crop share acres involving 17 landlords. My specific role focuses on day-to-day operations, including seedbed preparation, planting, overseeing irrigation and nutrient management, applying pesticides, crop rotations, and harvesting.

Our family is deeply committed to agriculture and to rural America. We're raising our sons and running our farm with an eye to the future generations of our family who will feed the world from our lands.

Stability through the use of effective risk management tools is imperative for our operation. Each and every commodity group or farm organization which I am a part of has listed protection and enhancement of crop insurance programs as its number one priority in the 2012 Farm Bill process. Let me simply echo that sentiment.

In the past 18 months concluding on December 31, 2011 our farm received a total of 4.85 inches of rainfall. Quite frankly without strong and effective crop insurance tools Garetson Brothers Farms could likely have been preparing for a farm sale this spring; instead, we're planning and preparing to plant. During that same time our friends in Missouri and other parts of the mid-west have struggled to overcome record flooding, and other weather related disasters.

Agriculture is a highly erratic industry that is influenced by a multitude of variables that are beyond the producer's control. Farmers can use top quality seed, fertilizer, chemicals and best management practices, and still not be able to control the weather or the markets. Profit margins in the industry are such that it is critical that farmers have access to a strong, adequately funded, viable and flexible risk management program.

Simply put, during the development of the 2012 Farm Bill, crop insurance must be a priority. In fact, there are several possible improvements that I would urge the Committee to consider that would allow the program to better meet the needs of producers in Kansas and across the nation.

Enterprise Units

Our operation began using enterprise units about four years ago. They have worked well, allowing us to access quality coverage at a lower premium rate. The program should be made permanent, but unfortunately, given our diversity between irrigated and dry land acres, the concept doesn't work as well as it could.

To address this situation I would recommend introducing additional flexibility within the program to allow producers to designate enterprise units by practice; specifically, differentiating between irrigated acres and dry land acres.

In years like those we've recently endured this differentiation would have allowed us to easily trigger indemnity payments on the dry land acres (some of which didn't have sufficient moisture for the seed to germinate) while continuing to attempt to bring a crop to fruition on our irrigated acres.

Limited Irrigation Products

As you may be aware, our operation is located above the High Plains Ogallala Aquifer. Given our focus on the future we have routinely sought ways to maximize our production while conserving this vital but limited natural resource.

One option the Committee should consider is support for the concept of a limited irrigation insurance product. Currently, as we've discussed, producers must declare acres either irrigated or non-irrigated. An irrigated designation implies application of adequate water to produce the crop but also requires planting at higher population rates.

Properly developed, a limited irrigation product would encourage conservation by allowing producers with limited or declining water supplies to plant lower populations and set a lower yield goal while maintaining insurance coverage at better than dry land levels. The product would provide an incentive to conserve water and potentially provide a bridge to those forced from irrigation to dry land by declining aquifer levels.

Declining Yields

Many parts of the nation have now endured successive years of disaster events. Under our current structure these consecutive bad years result in declining Actual Production History (APH) and subsequently increasing producer premiums.

Alternatives should be explored to rectify this situation and could include the use of a personal T yield in addition to the adoption of a higher yield plug to allow a producer's insurable yield to reflect what he hopes to produce in a given year.

Improving Data Collection

Like many operations Garetson Brothers has aggressively implemented technology on our farm. We were early adopters of auto steer and GPS systems, implemented yield mapping in 1997, and we're the first in Haskell County to implement variable rate seeding.

It seems only natural to continue to encourage the implementation of technology at FSA and RMA as well as on the farm allowing greatly improved accuracy in reporting and eventually adding the potential for real time data collection. We believe the 2012 Farm Bill should continue to encourage agencies to embrace technology to better serve producers and allow for more efficient delivery of all farm programs and indemnity payments.

Reform Wisely

As you're well aware recent cuts to crop insurance and the renegotiation of the SRA have resulted in $12 to $20 billing in savings. Additional cuts will likely result in increased premiums to producers or reductions in the products available or the level of service companies are able to provide. We simply cannot afford additional cuts in today's high risk market place.

American Agriculture relies on a strong safety net, delivered efficiently and effectively through the current public-private partnership. Producers across the nation are concerned and opposed to the rumor that crop insurance delivery could be managed and delivered through an existing federal agency.

In addition, in no case should the crop insurance tools, which are purchased by the producer, be encumbered with environmental regulation, conservation requirements, or other conditions that fall out of the scope of insurance.

Conclusion

Since 1902 our farm has operated with a focus on longevity and sustainability. We appreciate the partnership we have with the federal government and programs to ensure stability in our efforts to produce food, fiber and fuel. The 2012 Farm Bill provides new opportunities to further define that partnership and to continue to protect and ensure that Americans and consumers around the world have access to safe and affordable food.

Thank you for the opportunity to share our thoughts and our operation with you today. Should you ever find yourself in Haskell County, we'd be happy to show you around.

Written Testimony of

Ruth Gerdes

President of The Auburn Agency Crop Insurance Inc.,

Farmer and Crop Insurance Agent from Auburn, Nebraska

Before the
U.S. Senate Committee on Agriculture, Nutrition and Forestry

Hearing on
Risk Management & Commodities in the 2012 Farm Bill

Washington, DC
March 14, 2012

Introduction

Chairwoman Stabenow, Senator Roberts, and Members of the Committee, thank you for holding this hearing concerning risk management and commodities in the 2012 farm bill. I am grateful for the opportunity to present this testimony as a crop insurance agent – one of the 16,799 crop insurance agents who serviced a policy in 2011 – but especially on behalf of the farmers we serve.

I am Ruth Gerdes. And while I have been fortunate to gain the fancy title of President of The Auburn Agency Crop Insurance, Inc., I am first just a farm and ranch girl from Nebraska. Some 28 years ago, after nearly losing the land my husband and I were farming, I decided I wanted to help other farmers avoid the situation we had found ourselves in after a string of bad weather along with tough markets. I got into crop insurance, believing it could be a powerful tool for farmers. It is still that same belief and passion that drives me to work each day, and I am proud to say it remains challenging and fulfilling work as the risks farmers face, and that we as agents are charged to help them manage, are only growing and becoming more complex.

In addition to working for my farmer clients, I have served on a number of industry task forces and working groups through the years, both with grower associations like the National Corn Growers Association and in the crop insurance industry. In the late 1990s, I was fortunate to serve on what I think were two seminal committees: (1) a USDA Risk Management Agency (RMA) Task Force on Actual Production History (APH); and (2) an Advisory Committee for Senator Bob Kerrey that was instrumental in the development of the Agricultural Risk Protection Act of 2000 (ARPA) under the strong leadership of this Committee's Ranking Member, Senator Roberts, and Senator Kerrey.

I currently serve as Chair of the Regulatory Affairs Committee of the Crop Insurance Professionals Association (CIPA), a band of excellent and long-serving agents from across the nation founded by Ranking Member Roberts' constituent and friend, Mr. Bill Hanson of Manhattan, Kansas, for the purpose of strengthening Federal Crop Insurance to better serve the needs of U.S. producers. I am also a member of the American Association of Crop Insurers (AACI) Agent Division, the Independent Insurance Agents and Brokers of America (IIABA) and would align myself with any and all who would want to promote Federal Crop Insurance. I offer testimony today on behalf of these groups plus the Professional Insurance Agents of America and am proud to do so.

I volunteer and serve in these capacities because I care about the farmers I serve, and believe in the product I sell. From just a handful of farmer clients in 1984, Auburn Agency has grown to serve more than 1800 farmers in 8 states, with an average buy-up coverage level exceeding 80%. I am told this is one of the highest levels of average buy-up in the nation. I strongly believe the role farmers play in our society is a noble one. I understand that Federal Crop Insurance is about the farmer first, and I am honored to have been able to play a role in helping farmers learn how to use it to its maximum value. I hope my testimony today will provide some useful insight to guide as the Committee embarks upon its own great mission of directing our Nation's farm policy for the future.

Crop Insurance Enjoys Great Support for a Reason

In one sense, I have an easy job today as, based on the statements I have read anyway, Federal Crop Insurance enjoys very strong support in this room. Most producer groups have said that preserving crop insurance is their first priority, as have several members of this Committee. I want to say thank you for this leadership and support. It is gratifying, but it is also consistent with what I hear from my farmers. Crop insurance has become that powerful tool that I thought it could be when I first entered the business, and that Congress wanted it to be when you set it on a new path in the early 1980s. There is still much more that can be done, but I think its popularity fundamentally arises from the following facts:

1. It is real and **bankable protection** that is **tailored** by the farmer with their agent to the specific needs of the producer's operation. No farm bill policy is like this.

2. It is **well managed** – producers sign a business contract, and when disaster strikes an adjuster will be present and **claims are paid timely**. The competitive aspect of delivery ensures excellence.

3. It is **defendable** in that **farmers pay significant premiums** -- they have a lot of skin in the game -- for this coverage.

4. As a voluntary business decision, crop insurance comes **unencumbered with arbitrary regulatory dictates**.

But even though Crop Insurance enjoys this great popularity and is in fact working as planned and actually under budget right now, we realize this Committee is charged with some difficult issues in crafting the next Farm Bill, and we, therefore, want to confront these issues with our key principles and values in the pages that follow.

Reflections on Growth of Crop Insurance Industry

The growth of Federal Crop Insurance is an outstanding success story. From the time the modern public/private partnership was forged in 1980, Crop Insurance has grown from an insignificant footnote among policies helping producers, covering less than 12% of the nation's cropland and generally suffering adverse selection, to a robust policy covering 83% of all cropland acres and providing bankable protection to nearly all producers including America's best, most dynamic and most productive farm families.

In 2011, companies and agents sold policies costing a record $4.5 billion in producer paid premium covering a record $114 billion in production. This is especially astounding when you consider that just 10 years ago, in 2001 (the first year after passage of the 2000 Act), producers spent just $1.2 billion on premium covering just $37 billion in production.

We should not just gloss over this growth or these statistics as if they happened by accident, or just being in the right place at the right time. The fact is it has been the product of very substantial and very deliberative work by many – many of you around this dais, many CEOs and staff, lots of adjusters, and, yes, many, many agents and farm leaders in the field – and so I think it's worth taking some time to think about what has truly been the force behind this growth. We would list four key factors:

1. **Good lawmaking** — I want to pay homage to this Committee and those lawmakers who came before you who crafted: the 1980 Federal Crop Insurance Act, which began the movement of the delivery of Crop Insurance to the private sector; the 1994 Act which cast the vision that Federal Crop Insurance might one day eliminate the need for costly ad hoc disaster programs; and the 2000 ARPA which set the course and trajectory for what Federal Crop Insurance has become today.

   As members of this Committee, I would hope you look at Federal Crop Insurance with a great deal of pride in ownership. You have created a policy to address a very real need: farmers as a fundamental element of society do, in fact, face greater risks (contending with weather and markets risks well beyond their control) than any other business, and they need access to affordable risk management tools. And, you established a successful public/private partnership that has uniquely met that need in a reliable and comprehensive and defendable way.

2. **Motivated participants** – The private sector leaders who jumped into Crop Insurance from the beginning believed in the need first, but saw sufficient potential reward to risk their capital to make it work. Still today, the 15 companies (AIPs) that remain are dynamic and competitive, and, therefore, constantly searching for ways to bring better value to the farmer customers as they compete for more business and greater market share.

   The value of this framework may be hard to quantify exactly, but we can see from the numbers that crop insurance began a very different path in terms of both the quality and quantity of coverage beginning in the early 1980s. We also see evidence of this in innovation. Crop Revenue Coverage or CRC was created in the late 1990s and absolutely revolutionized risk management for producers of most major commodity crops by providing risk protection against both yield losses and price swings within the growing season.

3. **Quality products at affordable prices** – Good insurance policies that provide relevant protection tailored to the producer's needs and history at a reasonable value are key. As yields and prices for commodities have climbed, the business of farming has not gotten easier so much as it has become far higher stakes. For this reason, the premium assistance provided to the farmer is absolutely critical. Even the conservative American Enterprise Institute (AEI) has published papers stating that crop insurance simply would not be viable without federal backing and cost share. Any efforts to reduce premium assistance should be rejected outright.

   The Actual Production History (APH) system for determining a farmer's insurable yield, based on the producer's real history, is also key. The APH rewards good behavior, and discourages bad behavior, and, thus, pushes the farmers to be the best they can be.

4. **Dedicated agent force** – While I might like to think my Agency is unique, the reality is that we are pretty typical. We all strive to provide a quality service. We all work to know the products and markets and are willing to be called upon at all hours, not just when natural disaster strikes but year-round to preempt risk management mistakes wherever we can. Why is this? Well the first and most obvious answer is, we do it because we take pride in our work and we want our customers to be happy with our products and our service. And, yes, a part of that is because we want that producer's business again next year.

In the past, the best agents could not only win business, but they could be rewarded for exceptional work by the Companies with compensation. This competitive business model is good for the farmer and good for the system, but it has been dramatically undermined by the recent Standard Reinsurance Agreement (SRA) which, in addition to capping A&O reimbursements to companies, took the unprecedented step of capping and standardizing agent commissions from the companies. I should note here that this egregious overreach by the RMA was done administratively, with no legal authority or directive from Congress.

While one might add to this list of reasons for the success of crop insurance, the result is the same: crop insurance is undeniably a growing and positive force in the agricultural economy. I noted earlier the fact that acres insured, value insured and the amount farmers are investing in crop insurance continue to grow and set new records. For a state such as Nebraska, that has big implications for the economy.

Stories behind the Numbers

At the end of this testimony, I have attached simple fact sheets for several states. What I want to point out is that there are faces, jobs, economic activity, and stories behind each of the numbers. In Nebraska in 2011:

- **2,275** is the number of licensed agents – small business owners like me providing farmers guidance and advice. Each agent is supported by company underwriters, adjusters, claims staff and computer programmers, and most employ office support staff. Collectively, these jobs, which are all supported by A&O and AIP resources, represent a significant number of good jobs in rural communities like mine.

- **15.587 million acres** of crop and pasture covered represents the livelihood of thousands of farm families in my state.

- **$8.631 billion in liability** covered represents expected income for these farm families should weather and markets cooperate. Covering this risk through Crop Insurance allows farmers to use their capital elsewhere – better machinery, better seed, technology, irrigation, conservation practices, etc. The economic impact of offsetting this amount of risk in this way is tremendous.

- **$309 million in premiums** is what farmers were willing to pay for this coverage in 2011 (roughly $20/acre). While this is a lot, it has also helped a lot of farmers and their families sleep better at night and make more productive uses of their days.

- **$254 million in claims paid** to date represents indemnities directed to those with covered losses – these are farm incomes saved, financial catastrophes avoided, and localized farm economies kept afloat.

Business Perspective vs. DC Perspective and the problem of CBO

While in business growth is a good thing, in DC it is not all positive. It often invites unfair scrutiny. In fact, spending on agricultural policies including Crop Insurance is way down. In the most recent five years, average funding for U.S. farm policy, including crop insurance, was $12.9 billion per year, which is 28% less than the previous five-year average of $17.9 billion and 31% less than the average of $18.8 billion that incurred in the preceding five years.

But the avowed opponents of agriculture (EWG or AEI) have never let facts stand in their way. With higher commodity prices boosting the baseline for Crop Insurance, they have set their sights upon this vital risk management tool, never mind the fact that crop insurance was cut by more than $6.4 billion in the 2008 farm bill, and by another at least $8 billion administratively in the 2010 SRA.

Perhaps what is most disheartening from this standpoint is the fact that the Congressional Budget Office (CBO) seems to persistently overestimate the cost of crop insurance to the taxpayers, putting a bull's eye on our back. The following table compares the CBO estimates for crop year expenditure (for 2006, from the 2006 baseline, etc.) to the actual crop year spending tallied after all is settled.

Year	2006	2007	2008	2009	2010	*2011*
CBO estimate	*$3.864*	*$4.670*	*$7.746*	*$7.496*	*$7.784*	*$9.213*
CBO actual	**$3.291**	**$4.374**	**$4.146**	**$6.767**	**$4.547**	**???**
% difference	-14.8%	-6.34%	-46.5%	-9.73%	-41.5%	???

The point of this is simply to show that CBO (like its sister agency, OMB) does the Federal Crop Insurance system no favors. Right now, as of the January baseline update, they are showing budget authority for the 2011 crop year at $9.213 billion and average spending over the next 10 years at another $9B per year (a total of $90 billion). But if history is any guide, the actual spending will be lower, and could be much lower.

For 2011, even though companies have paid out more than $10.2 billion in claims (a record), the program is still at a loss ratio (indemnities/total premium) below 1.0 and, therefore, an underwriting gain will be made. Thus we can already deduce that the real cost will finally come in lower than the $9.213 billion estimate, just as it has in the previous 5 years. Beyond this year, no one really knows, but CBO assumes high prices are here to stay. In reality, if prices were to retreat again, what is currently a $90 billion baseline could easily shrink by $20 to $30 billion in a wink of an eye.

To conclude this section, let me just state that from my perspective, and I think the perspective of all of rural America, growth in Federal Crop Insurance is in fact a good thing. It was always the hope of your predecessors and many of you here today to establish a system that would be so comprehensive and robust in its coverage that it would eliminate the need for ad hoc disaster assistance. Well considering that we just came off a year that contained the worst heat and drought in the history of the Southwest United States, and epic flooding along the fertile plains of the Missouri River, and not a single call was heard for additional disaster assistance, I would say this Committee has achieved a grand success in Crop Insurance.

Reflections on Value of Crop Insurance to the Producers it Serves

While we have covered at length the value of crop insurance, generally, I have not touched on its most important quality from my perspective, and that is what it does for the individual farmers who use it well.

I am fortunate to be from an area with really incredible generational farmers who love the land and care for it well and raise crops with amazing consistency and productivity. From this perspective, I can attest to the fact that the value of crop insurance is far more than what they receive in indemnities over time. Many of my farmers have never made a claim on crop insurance, and hope they never will. And, yet, they assign it an indispensable value, particularly in the revenue products. Why is this?

First, Crop Insurance has become a **powerful tool for farmers in marketing their crops and managing input costs**. I have farmers who price their corn and beans two and three years in advance, knowing they will have crop insurance to back them up. This allows farmers to lock in prices on their commodity when they are best rather than when they have to. It also allows them to purchase inputs ahead if prices are attractive. Together, when used well, the Crop Insurance products, while having a significant cost upfront, can really improve the bottom line of farmers even when they don't have a loss.

Also, by taking certain risks off the table, farmers are able to focus their capital on other needs. Many of my farmers will tell you that the bankability of crop insurance has allowed them to purchase better equipment, like center pivot irrigation or a bigger planter or better combine. These investments also increase efficiency and hedge risks for the farm operation. So the value of crop insurance is magnified as it allows the farmer to focus resources on other needs.

Finally, although I do live in a very good farming area, that does not mean we are immune to disaster. And this leads me to the best thing about crop insurance – it is there when you need it. Perhaps the best, most recent example of this, for my agency, came last year in the wake of the Missouri River floods. The story of one of my farmer clients was told on The Hand That Feeds U.S. (HTFUS). See: http://www.thehandthatfeedsus.org/farmers_profile-Under-water-but-not-out-of-business.cfm. Mike Woltemath from Hamburg, Iowa lost more than 80% of his farm ground last year to flooding, partly in a successful effort to save the town of Hamburg. As the picture below indicates, there was absolutely nothing that could be done to hold back the waters.

A generation ago, this would have been an economic hit that would have destroyed farms families, or taken a lifetime to recover from. Thankfully, Mike was well insured, and has since been able to put his farm back into shape such that he is ready to plant again this year. His words for the HTFUS article are relevant to this hearing:

> "Crop insurance needs to be protected. It provides us with a very good backstop, and if you take that away you leave an already high-risk industry with no protection, making it almost impossible to withstand this kind of catastrophic event. . . . It's not unheard of to have $700 invested in one acre out here, much of which is borrowed from banks that would not likely approve the loan without the protection of crop insurance. No one realizes how much we invest in order to produce the food and fuel that we do. But when you don't have anything to sell, you can't invest, and when you can't invest, you can't produce—it's a downward spiral."

Mike was not alone. In fact there were many just like him. Walking though this type of disaster with farmers is difficult and even emotional. Without Crop Insurance, this would be an entire year's income lost on top of the loss of very costly assets. This is why we have crop insurance, and why it is so important that crop insurance remains a business proposition, unencumbered with arbitrary rules and regulations that are part of so many Farm Bill policies, so that it can provide just this type life and business-saving assistance exactly when it is needed.

To conclude, the true value of Crop Insurance has to be measured taking into account all of these factors together. Some ivory tower economists like to propound the view that the only true measure of insurance is what it pays back in relation to what the purchaser has paid in. No one in the real world views insurance that way. As agents, having walked the fields and sat at the kitchen table with the producers who are taking these huge risks, we know better.

Key Issues in the Farm Bill

Clearly, crop insurance has tremendous value both from a broad economic perspective and to the farmer. This is, no doubt, why it enjoys such broad support from producer organizations and Congress alike. But even with this support, the future of the industry seems more uncertain than ever.

It has been a difficult couple of years for crop insurance with respect to government affairs, with stinging cuts made to both companies and agents in the 2010 SRA. Based on the Administration's recent FY 2013 budget blueprint, apparently OMB believes even more should be cut. Thankfully, those around this table have answered with a firm, no. But, another big issue for crop insurance, at least from my vantage point, lies in your hands, and has everything to with the 2012 Farm Bill – how it is structured, and how it will interact with crop insurance.

There is an irony that virtually all the farm groups indicate that crop insurance being their top priority, but in many cases they are also advocating new Farm Bill policies that they believe can "supplement" or "compliment" crop insurance, but in most cases will mainly duplicate, compete with, or otherwise tarnish the reputation of that top priority, Crop Insurance.

Imitation is the highest form of flattery so, in one sense, we might be gratified that Farm Bill policy discussions are now using the language of revenue protection or risk management. But, I would urge caution not to create a weak duplicate that might undermine the real deal.

Rather than creating a less-tailored version of crop insurance with the hope it will succeed like crop insurance, we believe Congress should look for things that crop insurance does not do well, and fill those gaps. There are a couple of examples relevant to your work here that I would reflect upon:

- D**eductible-level losses** are, in fact, a legitimate problem for producers given the high stakes in agriculture today. But we do think care must be taken in how much revenue farm policy should guarantee. We believe this problem can best be addressed through crop insurance, where farmers have skin in the game. As agents, we are excited about 3 possibilities within crop insurance that are being put forward, and would urge the Committee to give these careful consideration.

1. **Trend Adjusted Yields.** For 2012 (the current sales season), RMA approved a trend adjustment for corn and soybeans in certain states, with plans to expand to cotton, rice, wheat and sorghum in 2013. Having been in one of the areas, and run thousands of quotes using the Trend Adjustment, I can say with confidence that in the counties where it truly reflects the technology advances, it is a powerful tool for the producer to cover more of their expected production. However, there is a problem in that it does not work well in all counties. CIPA has long advocated applying a national trend to T-yields which would give a more consistent and reliable benefit. CIPA has also advocated for T-yield plugs or other means of holding up APHs in multi-year loss scenarios. The bottom line

is that where the APH is made more truly reflective of what the farmer truly expects to produce, this goes a long way toward addressing the problems that are associated with the problem of high deductibles.

2. **Personal T-Yields (PTY).** What has been implemented as a pilot in North Dakota for the last few years seems ready for prime time. By allowing producers to set their own T based on their own experience, you further incentivize good record keeping and the best possible use of the crop insurance products. The PTY would streamline and improve the plug-yield system referenced above, and make the APH more truly reflective of what the farmer expects to produce.

3. **Supplemental Coverage Option (SCO).** Introduced by Congressman Randy Neugebauer of Texas, this concept would allow farmers to pay for and stack a supplemental area-based coverage on top of their individual coverage to address systemic county-wide losses. It is the functional equivalent of AARM (county-based, deductible level coverage), but it is designed to interact seamlessly with crop insurance, and is not free to the producer. He must pay for it. In that it complements Crop Insurance, works easily within the current framework, and provides a potentially valuable choice for producers, CIPA has embraced this plan.

- **Deep and long-term price declines** are a very real concern for most of the farmers I serve. Crop insurance is based on market prices in the current market, and there is no question that if price elections for corn and beans this year were $3.50/bushel and $7.00/bushel, respectively, as opposed to $5.68 and $12.55 (the price elections for 2012), my farmers and their lenders would be in serious trouble – indeed, many would not be in business. Under some plans, this is addressed by tying the price part of revenue to a 5-year rolling average. Others use minimum reference prices. Without speaking to the merits of either, let me just say that this is probably a risk that would best be addressed outside the scope of crop insurance.

Given the farm bill backdrop, rather than try to dictate what should be done or how, we would rather offer two simple requests on behalf of agents and the farmers we serve:

1. First, do no harm – be careful in crafting a farm bill policy to take aim at only those risks that are not well covered by crop insurance, structured in a way that will not duplicate what crop insurance is already doing well.

2. Second, trust that you can build upon Crop Insurance – this structure that was built by this Committee, your colleagues and predecessors has proved to be able and competitively motivated to serve the needs of farmers.

Reflections on Importance of Private Structure and Damage Caused by SRA

I want to end back where we began the section on the growth of Crop Insurance. That is complimenting this Committee on the creation of Crop Insurance and a delivery structure that has worked, and done a great thing for farmers and rural economies. I am very proud to be a part of that structure.

But it is disheartening when it seems, at every turn, that this structure is under attack. The recent SRA is good example. And the fact that OMB and Administration's budget is calling for more cuts even before the deep SRA cuts have been fully realized just adds insult to a very real injury.

Nebraska agents and staff were hurt badly by the SRA, as compensation was capped at a full 22% below 2010 amounts in gross dollars (average commission rates were cut by more than 50%). But even worse off are areas like California, where gross A&O reimbursements dropped by 32% from 2010 to 2011, meaning gross commissions for agents dropped over 45% (the effect of the 80% cap on agent commissions).

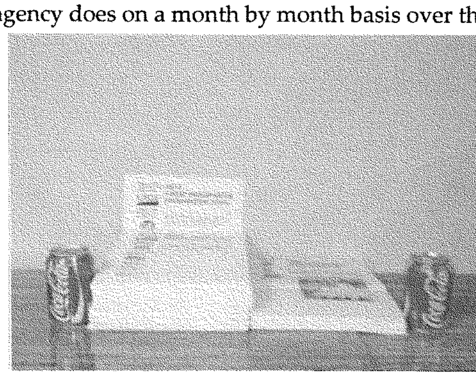
The following table illustrates one of the more extreme and unintended consequences of RMA's actions. Although it was asserted that fruit and vegetable producers would somehow be advantaged by the new SRA, actual experience has proved differently as A&O plummeted in those states.

State	Category	2008 (million)	2009 (million)	2010 (million)	2011 (million)	2011 After 80% cap	Change from 2010
California	TOTAL A&O	$47.6	$43.3	$41.3	$28.2	$22.6	-45.4%
Florida	TOTAL A&O	$29.4	$20.2	$17.5	$12.6	$10.1	-42.4%
Nebraska	TOTAL A&O	$141.8	$106.6	$85.9	$83.6	$66.8	-22.1%

There is no doubt that OMB and GAO have a bias against crop insurance or any farm policy for that matter. But, I would like to have them along with certain academics out to walk the fields with me so that they might gain a better understanding of the true value of Crop Insurance to real people in real communities who too often in Washington are just numbers and statistics on a page. But, I know Congress and the Agriculture Committees have a better understanding of how business works. We would simply ask that you step in and say, enough is enough. You cannot make 50% cuts to the resources in offices and expect to have the same level of service.

The unprecedented and egregious overreach of regulating and bureaucratizing agent compensation should be reversed. This would be a no-cost item as it would not impact government A&O expenditures. In addition, the incredibly poor design of the cap on A&O expenditures which caused and will continue to effect disproportionate cuts to certain crops or areas of the country such as California and Florida in 2011 should be addressed. This outcome would have been avoided with a more transparent process, which should have included agents considering that agent compensation was to be regulated.

From my perspective, the substance behind calls for cuts to agents was not a credible accusation three years ago when gross compensation to agents was nearly twice what it was in 2011, and it is most certainly not a credible charge today. Appendix 2 to this testimony is a document that details the work my agency does on a month by month basis over the course of a year. This is the process we go though for each and every client, taking special care to fully educate them on their risk management options available. Some say the process has only gotten easier over time, but the following picture shows the basic rules for Crop Insurance that we have to follow at the risk of losing our agency.



A comparison of paperwork in 2000 versus 2012.

As an agent, I consider it my duty to make the voyage through all the options and paperwork as easy, painless and efficient for the farmer as possible. But I am here to tell you the preparation for this is immense. I know that I am making judgment calls in my advice that, if wrong, could cost my producer customer his operation and livelihood.

Now NASCOE is calling on Congress to reverse course from the seminal decision it made in 1980 and hand the delivery of Crop Insurance bask to the government. On behalf of agents, let me say we truly do appreciate the FSA and hope they have a significant role in delivering a quality Farm Bill. But the sentiment of agent groups and the farmers we serve is summed up very well in Ranking Member Roberts' comment on this prospect, "it is a loony idea." If we want to undo Crop Insurance, this is the way to do it.

Closing

We have covered a lot of ground in this testimony. But Federal Crop Insurance is a long and detailed and great story and I hope that my passion for the risk management tools that it provides and the delivery system has come through loud and clear.

In closing, let me say on behalf of agents that we stand ready to assist you in minimizing cuts to agriculture policies overall, and building upon the excellent crop insurance framework wherever possible. I hope this testimony offers insight and evidence that will serve you well in this tremendous responsibility you have, and we wish you the very best as you proceed to the next steps.

Appendix 1 - Page 1 of 2

United States

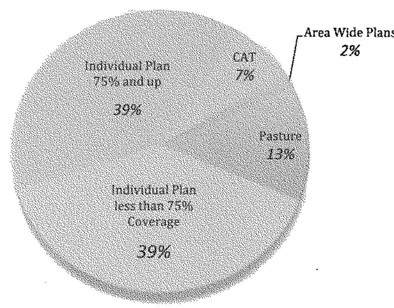
16,799 Agents

Crop Insurance

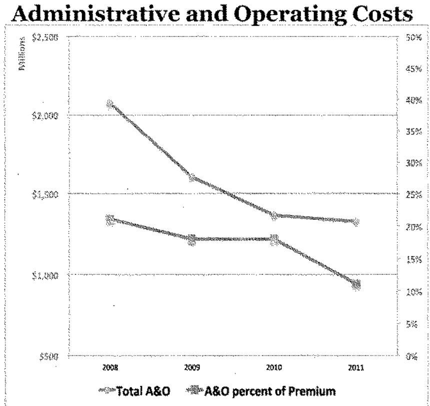
Year	Net Acres Insured	Producer Premiums	Liabilities	Indemnities	A&O Costs
2008	272 m	$4.2 bn	$89.9 bn	$8.7 bn	$2.1 bn
2009	265 m	$3.5 bn	$79.6 bn	$5.2 bn	$1.6 bn
2010	256 m	$2.8 bn	$78.1 bn	$4.2 bn	$1.4 bn
2011	265 m	$4.5 bn	$113.7 bn	$10.2 bn	$1.3 bn

Of the 319 million acres planted in 2011, 265 million or 83% were enrolled in crop insurance. Of the 265 million acres insured, 206 million were individual buy-up coverage, with 104 million (39% of acres; 54% of premiums) with a buy-up level of 75% or greater. Only 19 million (7%) were in CAT and only 5 million (2%) were in area plans like GRP or GRIP.

Insurance Policies by Net Acres Insured



Administrative and Operating Costs



The chart to the left highlights how the cost to the government to administer crop insurance has been drastically cut since 2008, even as total liability has increased (from $78 billion in 2010 to $113.7 billion in 2011).

Crop Insurance Professionals Association

CIPA

Nebraska

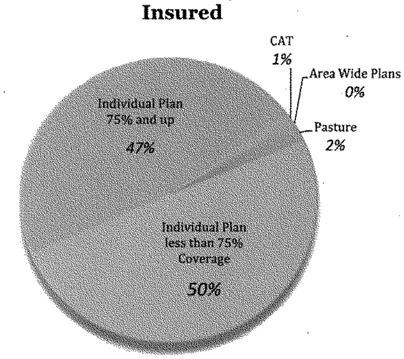
2,275 Agents

Crop Insurance

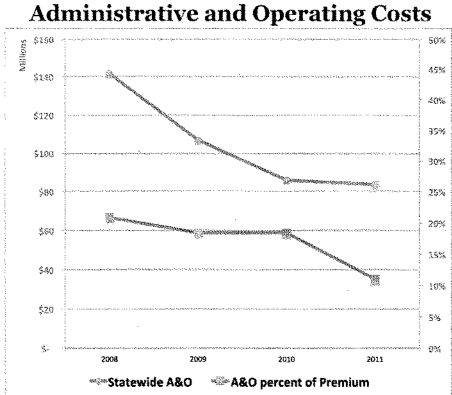
Year	Net Acres Insured	Producer Premiums	Liabilities	Indemnities	A&O Costs
2008	14.4 m	$293 m	$4.7 bn	$414 m	$142 m
2009	15.4 m	$239 m	$6.6 bn	$165 m	$107 m
2010	15.3 m	$189 m	$5.5 bn	$157 m	$86 m
2011	15.6 m	$309 m	$8.6 bn	$254 m	$84 m

Of the 19 million acres planted in Nebraska in 2011, 15.6 million or 82% were enrolled in crop insurance. Of the insured acreage, 15 million were individual buy-up coverage, with 7.3 million (47% of acres; 58% of premiums) with a buy-up level of 75% or greater. Only 202,000 (1%) were in CAT and only 30,000 (.19%) were in area plans like GRP or GRIP.

Insurance Policies by Net Acres Insured



Administrative and Operating Costs



The chart to the left highlights how the cost to the government to administer crop insurance in the state has been drastically cut since 2008, even as total liability within Nebraska has increased (from $5.5 billion in 2010 to $8.6 billion in 2011).

Crop Insurance Professionals Association CIPA

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Crop Insurance Agent Work By Month

January

We try to finalize as much as possible the farmers Actual Production History from the following year. This is difficult if the farmer has stored grain. We have however developed a system for tracking stored grain. If it has been measured by FSA we use those numbers, but then will have to update the APH when the grain is actually moved to market. It is important to get the APH's done even in an estimated format during this time frame because of all the things the farmers here use the APH for, both within crop insurance and outside of crop insurance. If the grain has gone to the elevator only then the APH is finalized. I think last year 84% of my clients had on farm storage of some type, so this stored grain is a huge issue.

Bankers are well into rewriting loans for farmers. I have become a resource for these farmers in using their crop insurance yields and an estimated price in order for them to do their cash flows for the coming year. Almost 90% of my clients spend and hour or two with me prior to finalizing their cash flow. Because of the quoting system I have I can give them an estimate based upon their own APH. We get estimated acres from the farmer and then are able to produce guaranteed bushels and an estimated whole farm revenue guarantee. We are always pretty conservative with our estimated prices for this portion of our service to farmers. Each separate bank that I have mutual clients with I meet with the bankers in early January to determine what we are all comfortable with for their clients. That means with the 17 different banks that we may have different estimated spring market prices for, so that takes time and meetings to sort out. To produce a full farm revenue quote we must enter the intended acre, by unit into the quote system. Our average client has 12 units, so this means getting the correct acres into the correct unit. In our area there is a fairly significant variation of yield, so once either my staff or I have entered the acres, another person double checks that they are entered correctly. Because of bushel yield difference's between APH units, we cannot afford to get the acres in the wrong unit or we will under or over estimate greatly their revenue guarantee.

In January we also hold a risk management seminar for all of our clients. This means invitations, and tracking RSVP's, lining up speakers, the facility to hold the meeting, and co-coordinating all the myriad of details that go into putting on an extensive meeting. Typically we will have two outside informational speakers, as well as an hour on crop insurance changes and updates that the farmer needs to know about. This year our speakers were Elywnn Taylor of Iowa State on weather, and Mark Pearson on the markets. In addition I also do a power point presentation on crop insurance for education of our farmers. Any more I do not look at my job as a crop insurance sales person, but almost like a compliance person. There are so many rules that farmers must know about in order to be certain that their coverage is as they think it is. This meeting starts @ 1pm and goes all afternoon. This year the farmers asked to take only one break and go until 5:30 because the information from the 3 presentations generated so many questions.

After our meeting every client who was not able to attend the meeting is mailed a copy of the 20+ slide presentation on crop insurance, so that they all have a copy of any rule changes or highlights that they must know about for the coming year. Examples of things that are covered in this slide presentation are:

1. The rule that any farmer who has a loss above $100,000 must provide hard copy records for the past 3 years before we can pay their claim. This rule is especially important this year with high starting spring market prices. It is not going to take many acres of loss if the markets go down or up significantly to generate this dollar amount. The farmer must understand that he has to have these records in the unit structure that he carries on his policy. If he doesn't his coverage will be greatly reduced, and then the claim will be paid. This education has to occur now, because once a claim is reported I as an agent cannot assist the farmer in any way. He needs to understand clearly what his responsibility will be up front.

2. The differences in the policies. This year the difference between the RA policy and the CRC policy may be significant. All we have to do is look at the wheat CRC Policy that caps the farmers ending price at $2.00 and know that those who did not evaluate it carefully last fall are really in trouble, particularly if they used the policy as a backstop to marketing.

February

This month begins with the finishing of APH's, and updating any APH that has had stored grain that has been delivered. Many farmers are done with their loan re-writes, others are just getting started.

About 10 days into the month we start preparing estimated quotes for our farmers. These quotes get into great detail. I can break down each unit, and on one piece of paper illustrate by unit all the farmers options. I can compare two different policies side by side, so if a farmer would like to see more than two policies, which most do, that mean double work by unit. Once we have narrowed down the options to his preferred coverage we produce a full farm quote that give him all of his options by level of coverage. This means that I can calculate and print for the farmer every level from 50% to 85% by unit, and then in total. Once a farmer has this quote they start coming in so that we can play what if with my quote system. This system allows me to input the farmer's detailed cost of production, any marketing plan he chooses to look at, and then we start changing yields and harvest market prices. On the average farm it takes about 1 hour to input all the specific details he would like to see. Bigger farms obviously take longer, smaller shorter. Once this is all in the computer I can then electronically show the farmer what each level of coverage would do to his profitability, we also can do this for marketing, and input costs. With all the variability of input cost this year this was a very time consuming effort, as was the marketing plans. After several sessions the farmer decides what level of coverage to put with which policy.

Additionally this month a great deal of time and energy goes into newly added ground for our farmers. I don't think it is any big secret that there is tremendous contraction and expansion of farming operations. Added ground for crop insurance can be done in a number of different ways, so this takes some analysis on my part to determine which option is best for a farmer. Most times I have to run 3 different scenarios to determine which option is most optimal for the farmer.

Another area that we spent a great deal of time on in February this year was the difference in cash rental agreements to share rents. Many young farmers came to me this year with the question of how could crop insurance help them compete with the explosion in cash rent? What we did for these farmers was work with them, and then several came back in with landlords who had previously been cash renting their ground. We saw a big movement back to share rent this year due to the ability of crop insurance to guarantee the landlord more dollars of coverage than simply taking cash rent. I would like to point out here that this is ground we were already insuring and literally means double work for us. This means all the paperwork will now be generated twice. These are not new acres to us, just new policies.

March

March 1 starts with an extensive letter to all policyholders. This letter emphasizes to farmers that all policy changes must be done prior to March 15. It also gives the farmer the approved spring market price, as well as the volatility factor. We also let farmers know that if they would like a quote with the exact prices and volatility that we would provide that.

March is basically a marathon to get everyone taken care of. It means hours and hours of work. This year with the spike in the spring market price, and in many cases the doubling of a farmers premium, it meant making sure that everyone knew what that cost and coverage were. I have never seen a year where it took so many "what if" scenarios for a farmer to be comfortable with the coverage he is purchasing.

Once a change is made, all the paperwork needs to be filled out, and then must be entered into our computer system. The farmer then receives written confirmation the next day that gives him the opportunity to verify that his coverage is correct. Also prior to sales closing we must exclude any high-risk ground from coverage, and add a CAT Policy for the high-risk ground if that is what he chooses. That means two policies for one operation in a county, which means that we will have double the paperwork for that farmer. Because we live along the Missouri river, this issue is critical, and very time consuming.

Once March 15 comes, we have 15 days to finalize all the paperwork and begin preparing for acreage reporting. In addition we are now providing the farmer with maps specific to his operation. The farmer must get his land use layer from FSA and get it to us, and then we electronically move his information from the FSA structure to the crop insurance structure. This is done at no cost to the farmer, but is a benefit to him over just using FSA maps, because we can produce the maps in a booklet form, that correspond to his chosen unit structure, and coverage. In the event that he is spot checked randomly, or through a claims audit, he will have the information available based on the correct structure for crop insurance rather than by Farm Serial Number and Tract number. Also if we get into any soybean rust, gray leaf spot, or any other disease this provides a place for the farmer to document what he must in order to get paid by his policy.

April

April means the finalizing of APH records, and reviews of all policies to make certain that all the specifics for the policy are in place. In this area we have high risk ground, so we double check any policy that is close to the high risk ground area to make certain we have it in the correct rating category. This month may slow the workload some if we have a normal spring. However, if it is like this year, we are looking at the potential for planting delays due to cold and wet conditions. This brings prevented planting into play, and farmers begin getting nervous that they can get their crop in. If the weather straightens out, it becomes a typical year. If it continues to be wet the phones start to ring with prevented planting questions.

May

Hopefully everyone is in the field, and things are quiet enough here that we print and mail all acreage report forms to our farmers. This mailing will include an extensive letter showing the farmer how to fill out the form correctly, and reminding them of the deadline for planting. In addition we cover replants and the responsibility that they have in regard to replanting. If the weather is good, this is a reasonably smooth month with papers flowing to and from the farmers. Because of our mapping system many of our clients come here to fill out their acreage reports, and then use that copy to report acres at FSA. Once a farmer has certified at FSA he brings his 578-acreage certification to us and we cross-reference it with what he has reported here. If there is any difference, we must verify what is correct. This means that each policy here is looked at after the acreage report is keyed into the computer. If we have replants this is usually when they occur. With bad weather we can be have hundreds of replants, and they all take action.

June

We continue to receive and work acreage reports. Depending upon weather this can be a month where we wind up acreage reports, or simply get through it. June is also the month if we have flooding that the issues of first crop planted and flooded, and then does the farmer replant, or go to a second crop. This issue is very detailed, and can take hours just with one policyholder. The rules on first crop, second crop give the farmer great flexibility, but also come with stiff and punitive penalties if not done correctly. In this situation we will have an enormous workload to get the acreage report to reflect exactly what happened and at what time. I think often times that many believe we send the forms to farmers and they fill them out. In a normal year, that can happen. The problem is we have not seen a normal year here in a very long time. The attention to detail that must happen to keep a farmer in compliance with all the reporting rules is very great. For example if the farmer is past the initial plant date, his options can change dramatically. We have had situations in the past where agronomists have advised that it would be a poor farming practice to replant corn, and that the farmer is better served to instead plant soybeans. But then we have to advise him of all the rules that go along with that decision. If he destroys his corn and plants soybeans without an adjustor working the unit first, then his coverage is no longer valid. The coordination of what farmer needs an adjustor in which manner can be a daunting workload.

July

July brings to a close all the acreage reporting. To correctly input all farmers' information into the computer and meet all the RMA deadlines takes a significant amount of time and energy for our staff. With July also come wheat harvest, and the settlement of wheat claims. In this area wheat is not a major crop, but many farmers plant a little, so we have all the APH work and claims worked to contend with.

August

August brings to the forefront weather concerns. If it is dry farmers begin calling for direction if they have a claim. Also in August we will get a significant amount of requests for chopping corn for silage. This means that each unit that is going to be chopped must be opened up, and then we can send an adjustor to appraise any unit that will be chopped. In August all billing for the fall crops is started and double-checked. In addition we start the beginning of wheat sales season. If we are into a year of very dry weather then the fall claims start to roll in. Some years we deal with a large number of aflatoxin claims. This is almost an impossible situation, because the adjustor must take a sample, collect the money from the farmer for the aflatoxin test, and then send the test to an approved lab. Each unit that is suspect must have this test in order for us to adjust the farmer's claim based on aflatoxin.

September

September can be a quiet month if we have great weather. If we don't have great weather, claims will really roll in, and the process of getting everything coordinated can cause a huge workload. If it is good weather we are busy with wheat sales. The farmers receive a letter from us giving them their base price for wheat, along with any pertinent information they need to know to stay in compliance with the federal rules. The sales closing date for wheat is September 30, so it means making sure all policyholders have looked at their coverage and understand it. Wheat many times gets overlooked, and there is no better example of why the evaluation of their policy is important than this year. Wheat CRC started last fall with a price of $5.88. Wheat CRC has a $2.00 limit move in the policy. The agents and farmers who did not work this carefully last year and simply stayed on the CRC policy will find themselves being shorted many dollars in comparison with the RA Policy. In our office this means every single wheat policyholder will receive a quote comparing the two policies. In addition the bills for the spring planted crops must go out, and be tracked.

October

This month will either be an enormous workload, or reasonable, depending on the weather. All policy payments are due October 1 and delinquent November 1. We make sure that all of our farmers understand that if their premium is not paid by November 1, they will be paying interest. Towards the end of October we start taking the information for yields for the year. If it is a big claims year, the phones will be ringing off the hook with farmers needing information on how to keep track of production for a claim, needing an adjustor, or simply reviewing the coverage they have.

November

November will continue the tracking of all billings, and any claim that is in process. In addition on November 1 a letter will go to all policyholders giving them the harvest market price for soybeans on the CRC and RA Policy and for the corn CRC Policy. This price begins the process of determining if a farmer has a revenue loss, and not necessarily a yield loss. Each and every unit must be checked if it is close, and with what prices have done the last couple of years, that means almost every single unit needs to be looked at. Yes this is the farmer's responsibility, but almost all of our producers call us to go over the information. They look at it once a year, we look at it on a daily basis, so they are much more comfortable if we help them check things.

December

December is the finalization of harvest, and yields continue to roll in. December 1 means an additional letter to our farmers with the Harvest Market Price for corn. Because CRC and RA differ on the month they take the measurement, it means any corn policy will have to be checked. Also the final date for reporting claims falls in mid December, so the first 10 days of December are a made rush to get this all finalized. Through the last three months as a claim check comes in, it is checked against our numbers to determine accuracy, and then sent on to the farmer. In December we start the process of beginning the New Year, and helping farmers access where they are at financially.

Statement Before the

Committee on Agriculture, Nutrition & Forestry

United States Senate

Washington, DC

Hearing on

"Risk Management & Commodities in the 2012 Farm Bill"

March 14, 2012

Presented By:

Jimbo Grissom
President
Western Peanut Growers Association
Seminole, Texas

Madam Chairman and Members of the Committee:

These comments on the peanut program for the 2012 farm bill are presented on behalf of the "Southern Peanut Farmers Federation" and the "United Peanut Alliance." The Federation is comprised of the four peanut growing states in the Southeast region, which includes Alabama, Florida, Georgia and Mississippi; and the Alliance is comprised of the six-peanut growing states in the Virginia-Carolina region and the Southwest region, which includes North Carolina, South Carolina and Virginia; and New Mexico, Oklahoma, and Texas; respectively.

This group of growers represents all of the major peanut growing states, who have come together to present a future program to the committee that works for all three peanut growing regions. The last few years have been extremely difficult for peanut growers and we are testifying today to describe the problems we face, and offer recommendations on how the committee can craft a new program that will make planting peanuts a viable proposition for us in the future.

We support two important peanut provisions for the 2012 Farm Bill. These include assuring peanuts have an equitable risk management tool at the U.S. Department of Agriculture and a peanut program that provides "producer choice" between a counter-cyclical program, assuming no direct payments, with a higher target price and a revenue program.

Our Experience in 2011

First and foremost, the committee needs to know that Texas experienced a devastating drought in 2011, which was the worst in the history of the state, and this drought extended to Oklahoma and neighboring states. In addition, the Southeast peanut region also experienced a serious drought. For the entire year, I received 1.2 inches of rain on my farm and it fell at only two or three tenths of an inch at a time.

In addition to drought, we had extreme winds and excessive heat throughout the 2011 growing season. There were several days in which 60 mph winds were sustained. Winds of 20 to 40 mph were almost a daily event at planting time and the early growing season.

We also had 48 days with 100 degree temperature or higher (which shattered the previous 29-day record). In fact, we had 131 days with temperatures that were 90 degrees or higher. Consistent high temperatures and no humidity will cause peanuts to quit producing.

Thus mine and many other peanut yields were cut by two-thirds, with fields normally producing 5,000 pounds per acre only yielding 1,700 pounds per acre. Some crops appeared or looked good, but when pulled up there was nothing there, so these crops became hay for livestock. Unfortunately, growing this crop for hay cost growers just as much as a crop that made a third of their normal yield. In the Southeast many non-irrigated producers totally lost their peanut crop or had only 200 pounds per acre. Clearly, we have never seen these extreme conditions in our area before -- there is simply no precedent for this disaster.

Our Situation in 2012

In the Southwest there are several reasons that farmers may not grow peanuts in 2012. First, available peanut contract prices must be equitable to other commodities grown in the region to compete for acres, and that is not currently the case. This is substantiated by the analysis performed by the National Center for Peanut Competitiveness using their representative peanut farms. Most bankers are requiring peanut contracts upfront prior to them making a loan to plant peanuts. In some instances, bankers have basically forced farmers to grow cotton rather than peanuts due to the insurance policy differences. Due to the insurance, growing cotton is considered a safety net for the bank's risk in addition to the farmer's risk. This is also the case in the Southeast peanut region.

After experiencing extreme drought during the 2011 growing season, the only reason I get to stay in business is because of my cotton crop insurance. The cotton insurance allowed me to pay back my operating expenses, but there was nothing left for my land or equipment payments. Under these circumstances, another year like this one and it will not be economically feasible to produce peanuts due to the risk associated with the current lack of insurance that is available for peanuts. The National Center for Peanut Competitiveness has found this to be the case in many of their representative peanut farms.

Local peanut infrastructure is suffering. With a multiyear decline in peanut acreage on top of last year's devastating peanut crop many buying points, shellers, peanut equipment dealers and chemical companies are severely feeling the economic effects. Another year like 2011 and I am afraid we will not be able to sustain our local infrastructure.

Acres shown are approximate:

Peanut Acres	2011	2010	2009	2008	2007
South Plains	57,477.00	104,461.00	107,470.00	177,322.00	126,870.00
State of Texas	100,698.90	159,444.90	158,435.40	249,917.00	182,995.00

As you all know, West Texas is not the only peanut growing area with problems. Each growing region has their unique set of risk management problems. Their needs and risks are just as great as ours, whether it be due to severe market price fluctuations, burrower bugs, floods, hurricanes or the unexpected skyrocketing input costs.

The Need for Equitable Peanut Insurance

In light of these circumstances, we would like to focus on building a host of risk management tools for peanuts. There is a multi-peril crop insurance policy available for peanuts, but it is fatally flawed. Unlike the other major field crops there is not a futures price or a pricing mechanism, to establish the guarantee price needed to develop effective peanut crop insurance policies. Based on research and meetings with futures market experts from Chicago and New York City exchanges, a peanut futures market will never exist.

Currently, the system for peanut multi-peril insurance forces growers to contract their peanuts before planting in order to get the highest insurance coverage. Without a peanut contract, a farmer could only insure his peanuts for $500 per ton maximum for the 2011 crop. With a peanut contract, a farmer could insure his peanuts for $600 per ton maximum even though at harvest those same peanuts were bringing closer to $1200 per ton. Even though the farmer had insured his crop at the maximum level available, he received only 50 percent of the lost crop's value.

We need equitable treatment with other crops in the crop insurance arena. Our producers must have access to a full range of workable and useful crop insurance products in order to compete for acreage.

Growers Are United to Work Toward a Solution

Working toward these goals, the nation's peanut farmers came together two and a half years ago to begin work with private industry and RMA to develop a viable insurance program for peanuts. This new program is very much like the successful revenue insurance policies for cotton and corn as well as several other crops. This new peanut policy would take a farmers average production history and let the farmer insure a percentage of it according to what the farmer needs to have guaranteed. This part is not changed from the present program, but what is different is the fact the farmer will be assured to receive what the peanuts are actually worth if he has a shortfall in production and not some arbitrary amount set in stone months before planting time. The farmer will receive payment on what the peanuts are worth at a certain period of time during the year, so farmers know whether they can afford to plant.

Rotterdam Price as the Basis

Since the days of the quota system, peanuts have not had a price discovery method which would satisfy the needs of RMA and insurers to adequately develop the much needed risk management tools for peanuts. We believe the Rotterdam price is the solution to this price verification problem. After much research, the Rotterdam price is believed by industry experts to be the most workable pricing mechanism for our commodity. In fact, this price series was used by the U.S. government during the negotiations of the GATT agreement in regards to peanuts.

The first part of next month, peanuts as a united industry will submit a final proposal to RMA for the development of a revenue insurance program using the Rotterdam price for price verification. We are excited about the prospects of having this verification system which will finally allow peanuts to begin developing a new array of risk management tools for our commodity.

Needs for the 2012 Farm Bill

We appreciate the work that RMA and others have and will put forth toward this effort. However, we continue to have very serious concerns regarding the 2012 farm bill and the possibility of peanuts again being excluded from options of risk management.

It is critical that we have the support of RMA and the Agriculture Committees to get the peanut crop insurance program viably priced and implemented in 2013. USDA has ample authority to make crop insurance for peanuts available to farmers before the new farm bill is enacted. To ensure action by USDA, we ask that the committee report out a farm bill that contains an affirmative statement that USDA shall implement a viable peanut crop insurance program for the 2013 crop year.

Peanut growers currently rely on direct payments, the marketing loan program, and counter-cyclical payments as a safety net that they have been able to use in obtaining loans from their bankers to plant a crop each year. If we had the choice, we would support the continuation of these programs at the current levels. However, faced with the prospect of significant cuts to the agricultural budget as part of current federal deficit reduction efforts, we understand that the Agriculture Committee needs to look at new farm program options. With cuts to agriculture spending in mind and in an attempt to have all three of the peanut grower regions together in support of a unified position, we offer the following observations and recommendations to the Agriculture Committee for a new peanut program to provide peanut farmers with a safety net that is equivalent to what is available for other commodity growers.

The absence of a crop revenue insurance policy for peanuts only serves to make the lack of risk management tools much worse. Most of the commodity program options being discussed this year are predicated on the existence of crop revenue insurance as a foundation of the policy. That option is simply foreclosed for peanuts because RMA has not yet been able to clear a revenue policy for our crop.

In addition to having a viable crop revenue insurance program in place by 2013, we need to provide peanut farmers with a real choice between a new revenue program for peanuts; and a target price program for peanuts. Once we have a crop insurance program established using the Rotterdam price, peanut growers would like to have the option of a "producer choice" between:

1) A **counter-cyclical type program** (with no direct payments) with a $534 per ton target price and a $355 per ton marketing loan; or

2) A new **revenue program** based on the Rotterdam price with a price floor of $534 and a differentiation in peanut yields between irrigated production and non-irrigated production with a $355 per ton marketing loan.

Under both choices, peanut farmers would continue to have a marketing loan program as it exists in the current Farm Bill in order to market their peanuts.

This producer choice option is critical due to the difference in the economic environment for peanuts relative to the Midwestern corn and soybean farmers. Farmers can only sell to two major shellers and a few small shellers which is an oligopoly marketing environment. Thus, peanut farmers are subject to potential major price swings. When prices become depressed which peanut farmers experienced in 2009, revenue insurance programs do not provide a safety net.

A peanut revenue insurance program must be developed and made available to peanut growers beginning with the 2013 crop year. The price on which this program is based shall be the

Rotterdam price index as adjusted to reflect the farmer stock price of peanuts in the U.S. This price may be adjusted by USDA's Federal Crop Insurance Corporation (FCIC) to correct distortions or anomalies that would undermine the program. In any case where the FCIC Board determines that such adjustments must be made, it must do so in an open and transparent way and report to the House and Senate Agriculture Committees its reasons and rationale for such adjustments.

Peanuts are unique in needing crop insurance that accounts for differences in the four peanut types – Runner, Virginia, Spanish, and Valencia peanuts. We support the Agriculture Committee's inclusion of language in the farm bill ensuring that USDA adjusts the relative price for these four types of peanuts from the Rotterdam price.

Once the necessary improvements to peanut crop insurance are in place, any savings that are achieved from cuts to the ACRE program, direct payments, and counter-cyclical payments should first be devoted to the implementation of a revenue insurance program that is as beneficial to peanut growers as the revenue insurance programs available to other commodities.

Any additional savings should be directed to a new farm level revenue "assurance" program for peanuts that is comparable to that of other commodities, so peanut growers have the same access to additional risk management tools beyond those provided in the new revenue insurance policy. We also ask that the Agriculture Committee continue all other elements of the peanut title of the 2008 farm bill.

We look forward to working with the committee to fix peanut crop insurance this year and at the same time craft a new peanut program that will work for all peanut growers.

Statement of

Hope Hills
Spicebush Creek Farms, Bangor, Michigan

Member of MBG Marketing – The Blueberry People

THE BLUEBERRY PEOPLE®
MBG Marketing

Member of the National Council of Farmer Cooperatives

NCFC
2012
YEAR OF THE FARMER CO-OP

Testimony before the Senate Committee on Agriculture, Nutrition and Forestry

Crop Insurance and Specialty Crops in the 2012 Farm Bill

March 14, 2012

Chairwoman Stabenow, Ranking Member Roberts, and other members of the Committee, thank you for inviting me here to talk about crop insurance. Chairwoman Stabenow, it is an honor to be sitting in front of you today—and on behalf of Michigan's growers, I want to thank you for being a champion of the specialty crop industry, and for your strong support of farmer-owned cooperatives. This is my first trip to Washington, DC, and I am humbled to be here before the Committee.

Today I am here on behalf of MBG Marketing - The Blueberry People and the National Council of Farmer Cooperatives (NCFC).

My husband, Mike, and I are third generation blueberry growers in Bangor, Michigan. Mike's grandfather first planted blueberries in the late 1930s and became a MBG member in 1943.

In fact, back in the '30s, some local people thought Mike's grandfather was nuts. "What do you want to plant those for? You'll never make any money at that." Seventy five years later those same bushes are still producing. They have provided income for thousands of people through the years and have pumped millions of dollars into the economy. It's amazing to look at where the blueberry industry is today.

We started our farm in 1984 with cuttings from those bushes first planted by his grandfather. In fact, our MBG grower number is the same one his grandfather had. We farm on 213 acres, 120 of which are cultivated blueberries. The balance of our farm is woodland, wetlands, a packing facility, and farm buildings.

Approximately two-thirds of our production goes to the fresh blueberry market. Those berries are packed at our packing facility on the farm, which goes through a food safety audit each year conducted by PrimusLabs. Food safety is a top priority for our operation and we have always had consistently high scores. About one-third of our blueberries are processed by a grower-owned co-op facility off the farm. All of our blueberries are marketed by MBG.

Being a grower is full of risk and without crop insurance, it becomes a gamble, a roll of the dice. Our operation, our livelihoods are too much to gamble on. We believe strongly in crop insurance as a safety net for our operation. We began purchasing crop insurance in 2002 and have continued each year since then. We have an AGR 65/75 policy and CAT coverage. Under our policy, if our adjusted gross revenue drops below 65 percent of our five year average, it will pay 75 percent of the amount below that. We choose AGR because it is a multi-peril policy—it covers a broad spectrum rather than a specific loss.

The best safety net, however, is one that you never have to use. Like most producers today, our risk management goes far beyond crop insurance. On our farm, we have invested heavily to mitigate the risks we face and give ourselves the best chance possible to have a strong crop year in and year out. These form our first line of defense; yet, the security provided by crop insurance allows me to invest in these other areas of our operation that are so important to the American consumer and to consumers abroad.

For instance, there is an old saying that you can't control the weather—well, when you grow a thin-skinned fruit in a northern state like Michigan, you have to try. We have installed a 30-foot-tall wind machine with an engine-driven propeller on top. It is used for frost protection mainly in the spring when the temperature drops to a point where it might damage the crop. If the trigger temperature is reached, the fan will push the warmer air down, which is sometimes layered above cold air that has settled in low areas. The wind machine can raise the air temperature by as much as 8 degrees depending on conditions, and one machine will cover about 15 acres. Ours is installed in a frost-prone field.

Drawing on the resources and expertise beyond the farm gate is also important. Our co-op, MBG, is a valued partner in how we mitigate risk and run a successful farming operation. Through the co-op, we have access to and utilize professional horticulturalists for advice and research. We use their other professional team members for assistance with food safety, labor laws, social responsibility, and a plant breeding program for improved varieties.

We also hire knowledgeable and experienced individuals each year for our harvest season. When hand harvesting fruits and vegetables, you need people with a specialized skill set.

Adherence to good farming practices for growing blueberries is perhaps the most important way to making sure that we have a good crop. This includes annually pruning each plant, weed control, and ground cover management with a goal of water and moisture conservation and erosion control. Other important practices include maintaining non-crop areas to promote native, beneficial insects and plants such as honey bees. We need them for pollination, so we work to have good habitat for the bees. Our farm also rents 150 honey bee hives to aid pollination.

To help protect the environment and our employees, we have a USDA-designed chemical and fertilizer containment building. We store all of our chemicals and fertilizers in this building, and do all of our mixing there. Our spray equipment is also stored there through the year.

We do all of these things to protect us from different types of disasters that can impact us, from pest and disease infestation, a food safety emergency, frost, flood or drought, and unskilled or not enough labor. These are our first line of defense in terms of risk management. Crop insurance is the second layer of our risk management strategy.

We all know that agriculture is an unpredictable, sometimes unstable business due to factors far beyond any of our control. Having crop insurance brings stability to an otherwise volatile business. Crop insurance allows farmers to continue our businesses in the event of a disaster. And staying in business means that I am able to provide for my family, I am able to employ people who are then in turn able to provide for their families, and money goes back into the economy. Even though crop insurance is our fourth largest annual expense, we continue to purchase it—that's just how important it is to us.

In 2008, prices fell considerably for blueberries and we knew it was going to be a lean year. We considered dropping our crop insurance due to the cost. But we decided that the cost of not having it if disaster struck was far too great, so we kept it. We have been fortunate not to have filed a claim in the past ten years. It's comforting to know however that if we had needed it, we would have had the resources available to pay our bills, keep our employees on staff, and continue with this business that was established before World War II.

Because we have crop insurance, our lender is more willing to finance our operation, which in turn allows us to continue to invest in our business and bring money into our local economy. That said, it's worth noting that the cost of crop insurance without the USDA subsidy would be unaffordable.

Additionally, the availability of crop insurance is especially important for beginning farmers and growers just getting into agriculture. It provides a safety net to protect against losses, which is particularly important given the high costs and significant investment involved with establishing a farm. New and beginning farmers often have limited resources and are unable to absorb a disaster, resulting in a much higher risk for them.

Inasmuch as crop insurance works for my operation, special caution must be taken when looking at crop insurance for all specialty crops. With many specialty crop growers' planting decisions based largely upon market indicators, there is a valid concern that crop insurance could distort the marketplace. However, there are significant differences in the potential market impacts of price and revenue insurance products on annual or semi-annual specialty crop growers as compared to more permanent crops, like trees or vines. Because planting decisions are more long-term and fixed, the development of products for permanent specialty crops would not have the same market distorting effects.

Additionally, over 300 different crops fall into the category of "specialty crops." To say that trying to address the sheer number of crops and the nuances of each industry is a challenge would be a huge understatement. Crop insurance for specialty crops is particularly complicated for a number of reasons, including that most are relatively small markets; most don't have futures or options contracts for price discovery; most have complicated good farming practices compared to our row crop friends; and a large number of non-weather related risks have to be taken into consideration.

Nevertheless, specialty crop producers must have access to a safety net—those of us who need crop insurance really do need it.

The 508(h) program is intended to make crop insurance tools more accessible by allowing the development of insurance products using a third-party crop insurance development company. It has been successful in developing new insurance products for some specialty crops. Keeping a strong 508(h) program will continue to allow for third-party development of insurance products for specialty crops. Additionally, Congress should consider adding additional sideboards to the development process, requiring the companies who develop new products to engage the industries the products would serve. This would ensure that new insurance products have industry support and will have folks who want to utilize them once they are approved.

In fact, some specialty crop growers are interested in an insurance product that would protect against market disruptions, like a food safety incident that caused harm to an industry. There is room for innovation to meet the needs of specialty crops in the crop insurance arena.

Another issue surrounding crop insurance is whether conservation compliance should be a requirement for participation in the program. Working lands conservation should be incentive based, not mandated. NCFC opposes linking conservation compliance to crop insurance. While we support the adoption of good farming practices, cross compliance would be a new regulatory hit for specialty crop producers. We strongly support the voluntary, incentive-based conservation programs in Title II of the farm bill, but oppose tying conservation compliance to crop insurance.

I would like to conclude with two issues that, while not directly related to the issue of risk management, have a substantial and direct impact on my farm and many other specialty crop operations.

First, I would like to emphasize that agriculture needs access to a legal, stable workforce. None of the issues that I've discussed in my testimony matter if there aren't people to harvest, pack, and process crops. The specialty crop industry provides thousands of jobs in this country and requires many individuals with specialized skills to harvest these crops. Having access to a reliable labor force is arguably the most important issue for specialty crop producers, as labor is the single largest variable cost for the industry.

Second, the economic well-being of the produce industry and other agricultural commodity sectors depends heavily on exports, which account for one-third or more of domestic production, provide jobs for millions of Americans, and make a positive contribution to our nation's overall trade balance. Given the critical nature of expanding international markets and exports, farm bill programs like the Market Access Program, the Foreign Market Development Program, and the Technical Assistance for Specialty Crop program are of utmost importance.

The Market Access Program is of particular importance, both because it is a vital tool used by producers and their co-ops to market products overseas and because it represents such a good investment of taxpayer dollars, with a 35 to 1 return on every dollar spent under the program. We urge the Committee to continue supporting these programs which are so important to specialty crop growers and their co-ops.

In conclusion, agriculture is Michigan's second largest industry, contributing significantly to the state's economy. We need to continue to support American agriculture, so that Americans can buy produce grown in America and we need to have policies in place that allow American agriculture to thrive.

Crop insurance is an important tool to protect the jobs that we provide and the safe food that we produce for the consumer—and to protect my farm, so that I can stay in the business that I love.

Thank you again for the opportunity to be here today to share my experience with crop insurance.

About MBG – The Blueberry People

MBG is a producer-owned blueberry marketing cooperative that was formed in 1936 as the Michigan Blueberry Growers Association by the original blueberry growers in the state. MBG quickly gained a leadership role in the Michigan blueberry industry, and by the 1950s was a major influence in the U.S. and the North American blueberry industry as a pioneer in educating producers on good management practices for blueberry production, and marketing berries at profitable prices.

As interest in blueberry production grew in other states, MBG's membership base expanded to reflect the trend. In the late 1940s, MBG membership extended into northern Indiana; Georgia and Florida in 1983; British Columbia in 2006; and in 2009, MBG expanded its membership into North Carolina, a contract production area for over 15 years. Today, with a production base of over 300 growers and total annual sales in excess of $130 million, MBG is the largest marketer of fresh and processed cultivated blueberries in the world.

MBG's headquarters are located in Grand Junction, Michigan. The cooperative owns and operates state-of-the-art blueberry receiving, pre-cooling, and shipping facilities in Alma, Georgia and Grand Junction, Michigan. In addition, MBG owns facilities in Holland, Fruitport, Bangor, and Covert, Michigan; and operates additional facilities in Ravenna, Michigan; Ivanhoe, North Carolina; Demotte, Indiana; and Gainesville, Florida. MBG employs over 200 seasonal and full-time people annually at its locations. The cooperative is also active in developing new proprietary blueberry varieties with its own breeding program. New investments in value-added packing and processing capabilities are taking place in 2012.

About the National Council of Farmer Cooperatives

Since 1929, NCFC has been the voice of America's farmer cooperatives. NCFC values farmer ownership and control in the production and distribution chain; the economic viability of farmers and the businesses they own; and vibrant rural communities. We have an extremely diverse membership, which we view as one of our sources of strength—our members span the country, supply nearly every agricultural input imaginable, provide credit and related financial services (including export financing), and market a wide range of commodities and value-added products, including blueberries, peaches, apples, raisins, prunes, and many other specialty crops.

American agriculture is a modern-day success story. America's farmers produce the world's safest, most abundant food supply for consumers at prices far lower than the world average. Farmer cooperatives are an important part of the success of American agriculture. Cooperatives differ from other businesses because they are member-owned and are operated for the shared benefit of their members.

Farmer cooperatives enhance competition in the agricultural marketplace by acting as bargaining agents for their member' products; providing market intelligence and pricing information; providing competitively priced farming supplies; and vertically integrating their members' production and processing. There are over 3,000 farmer cooperatives across the U.S., and earnings from their activities (known as patronage) are returned to their farmer members, helping improve their members' income from the marketplace.

NATIONAL CORN GROWERS ASSOCIATION

Testimony

Of

Pam Johnson
First Vice President, National Corn Growers Association

Before the
U.S. Senate Committee on Agriculture, Nutrition and Forestry

Hart Senate Office Building
Room 216
Washington, DC

March 14, 2012

Madam Chairwoman, Ranking Member Roberts and members of the Senate Agriculture Committee, on behalf the National Corn Growers Association (NCGA), I appreciate the opportunity to share with you our views on the importance of sound risk management programs to family farms as you begin your deliberations on writing the 2012 Farm Bill.

My name is Pam Johnson. I am a 6th generation farmer from Floyd, Iowa where I raise corn and soybeans with my husband and 2 sons. I currently serve as First Vice-President of NCGA.

The National Corn Growers Association represents more than 36,000 corn farmers from 48 states. NCGA also represents more than 300,000 corn growers who contribute to check off programs and 27 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers.

As this Committee and the Congress consider legislation to authorize a new farm bill, NCGA believes it is very important to remember that U.S. agriculture must be prepared to take on an even greater role in meeting the growing demands of world consumers. The harsh reality is that billions of people in the world today remain hungry and the numbers are rising, a trend the Food and Agriculture Organization of the United Nations reports will continue for another 30 years. We simply cannot afford to underestimate these challenges as well as the market opportunities in a world where 95 percent of the population lives outside the United States. NCGA is confident that the U.S. agriculture sector can remain a vital bright spot in our nation's economy and further contribute to its recovery.

Fortunately, advances in seed technologies along with modern production and conservation practices have generated substantial increases in productivity that will help meet the pressing need for an expanding food supply. In fact, the average bushels per acre increased from 114 in 1995 to 153 in 2010, a productivity increase greater than 30 percent. These remarkable numbers and the promise of new production technologies on the horizon translate into U.S. corn growers' ability to meet all our needs for food, feed, fuel and fiber. NCGA would argue that these investments in an industry fraught with financial and production risks have been made possible in large part by a reliable farm safety net with the cost share federal crop insurance program as the foundation.

In light of the extremely difficult fiscal and economic conditions that our nation faces today, NCGA recognizes the monumental task before this committee to advance a new farm bill that must address a broad range of nutrition and agriculture concerns across the country. Our growers also understand they must be part of the solution to address our nation's unsustainable budget deficits and are prepared to accept appropriate spending reductions in farm programs. In preparation for this new budget reality, NCGA initiated internal discussions over two years ago on how to improve upon the market oriented reforms in the commodity title. These ongoing discussions have been augmented by substantial independent analysis of suggested changes to existing farm programs and new concepts considered by our Public Policy Action Team.

First and foremost, NCGA cannot overemphasize the consensus among our membership that the federal crop insurance program is the most critical risk management tool for their farm operations. Why is federal crop insurance important to me and other farmers? When we go to the field this year to plant, tend and harvest a crop, we are putting many dollars, a whole year's work and our entire yearly income at risk. Traditionally, we worry about the risks from drought, floods, storms, plant disease, and pestilence to crops in the field, but now the risks are not just physical. Interconnected global markets that have benefited agriculture are now also a source of peril: international incidents, economic crises around the world, currency exchange rates, global monetary and trade policies, embargoes, the price of a barrel of oil and the list goes on. We may do everything right with our management practices and the decisions that are within our control on the farm, but there are years when we cannot adequately cover our losses from all the risks, seen and unseen.

These threats are hard on farmers like me, but even more so for the young farm families like my two sons who are just getting started in agriculture. Access to a crop insurance plan is even more critical in times like these to help farmers face the agronomic perils and the uncertainty of the marketplace. We believe it is key to the foundation of a good farm bill.

From a larger perspective, the extreme volatility in the commodity markets experienced over the past five years as well as the impact of major flooding in the Midwest and severe drought conditions in the South remind us that the risks in farming are expansive and immediate. The corn industry has certainly enjoyed considerable improvement in prices, but growers continue to confront the pressures of rising input costs and increasing land rents as competition for inputs bids up prices. Federal crop insurance, especially revenue protection coverage, has proven to be the most flexible and market oriented risk management tool for protecting family farm income; it has permitted growers to insure adequate revenue to cover that year's cost of operation.

For the 2011 crop year (as of March 5, 2012), 78.07 million acres of corn were insured under the federal crop insurance program for liability protection of $51.48 billion compared to 73.5 million acres for $31.6 billion of protection the previous year. The premiums paid to insurance providers for corn policies totaled $4.75 billion with producers responsible for an estimated 40 percent of the program's total premium. In terms of sheer volume and total liability protection, it should be no surprise why NCGA is committed to working with the Risk Management Agency to ensure that the program is administered as efficiently and equitably as possible.

Consequently, we were pleased by the Department of Agriculture's decision late last year to begin a phase-in of long overdue changes in the rating methodology to better reflect the actual loss experience in the premiums paid for corn policies. Full implementation of the rating methodology changes by the RMA is necessary for the rating of corn policies to more accurately reflect reduced yield variability, yield trend increases and appropriate weighting corrections. Otherwise, the rating system will continue to set premiums well above corn's loss experience that has been documented over the past fifteen years.

While individual federal crop insurance policy coverage provides very effective assistance if revenue or yield decline between planting and harvest, it is limited to each policy's insurance year and is insufficient to insure adequate return on investment over the intermediate term, such as for equipment. Crop insurance is simply not designed to address price-induced declines in revenue that can last several years. Extended periods of low revenue can result from successive years of price declines or multiple years of below average production or "shallow losses" not covered by crop insurance. Recall the depressed markets from the grain demand collapse of the early 1980's and the Asian financial crisis of the late 1990s. These unfortunate events can and do result in a gradual, but serious erosion of a farmer's equity.

To address these gaps in protection against significant production shortfalls and volatile markets, NCGA has advocated for a more market-oriented, revenue-based risk management program that complements crop insurance. In our view, the ad hoc disaster assistance packages approved in the past in response to these situations were not only poorly targeted but also inequitable. A 2009 USDA Economic Research Report indicates that a revenue-based support program can "be more efficient than the traditional suite of uncoordinated commodity programs and disaster assistance programs in that payments are more closely aligned to actual changes in farm revenue. If prices and yields are inversely related, the revenue-based approach may offer less variable payment outlays from year to year than the long standing forms of support—even if mean total payments are the same between the two forms of support. In such a case, a high level of payments may also be less likely under revenue-support."[1]

The efficiency of revenue programs led NCGA to support the Average Crop Revenue Election Program adopted in the 2008 Farm Bill. ACRE represents a fundamental reform to the farm safety net; one that NCGA believes provides a more responsive risk management tool for rising input costs, improving yield trends and greater market volatility. To date, over 136,170 farms have enrolled in the program comprising almost 13 percent of base acres. Although the program's design and administration has been subject to criticism, the fact is ACRE has delivered some much needed assistance to producers across the country.

In response to grower concerns, NCGA has recommended that a new revenue based program include these proposed changes. 1) Set the revenue benchmark at the Crop Reporting District to better address area wide disaster related production losses closer to the farm. 2) Use a simple 5 year Olympic Average Revenue rather than separate price and yield formulas which cause considerable confusion. 3) Base payments on planted acres rather than base acres. 4) Lower the maximum payment level to ensure optimal protection against "shallow losses" and to eliminate overlap with crop insurance. Independent economic analysis of these recommended changes to ACRE indicates substantial savings for deficit reduction and a more effective revenue based risk management program for protection against multiple years of declines in revenue for most crops.

NCGA believes the legislation introduced by Senators Sherrod Brown, John Thune, Richard Durbin, and Richard Lugar-the Aggregate Risk Revenue Program-best incorporates the principles of a market-oriented, revenue-based risk management approach while addressing some of the noted problems experienced with the ACRE program. NCGA has made it clear that we do not promote programs that would encourage farmers to take on unnecessary risk. A number of agriculture economists are stating that ARRM would not result in moral hazard or adverse selection since the revenue is measured at the Crop Reporting District level and prices are effectively national. The ARRM proposal is designed to partially offset losses not covered by crop insurance and to mitigate sharp year-to-year declines in price that crop insurance does not. NCGA understands farmers need to be able to sustain a certain amount of loss in any one

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[1] Cooper, J. 2009. *Economic Aspects of Revenue-Based Commodity Support*, ERR-72, U.S. Department of Agriculture, Economic Research Service, April.p. 1.

year. It is very important that we try to protect farmers, especially young farmers, from depleting their emergency funds when they encounter revenue losses over a period of multiple years.

The revenue programs described in the 2009 USDA analysis are different from the current ACRE and other revenue based proposals for the 2012 Farm Bill and thus the specific provisions of revenue programs may result in significant differences in results. Nonetheless, the results illustrate the advantages of revenue-based programs over price-based programs such as the Counter Cyclical Payment (CCP) and Marketing Loan Assistance (MLB) programs in the 2008 Farm Bill.

With respect to relative efficiency, the same research notes that "providing price and yield compensation separately means that producers may receive support when they do not need it, or not receive support when they need it most. For example, a farmer who suffers a complete yield loss will not receive a payment under a price-based program that is tied to current production, (i.e., the MLB)."[2] Revenue and traditional programs are compared by simulating two revenue programs and the traditional programs over the 1975 to 2005 period and adjusting program parameters such that the average total costs are about equal ($3 billion per year). Using a coefficient of variation[3] to compare the two revenue programs with the traditional programs, revenue variation in the revenue programs was about half that of the traditional programs (Appendix Table 1).[4] The simulation results in Table 1, and also illustrated in Appendix Figure 1, show the high and low payments are less frequent in the revenue based program, with the revenue programs payments between about 50% below to 60% above the average payment within a 90% confidence interval. This compares to the traditional program variation 90% confidence interval of almost 90% below to nearly 130% above the average payment.

In establishing an area or farm level revenue program, there are two issues to consider. First, setting revenue per acre at the Crop Reporting District (CRD) level affords greater statistical reliability. It is clearly more robust than the county level given the gaps in adequate yield data across the country. Cooper (2009) cites "county-level production data is not reported by NASS in cases where either the county has no acreage planted to the commodity or the sample size of farmers is deemed too low to report he county data. In our analysis, for estimating the county-level yields, missing data points are substituted by crop district estimates."[5]

USDA Research in 2011 on adjusting the ACRE Program from a state level to national, crop district or county levels notes "experience with county-level yield and revenue insurance and the Federal crop insurance program illustrates the data challenges with a county-crop program. In 2009 and 2010, RMA deleted about a third of the county revenue and yield insurance programs, Group Risk Plan and Group Risk Income Protection, for corn, soybeans, grain sorghum, cotton, and peanuts (USDA, Risk management Agency, 2009). While most of these counties had little

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[2]Ibid. p. 12.
[3] A measure of dispersion around a mean value of a distribution thatis calculated by dividing the mean by the standard deviation of the distribution.
[4]Cooper, 2009. op. cit. p. 12.
[5]Ibid. p. 35.

or no participation in GRP or GRIP, NASS' ability to produce estimates for counties outside the major growing areas was uncertain."[6]

Second, for a limited budget environment, the area level for payment determination is the optimum for delivering assistance when the producer needs it the most. The 2011 USDA ACRE analysis examines the relationship of reducing the level of statistical aggregation from state to CRD to county to farm in Appendix Table 2[7]. As shown, farm level variability ranges from about 140% of district CRD level to 320%. In Table 3[8], differences in average expected payment are shown, relative to a state-triggered program at different levels of aggregation, when the expected marketing year price is held equal to the revenue guarantee price. Payments increase by about 80% to 128% when the payment determination level is changed from the district to the county level.[9] Nevertheless, NCGA recognizes that some members of the Committee will find a county-level payment determination more attractive.

These two tables suggest that a further lowering of payment determination to the farm level would further increase costs. With a limited budget, the increase in payments at each level must be accompanied by a reduction in the amount of that payment that may be made on each acre so that the total expenditure does not increase. Table 2 indicates that reduced payments would be made two to three times as frequently at the farm level as at the CRD level. That suggests that growers would receive the same total amount of payments, but more frequently and in smaller amounts and that they would be more related to farm yield variability than to price variability. The current crop insurance program already provides the means to manage this type of risk. Moreover, this trade-off, from greater payments at the CRD to lower payments at the farm, means that sudden and prolonged price downturns of the type that occurred from 1998 to 2001 would result in payments being reduced from the 85% payment factor in the ARRM program to perhaps half of that amount. A second trade-off relates to land rents. Less variable, more frequent producer payments are more readily capitalized into land values and rents. As we have seen with direct payments, this does little to reduce the producer's operating risk.

There are two exceptions to these arguments for CRD payment determination. First are those producers whose farm revenue correlation with the area is sufficiently low that even though an area program might provide adequate assistance over time, it would not reliably occur when the producer needed it on the farm. Second are producers, who because of premium expense, purchase individual levels of crop insurance coverage below the 75 percent level to which some proposed revenue programs extend, including ARRM. This gap in coverage between ARRM, the farm program and individual crop insurance coverage has been referred to as the "doughnut hole". NCGA offers two suggestions to address these types of circumstances.

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[6]Dismukes,R., K. H. Coble, D. Ubilav, J. Cooper, and C. Arriola. 2011. *Alternatives to a State-Based ACRE Program: Expected Payments Under a National, Crop District, or County Base*, ERR-126, U.S. Department of Agriculture, Economic Research Service, September.p. 25.
[7]Ibid. p.2.
[8]Ibid. p. 5.
[9] These proportional changes in payments are constant as the value of the payments change with the guarantee price. Ibid. p. 5.

Indifference adjustment factor

Provide farm level revenue determination to those growers with low correlation between farm and CRD; we do not specify what this level of low correlation should be. Because farm-level revenue variability is greater than area level variability, a farm level ARRM would provide more payments to a producer than an area level determination. NCGA proposes an adjustment to the farm level payment such that a producer would be indifferent between farm and area level payment determination based total expected benefits from the program. An indifference adjustment factor would be calculated such that the producer would receive an equal amount of expected value at the farm as at the area, CRD or county. Note that a farm-level determination would remove the need for a farm-level qualifying loss that the CRD-level payment would require.

Gap coverage option

Like other plans, such as Supplemental Coverage Option or Total Coverage Option, this would allow a producer to buy area coverage, likely at the county level in a GRIP or GRP policy, at coverage up to 75% and extend to the coverage of the individual insurance policy, as low as 50%. The higher the level of individual coverage is, the lower the premium on the gap coverage. The gap coverage premium would effectively be the difference between the area 75% premium and the area premium calculated for the individual coverage, extending from 75% to 50%. The area premium could have an increased subsidy over that currently provided in the crop insurance statute, but NCGA does not specify one at this time.

Farm examples

To illustrate how ARRM might work with an indifference adjustment factor for a farm-level ARRM and a gap coverage policy, three examples of corn operations are provided in Appendix Table 4. These examples lie in the heart of, on the periphery of, and well beyond the Corn Belt in McLean County Illinois, Valley County Nebraska and Weld County Colorado, respectively. All calculations are based on a $4.50 average expected price and expected yields. The calculation of gap coverage assumes an individual insurance policy at 65% coverage and the total premium equals the difference between a GRIP 75% coverage policy and a 65% coverage policy based on the county's expected revenue. The producer premium is based on the current statutory subsidy of 55% for 65% coverage, although, as stated before, an increased subsidy is possible, but not specified.

ARRM expected payments for McLean County are $18.16 per acre at the CRD level; at the farm-level the payment would be identical because the indifference adjustment factor of .538 would make them equal. The calculation of gap coverage premium is based on expected revenue of $808 per acre; total and subsided premium for the 75%-65% coverage band would be $5.02 and $2.26 per acre, respectively.

In the Valley County example, expected CRD-level and farm-level payments are $12.75 per acre and the indifference adjustment factor that would equate them is .505. Gap coverage is based on expected revenue of $767 per acre; total and subsided premium for the 75%-65% coverage band would be $4.04 and $1.82 per acre, respectively.

Finally, the Weld County farm would receive expected CRD-level and farm-level payments are $7.31 per acre and the indifference adjustment factor that would equate them is .234. Gap coverage is based on expected revenue of $790 per acre; total and subsided premium for the 75%-65% coverage band would be $1.72 and $0.77 per acre, respectively.

There are certain things our federal government must do for its citizens and providing food security is one of them. Countries around the world understand the important role that agriculture plays in their economies. They, too, provide assistance to farmers when needed along with resources for long term strategic investments in research and other priority programs. The 2012 Farm Bill presents an opportunity to advance needed improvements in the commodity title that can work more effectively with a strong federal crop insurance program. NCGA appreciates the difficult task before your Committee to write a comprehensive and balanced farm bill, especially under the current budget constraints. I thank for your time today and your consideration of our policy recommendations

APPENDIX

Table 1[10]

Stochastic analysis of the distribution of corn program payments under alternative U.S. programs (2005 expected prices and yields)

	Payment type			
Target Revenue Program	Total	Extended Coverage	Production Limited	Basic[1]
Mean payment ($ billion)	3.03	1.18	1.64	0.22
Coefficient of variation[2]	0.32	0.52	0.24	1.06
90% confidence interval (lower, upper)	1.62, 4.80	0.39, 2.28	1.06, 2.37	0.02, 0.73
Market Revenue Program	Total	National[3]	Supplmental	
Mean payment ($ billion)	3.17	2.33	0.85	
Coefficient of variation	0.34	0.430	0.59	
90% Confidence interval	1.55, 5.09	0.76, 4.06	0.37, 1.97	
Traditional-Style Program	Total	P-MLB	P-CCP	Disaster
Mean payment ($ billion)	3.11	1.26	1.67	0.19
Coefficient of variation	0.68	1.35	0.53	1.46
90% confidence interval	0.38, 7.10	0.00, 4.78	0.00, 2.28	0.02, 0.83

[1]The "basic" payment covers shortfalls in county revenue per acre with respect to expected county revenue per acre. The "extended coverage" payment is based on a target revenue using a statutory price, and provides supplemental coverage over the basic payment. The "production-limited" payment is similar to the extended coverage payment but applied to a fixed base acreage for the farmer, and provides supplemental coverage over the extended coverage payment.

[2]The coefficient of variation in this application is a measure of the dispersion of the probability distribution of revenue per acre that allows comparisons across populations with different means, and is the standard deviation of revenue per acre divided by the mean revenue per acre. The smaller the coefficient of variation, the lower the dispersion relative to the mean value of the distribution.

[3]The "national" revenue payment rate is based on the difference between national expected and actual revenue per acre, and the "supplemental" revenue payment provides additional coverage based on a county- level payment rate.

[10] Cooper. 2009. op. cit. p. 13.

Figure 1[11]

Frequency of commodity payments for corn – traditional-style program

The traditional style programs more frequently have high payment

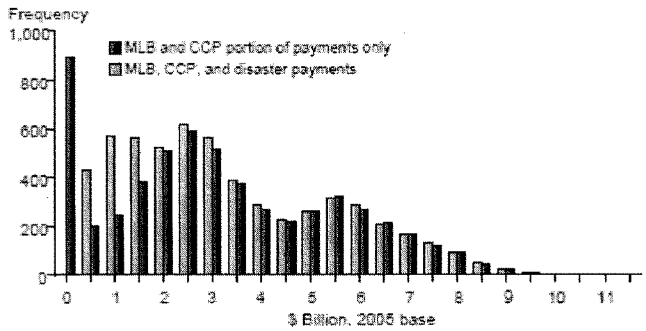


Figure 5b

Frequency of commodity payments for corn – target revenue program

The target revenue programs produces a tighter range of payments.

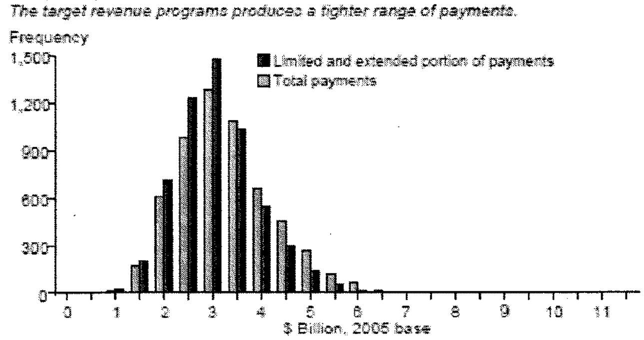
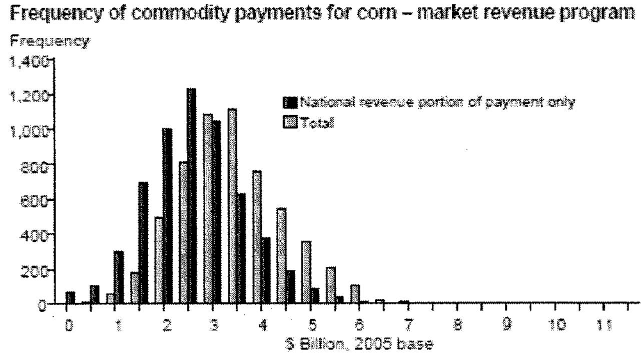


Figure 5c

Frequency of commodity payments for corn – market revenue program



Note: Each bar covers a $500 million range of payments. The taller the bar, the greater the number of payments falling in the associated range.

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[11]Ibid. p. 15.

Table 2[12]

Yield and revenue variability at different levels of aggregation

Item/Level	Corn	Soybeans	Wheat	Cotton	Grain sorghum	Rice, long-grain	Rice, Medium/short-grain
	Coefficient of Variation						
Yield variability:							
National	0.069	0.058	0.056	0.076	0.099	0.037	0.061
State	0.097	0.099	0.135	0.119	0.123	0.043	0.061
District	0.110	0.113	0.169	0.152	0.167	0.045	0.062
County	0.122	0.125	0.195	0.184	0.202	0.052	0.067
Farm	0.359	0.372	0.520	0.672	0.776	0.335	0.263
Revenue variability							
National	0.195	0.188	0.185	0.197	0.214	0.272	0.288
State	0.207	0.205	0.215	0.225	0.230	0.275	0.288
District	0.214	0.213	0.240	0.250	0.256	0.275	0.288
County	0.221	0.220	0.261	0.274	0.283	0.276	0.289
Farm	0.413	0.425	0.558	0.715	0.829	0.440	0.395

Averages weighted by acres harvested in 2010. District = Crop Reporting District. Medium/short-grain rice is for a single State, California. Based on simulations.

Table 3[13]

Difference in average expected payment, relative to State-triggered program, from revenue programs triggered at different levels of aggregation

Level	Corn	Soybeans	Wheat	Cotton	Grain sorghum	Rice long-grain	Rice, medium/ short-grain
	Percent						
National	-11.3	-8.4	-11.5	-23.3	-10.1	-2.1	0
District	10.4	6.8	15.3	13.1	17.1	Less than 1	Less than 1
County	18.8	15.5	28.0	28.5	32.0	2.3	Less than 1

Averages weighted by acres harvested in 2010. District = Crop Reporting District. Medium/short-grain rice is for a single State, California. Based on simulations of expected market price equal to revenue program guarantee price.

[12]Dismukes et al. 2011. op. cit. p. 2.
[13]Ibid. p. 5.

Table 4

Expected Payments for ARRM with Adaptations for Corn in Selected Counties, 2010 Expect Revenue, Corn Expected Price = $4.50			
	McLean IL	**Valley NE**	**Weld CO**
Program	**$ per acre**		
ARRM-CRD	18.16	12.75	7.31
ARRM-Farm	18.16	12.75	7.31
Indifference adjustment	0.538	0.505	0.234
Gap Coverage			
GRIP Expected Revenue	$808	$767	$790
Total premium	5.02	4.04	1.72
Producer Premium	2.26	1.82	0.77

REFERENCES

Cooper, J. 2009. *Economic Aspects of Revenue-Based Commodity Support*, ERR-72, U.S. Department of Agriculture, Economic Research Service, April.

Dismukes, R., K. H. Coble, D. Ubilav, J. Cooper, and C. Arriola. 2011. *Alternatives to a State-Based ACRE Program: Expected Payments Under a National, Crop District, or County Base*, ERR-126, U.S. Department of Agriculture, Economic Research Service, September.

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National Farmers Union

UNITED TO GROW FAMILY AGRICULTURE

TESTIMONY OF ROGER JOHNSON
NATIONAL FARMERS UNION

SUBMITTED TO THE
U.S. SENATE COMMITTEE
ON
AGRICULTURE, NUTRITION AND FORESTRY

TO DISCUSS RISK MANAGEMENT
AND
COMMODITIES IN THE 2012 FARM BILL

MARCH 14, 2012
WASHINGTON, D.C.

On behalf of the family farmers, ranchers, fishermen and rural members of National Farmers Union (NFU), I thank you for the opportunity to submit testimony regarding the 2012 Farm Bill. More than 80 organizations, representing farm, agricultural, rural, conservation, nutrition and hunger interests have called for the passage of a farm bill this year. Many parts of the 2008 Farm Bill have already expired, with the balance set to expire later this year. I commend Chairwoman Stabenow and the many other members of Congress who have been working to craft an efficient and effective 2012 Farm Bill which will allow America's farmers, ranchers and rural communities to be confident they have access to a strong safety net, to be deployed when disasters strike or when markets collapse, as we have often witnessed historically following a period of high prices.

NFU is proud to be a grassroots organization made up of approximately 200,000 farm families in 33 states, where policy positions are developed by our farmers, ranchers, fishermen and rural members. Our policies are written at the local, regional and state levels, and then on the national level. Our members voted on and formally adopted our principles for the next farm bill in two special orders of business (see addendum) last week at our annual convention, which was held this year in La Vista, Neb.[1 2]

NFU acknowledges today's challenging budget environment, but also understands that tomorrow's budget situation is not likely to be any more favorable. The agriculture community has stated many times that it is willing to bear its fair share of cuts in order to contribute toward deficit reduction, but they must be proportional to cuts in other sectors. I respectfully urge members of the committee to consider the critical and tenuous nature of our nation's food security when considering the next farm bill. Production agriculture is a primary economic driver, and as such, when production agriculture prospers, a multiplier effect results and jobs and tax revenues at the local, state, and national levels are added without raising tax rates. Spending reductions that adversely impact the productivity and profitability of production agriculture are counterproductive to our overall national economic interests. Family farmer- and rancher-owned and -operated food, fuel, and fiber production is the most economically, socially and environmentally beneficial way to meet the needs of our nation.

Our national farm and food policy affects all Americans, urban and rural, food producers and food consumers. We have the opportunity to shape this important policy only once every few years. Our nation's family farmers, who are those most vulnerable to risk, need an effective and fiscally responsible safety net to mitigate the effects of weather and market volatility in order to achieve our food and energy security goals and to preserve jobs in rural America. As the members of the committee know, agriculture is an industry that is very different from any other, with market behavior that defies typical supply and demand economics, high input costs, and the constant risk of weather disasters threatening our nation's producers. It is NFU's belief

[1] "The 2012 Farm Bill: Investing in Rural America." National Farmers Union Special Order of Business. Approved March 6, 2012. http://www.nfu.org/images/stories/SpecialOrders/2012/FarmBillAMENDED_SpecialOrder.pdf
[2] "Market-Driven Inventory System and The Farm Bill." National Farmers Union Special Order of Business. Approved March 6, 2012. http://www.nfu.org/images/stories/SpecialOrders/2012/MDIS_SpecialOrder.pdf

that farmers should not receive support in the good times, but that farm policy should instead provide economic security to farmers, who have little market power, in bad times. Our nation's farmers need a more effective and fiscally responsible safety net to mitigate the effects of weather and market volatility and to achieve our food and energy security goals.

Additional Farm Bill Priorities

Congress should continue investments in rural America through farm bill conservation and energy programs. Demand for these initiatives remains high and yet these programs are chronically underfunded in the annual appropriations process, which results in program backlogs. Congress should provide a flexible conservation toolbox in the 2012 Farm Bill that includes streamlined program delivery for working lands, land retirement and easement programs, coupled with significant federal funding and flexible local planning authorities.

Additionally, the 2008 Farm Bill included language that established and continued important research, animal health, marketing, and disaster programs related to livestock production, which brought additional interests into the farm bill process. The livestock title mandated country-of-origin labeling (COOL) for meat, fish, perishable agricultural commodities, and assorted other food products, which has been a long awaited and very beneficial law for farmers and consumers alike. A livestock title should be a part of the 2012 Farm Bill and must maintain the progress established by the previous farm bill.

Furthermore, NFU has a long, proud history of advocating for programs that help the less fortunate among us. National nutrition policy must address both the quantity and quality of food available to needy Americans, and nutrition programs should place an emphasis on fresh and local food to ensure that Americans of all income levels have access to healthy, nutritious foods. The local food procurement directive of the 2008 Farm Bill must be continued and further emphasized in the 2012 Farm Bill, and NFU supports further incentives for Supplemental Nutrition Assistance Program (SNAP) and other federal nutrition program recipients to use their benefits at farmers markets, achieving dual objectives of providing healthy food to those who need it most and supporting family farmers and ranchers.

Market-Driven Inventory System: An Overview

In 2011, NFU commissioned the University of Tennessee's Agricultural Policy Analysis Center (APAC), under the leadership of Dr. Daryll E. Ray, director, and Dr. Harwood Schaffer, research assistant professor, to develop a farm program that would moderate extreme volatility in commodity markets while allowing farmers to receive their income from the marketplace rather than from government payments, saving the federal government a significant amount of money in the process.

The Market-Driven Inventory System (MDIS) developed by Dr. Ray is an agricultural commodity program that mitigates price volatility, providing advantages to livestock producers, the biofuels industry, and to hungry people in this country and around the world. In addition, it would reduce government expenses, increase the value of crop exports, and maintain net farm income over time. The central feature of MDIS is a voluntary, farmer-owned and market-driven inventory system that operates under market forces during normal conditions but moderates prices at the extremes. Inventory stocks activity would only be activated when crop prices become so low or so high that normally profitable agricultural firms are not provided with reasonable investment and production signals. By working with the market, MDIS would ensure that farmers receive their income from the market instead of from government payments.

In the wake of the extreme commodity price volatility seen from 2006 to 2010, many of our international counterparts have revitalized, constructed or made plans for a grain inventory management system on a national level. The international community has also of late called for the establishment of a global "'virtual' internationally coordinated reserve system for humanitarian purposes," first mentioned in the G8 Leaders' Statement on Global Food Security at the Hokkaido Toyako Summit on July 8, 2008, and more recently at the November 2011 G20 summit in Cannes, France. Implementation of MDIS in the United States could be a valuable model for future global, coordinated grain inventory management systems.

This two-phase study found that MDIS can provide the functions sought by NFU's family farmer and rancher members and our international brothers and sisters. The first portion of the study (Phase I) is a rerun of history from 1998 to 2010 with one change: the commodity programs during that period are replaced with MDIS. The second (Phase II) uses the U.S. Department of Agriculture (USDA) ten-year baseline released in February 2012 as the starting point for the analysis. Because ten-year-ahead baseline projections lack real world variability, a pattern of shocks that roughly mimic the variability experienced by crop agriculture from 1998 to 2010 were imposed on the projections.

The POLYSYS simulation model, developed by APAC, is the analytical model used in this analysis. POLYSYS simulates changes in policy instrument levels and/or economic situations as variation away from a baseline situation. Crop allocation decisions are made with linear programming models using county-level data as a proxy for farm-level decisions. The crop prices and demands as well as all livestock variables are estimated at the national level. National estimates of revenues, costs and net returns are also estimated.

MDIS Phase I: A Historical Analysis

Phase I explores the extremely volatile commodity price period between 1998 and 2010 using historical data as the baseline. In this portion of the analysis, the actual historical supply, demand and price numbers are compared with what those numbers are estimated to have been had MDIS been in effect.

During the 1998 to 2010 time period, actual government payments for the eight program crops (corn, wheat, soybeans, grain sorghum, barley, oats, cotton and rice) totaled $152.2 billion, excluding crop insurance premium subsidy payments. If MDIS had been in place during this time, farmers would have received $56.4 billion from the government (in storage payments), while earning roughly the same net farm income over the period as historically received (figures 1 and 2). With MDIS in effect, annual net farm income would have been, on average, higher in the early part of the period (1998 to 2005) and lower in the latter part of the period (2006 to 2010) but for the full 13 years under MDIS, net farm income averaged only slightly lower ($51.1 billion versus $52.1 billion). MDIS would have proven to provide an effective safety net for farmers, remove the volatility from the commodity market and reduce government payments by approximately two-thirds.

Figure 1: Government Payments for 8 Crops: 1998 - 2010

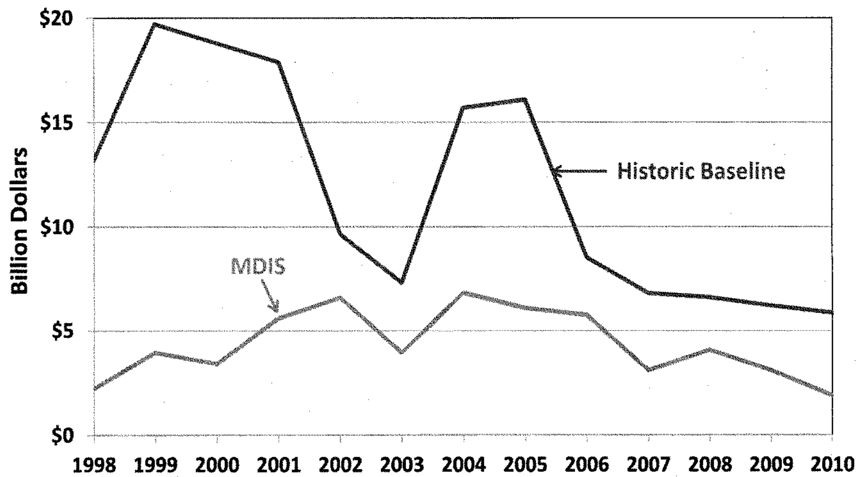

Fig.1 compares the federal cost of the farm bill programs that were implemented from 1998-2010 to the cost of MDIS if it had been in place during this time frame. The analysis found that, had MDIS been implemented instead of the farm bill programs that were in place, the federal government would have saved more than $95 billion dollars over the 13-year period.

Figure 2: Realized Net Farm Income, 1998-2010

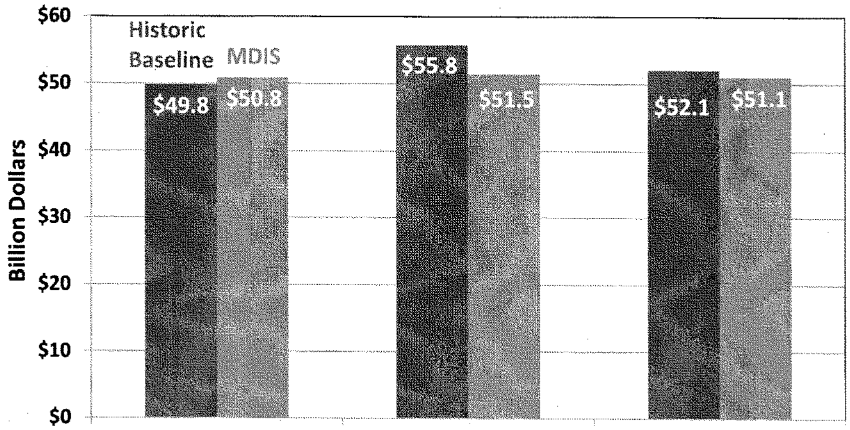

Fig. 2 compares net farm income from the farm programs that were implemented from 1998-2010 to what net farm income would have been had MDIS been in place during this time frame. The analysis found that net farm income would have remained virtually unchanged over the 13-year period.

For the entire 13-year period, the value of production under the baseline policies was $413 billion while with MDIS it would have been $446 billion – a difference of $2.6 billion per year. Crop prices were significantly higher under MDIS in the early part of the period, and for the full 1998 to 2010 period prices were higher by $0.25, $0.50 and $1.00 per bushel for corn, wheat and soybeans, respectively, compared to actual prices.

Had MDIS or a similar inventory-based commodity program been in effect from 1998 to 2010, the value of crop exports would have exceeded the actual value of exports during that period (figure 3). A higher crop price does cause a reduction in the quantity exported, but that decline is less than the increase in price. As a result, the value of exports increases with rising prices and decreases with price declines. (As an aside, this property does not bode well for the future direction of the change in value of agricultural exports over the next few years if prices decline.)

Figure 3: Annual Value of Exports for 8 Crops (1998-2010)

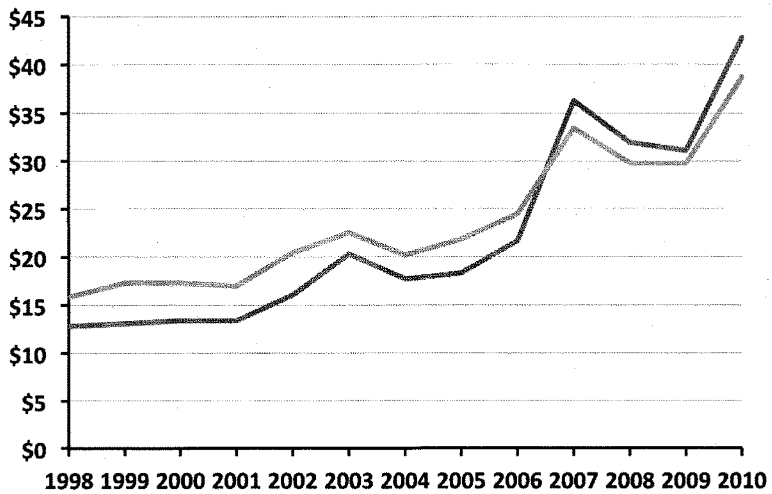

Fig. 3 compares the historic export value of the eight program crops from 1998-2010 to their value if MDIS had been in place during this time frame. The analysis found that, had MDIS been implemented instead of the farm bill programs that were in place, the export value of the eight program crops would have been greater over the 13-year period.

MDIS Phase II: Future Projections

Phase II is based on USDA baseline projection data for 2012 to 2021 as the beginning point of the analysis, but production shocks were used to mimic the variability that crop and livestock agriculture experienced between 1998 and 2010. Crop yields 10 percent above the baseline for the eight major crops for the 2012 through 2014 crop years were imposed, and in the 2017 and 2018 crop years a 10 percent decrease below baseline yields was used, along with a 5 percent decline in 2019. The purpose of these yield shocks was to reproduce price conditions similar to those that were seen in 1998 through 2010 – a timeframe that saw both low prices accompanied by massive government payments and record high prices. The resulting comparisons below are between this shocked baseline assuming continuation of current commodity programs and the MDIS alternative. The MDIS simulation includes the same production shocks.

Government payments with a continuation of the current programs and shocked production total $65 billion over the 10 years from 2012 to 2021. With MDIS in place, government payments are estimated to total $26 billion, or 60 percent less (figure 4).

Figure 4: Government Payments for 8 Crops: 2010 – 2021

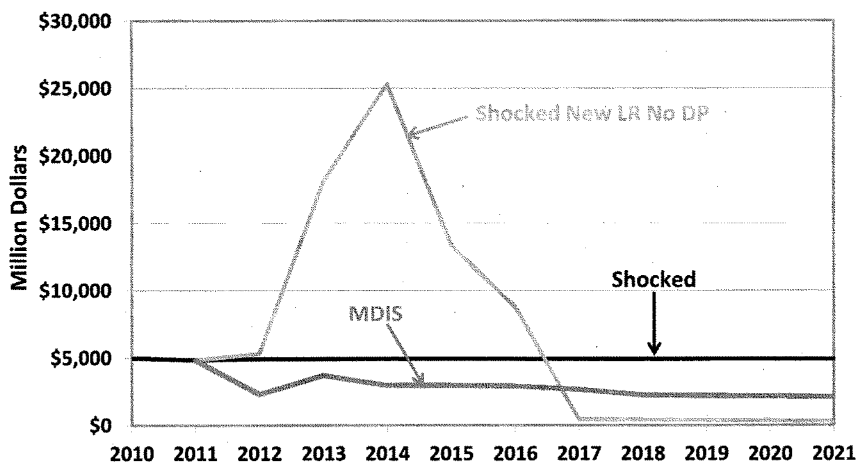

Fig. 4 compares the projected federal cost if current farm programs are extended to the projected net farm income under MDIS from 2010 to 2021 under three scenarios. First, if current programs are extended and annual values match USDA's baseline projections; second, if current programs are extended and supply/demand shocks are felt (as described earlier in the document), and; third, if supply/demand shocks occur but MDIS programs are in place. The analysis projects that government payments would be $39 billion lower if MDIS is implemented rather than extending current programs.

Net farm incomes averaged over the 10 years are nearly identical -- $79.2 billion per year under the current programs and slightly higher with MDIS, $79.6 billion (figure 5).

Figure 5: Realized Net Farm Income, 2010-2021

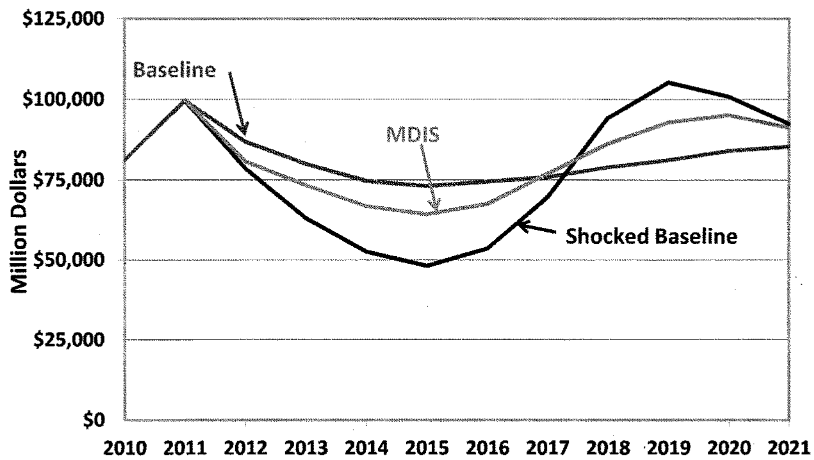

Fig. 5 compares the projected net farm income if current farm programs are extended to the projected net farm income under MDIS from 2010 to 2021 under three scenarios. First, if current programs are extended and annual values match USDA's baseline projections; second, if current programs are extended and supply/demand shocks are felt (as described earlier in the document), and; third, if supply/demand shocks occur but MDIS programs are in place. The analysis projects that net farm income would be slightly higher under MDIS than under current programs in either scenario.

Because crop prices average higher with MDIS than under the current program, the value of exports over the ten year period is higher with MDIS by $15 billion, or $1.5 billion per year, on average (more in the first part of the period and less in the latter part of the period) (figure 6).

Figure 6: Value of Exports- 8 Crops, 2010-2021

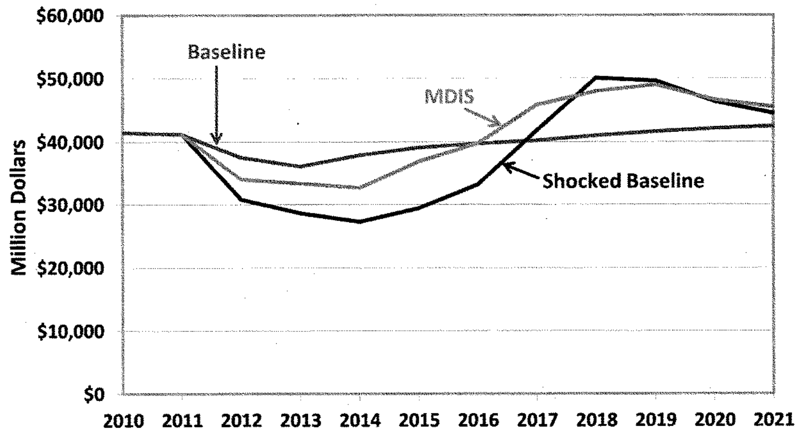

Fig. 6 compares the projected export value of the eight program crops from 2010-2021 to their projected value if MDIS is in place during this time frame. The analysis projects that, if MDIS is implemented instead of extending the current farm bill programs, the export value of the eight program crops would be $15 billion more over the study period.

MDIS: Mechanics

For Phase I, the beginning corn loan rate is halfway between the variable cost of producing a bushel of corn and the corresponding total production cost. In 1998 that number is computed to be $2.27 per bushel of corn. The 1998 loan rates for other crops are then computed to be in the same proportion to corn loan rates as those legislated by the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (the 1996 Farm Bill) in order to minimize distortion, except for grain sorghum, for which the loan rate is raised to be equal to that of corn, and soybeans, for which the loan rate is raised to $6.32. The loan rates of all crops are adjusted for 1999 through 2010 using USDA's prices-paid-by-farmers chemical input index.

The analysis for Phase II of the study follows the approach and most of the basic specifications used for Phase I. The loan rates for this analysis (all in dollars per bushel) are: $3.50 for corn, grain sorghum and barley, $2.49 for oats, $5.28 for wheat and $8.97 for soybeans. The loan rates have the same proportion to corn as the loan rates in the Food, Conservation and Energy Act of 2008 (2008 Farm Bill). Loan rates are held constant for the full 2012 to 2020 period.

The maximum quantities of grain allowed in the MDIS inventory in both Phase I and Phase II are specified to be 3 billion bushels of corn, 800 million bushels of wheat and 400 million bushels of soybeans. Inventory maximum levels for other program crops would be set as appropriate. Farmers with MDIS recourse loans are paid $0.40 per bushel per year to store the grain and are required to keep the grain in condition.

With MDIS in operation, markets work uninterrupted until prices are estimated to fall below a recourse loan rate or, if MDIS inventory is available, prices exceed 160 percent of the loan rate.

When prices fall below the loan rate, the model estimates the amount of grain that farmers would need to put under recourse loan with the Farm Service Agency (FSA) to raise the market price to or above the loan rate, which is the "price" that FSA uses to value the grain used as collateral for the loan. If a market price is estimated to exceed 160 percent of the loan rate, the model checks to see if there is an inventory stock in the MDIS farmer-owned inventory. If MDIS inventory is available, the model computes the quantity needed to lower price to about 160 percent of the loan rate and allows that amount of stock onto the market. Setting the release price at 160 percent of the loan rate is the key to establishing a functional system. The market does not work as effectively within the model at higher or lower loan rate-release price ratios.

The grain under MDIS must stay in inventory, that is, it cannot be redeemed by paying off the loan and marketed until the price goes above the release price of 160 percent of the loan rate and notification is specifically received. With MDIS in effect, all government payment programs (countercyclical payments, loan deficiency payments, fixed or direct payments, etc.), except MDIS inventory storage payments and crop insurance subsidies, are eliminated for corn, grain sorghum, oats, barley, wheat, and soybeans. An optional set-aside would be available for use at the secretary's discretion if MDIS inventory maximums are reached and prices fell below loan rates. Rice and cotton are not included in MDIS and are assured to remain eligible for current program payments.

History of Commodity Programs – How Did We Get Here?

With the adoption of the FAIR Act of 1996, which extended the marketing loan program to all crops, the holding of grains either by the Commodity Credit Corporation or farmers in a farmer-owned reserve was made ineffective. Part of the logic behind the end of these grain storage programs was the belief that if there were a need for stocks, participants in the commercial sector would buy up those stocks at a low price and later sell them at a higher price with no cost to the government. Recent history has demonstrated that those commercial inventories simply did not come into existence and the market has seen numerous countries impose harmful export limitations of their domestically produced foodstuffs in the face on citizen concern over food shortages. In the U.S., we have even heard concerns from the livestock sector over the availability of sufficient feed supplies.

The 1996 Farm Bill instead established the present system of direct and countercyclical payments. Almost immediately after the 1996 bill, the market changed and commodities prices began to decline. From 1996 until 2004, the value of agricultural exports fell from an all time high of $27.3 billion to $10.5 billion[3]. From 1996 until 2005, corn prices fell to an average of $2.06 per bushel, wheat an average of $3.03 per bushel and soybeans an average of $5.33 per bushel[4]. The elimination of reserves and new incentives to plant program acres combined to result in widespread overproduction, devalued crop prices and thus an increase in the amount paid in government subsidies. The resulting system had no way to manage wild swings in supply and market volatility that has proven detrimental not only to family farmers but also to consumers in developing countries, industries dependent upon agricultural commodities for inputs and rural economies.

In times of high commodity prices, such as current market conditions, target prices are set so low that even in the case of a market downturn the countercyclical program does not reflect the rising cost of production or provide an adequate safety net. Direct payments are increasingly indefensible to the public and unnecessary for farmers, as they get distributed based on historic production, regardless of current market price.

As a result, from 1998 to 2010, government payments for crops totaled $152.2 billion[5]. If MDIS had been in place for corn, wheat and soybeans between 1998 and 2010, government payments to farmers would have been reduced by nearly two-thirds to $56.4 billion, the value of exports would have increased, average commodity prices for farmers would have been higher, damaging price volatility would have been substantially reduced and overall farm income would have been left effectively unchanged[6].

MDIS and the Federal Deficit

As Congress continues to seek ways to reduce the federal deficit, any serious discussion regarding controlling government expenditures should include MDIS. APAC's analysis over the 10 years from 2012 to 2021 found that government payments with a continuation of the current program and shocked production remain unsustainably high, totaling $65 billion. However, with MDIS in place, estimated government payments over the same period total $26 billion, a 60 percent reduction (figure 4)[7].

MDIS could save tens of billions of dollars paid under existing government payment programs and the additional tens of billions in "emergency" payments and government subsidies to revenue insurance programs otherwise needed to offset the almost inevitable periodic severe collapses in grain prices. Under MDIS, grain farmers receive their income from the market and grain demanders are not subsidized or overcharged.

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[3] Jerardo, Alberto. February, 2004. "The U.S. Trade Balance...More Than Just a Number." U.S. Department of Agriculture-Economic Research Service.
[4] Ray, Daryll, et. al. March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.
[5] Ibid.
[6] Ibid.
[7] Ray, Daryll, et. al. March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

Permanent Disaster Programs
NFU has long been a leading proponent of a permanent disaster program. The unpredictability and inefficiencies associated with ad hoc disaster programs led to the inclusion of the Supplemental Revenue Assistance Program (SURE) and other related programs, such as the Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish Program (ELAP), the Livestock Indemnity Program, and more, in the 2008 Farm Bill. These permanent disaster programs were intended to allow farmers and ranchers to recover quickly from devastating weather without waiting for piecemeal disaster assistance. Unfortunately, that set of programs was inadequately funded and oversight challenges postponed many of the rules and regulations needed to implement the programs. Even in 2010, there were farmers still awaiting their claims for 2007 losses. SURE and similar initiatives were a hard-won victory for family farmers and ranchers and those programs' guiding principles – to protect farmers against catastrophic yield losses – ought to be included and appropriately implemented in the next farm bill.

In the next farm bill, permanent disaster programs must be funded at a level that makes them effective and eliminates the need for ad hoc payments. Partial advance payments should be made available so that assistance can be quickly provided in times of desperate need. Decision makers must ensure that we can continue the work that was done with SURE and other programs in 2008. Returning to a system of ad hoc disaster programs is likely to be much more costly for both the federal government and for farmers. Not only are ad hoc programs expensive, but they are also difficult to administer, extremely political and not solely influenced by real conditions and/or need. Between 1996 and 2002, when the commodity title was removed from the farm bill, approximately $30 billion was spent on ad hoc disaster programs[8]. The cost to extend SURE and similar disaster assistance programs for five years in a 2012 Farm Bill is projected to be $8.9 billion[9], and baseline funding for the permanent disaster programs expired in 2011. It should also be noted that any disaster program would likely be less costly if the MDIS concept were also included in the next farm bill[10].

Even though permanent disaster programs were enacted in the 2008 Farm Bill, ad hoc disaster relief efforts were authorized in 2010. This is likely due to the fact that SURE and the other programs were not as effective or fast-moving enough to satisfy the needs of farmers who were affected by disaster. If disaster programs were strengthened, these legislative solutions would likely be unnecessary. It should also be kept in mind that disaster programs are among the few farm bill programs that provide roughly equal benefits to both farmers and ranchers. Including a set of previously unaffected sectors of agriculture in federal farm policy would generate more support for the overall farm bill.

It is important that farmers do their part by responsibly sharing in the inherent business risks of their farm. The distribution of disaster aid must remain linked to crop insurance participation,

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[8] USDA Economic Research Service, retrieved from http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm
[9] Congressional Budget Office
[10] Ray, Daryll, et. al. March 2012. "An Analysis of a Market Driven Inventory System (MDIS)" University of Tennessee Agricultural Policy Analysis Center.

and SURE participants should be required to purchase more than just catastrophic (CAT) coverage so that they are able to reasonably recover some of their losses through crop insurance.

Any improvements in disaster programs should not come at the expense of program delivery. County FSA staff who service these programs are pushed to the limits of their resources as it is, and their offices need adequate funding and modern technology in order to continue to serve our country's farmers. A consistent, predictable and stable backup plan for farmers struck by weather-related problems is the most important benefit of having a permanent disaster aid program. Any efforts to improve upon it should not interrupt the positive results SURE and other disaster programs provided.

Risk Management

Crop insurance is an important safety net mechanism that provides assistance to farmers only when assistance is needed. It is fully compatible with MDIS and, as such, crop insurance must remain a cornerstone of farm policy. Risk management tools must be made economical for all farmers, regardless of crop or geographic region, and more insurance products should be made available that protect against changes in the cost of production. Farmers also need protection against losses due to weather-related disasters, high input costs or devastatingly low prices. NFU supports efforts aimed at streamlining and eliminating duplication among existing farm bill programs. Risk management provisions in the next farm bill should extend the availability and affordability of federal crop insurance programs to farmers in portions of the country that have not historically carried significant levels of crop insurance, thereby reducing the need for disaster aid.

NFU members support the reestablishment of compliance requirements for federal crop insurance eligibility so that all existing or new crop and revenue insurance or other risk management programs are subject to all conservation compliance provisions.

Crop insurance coverage should be improved for organic producers, including ending the existing surcharge on organic policies and the full implementation of coverage levels based on organic prices. Additionally, crop insurance products and other risk management tools should be developed for specialty crop producers. Funding levels for crop insurance must remain adequate as it is the most critical and effective safety net for farmers and crop insurance has already been subjected to recent significant cuts.

Recent budget cuts to crop insurance, which subtracted from the farm bill baseline, were made since the last farm bill. We urge lawmakers to carefully consider the effects of reduced funding for crop insurance programs. Cuts should not come at the expense of greatly increased risk management costs for farmers. Continued vigilance should be maintained to prevent the abuse of crop insurance programs, but crop insurance must remain a part of the next farm bill. Costs associated with the federal crop insurance program have risen as crop insurance has taken on additional importance in the suite of safety net tools in the farm bill. Although costs have increased over the long run, total costs of the crop insurance program were cut nearly in half between 2008 and 2010. Most of the savings came from reductions in net indemnities, although reductions to administration and overhead subsidies for approved insurance providers have made for decreased spending as well.

There are also a few adjustments to the mechanisms of the crop insurance programs that should be considered. All risk management programs should be based upon Actual Production History (APH), and for situations in which the APH is not available, the qualified yield for a farm should not be set at a lower level than that of county FSA calculations. In order to protect farmers in the event of successive crop disasters, we also urge the establishment of APH yield floors. These common sense approaches to crop insurance will help to ensure that losses are accurately reflected in indemnities.

Crop insurance is not the be-all and end-all for a farm safety net. Without reducing the volatility that plagues agriculture commodity markets with MDIS, revenue-based crop insurance products will be extremely expensive in high price periods and will provide little, if any, assistance to farmers when prices collapse. NFU members would much rather see a farm policy that also includes MDIS and disaster assistance programs to moderate the volatility of the agricultural marketplace and yields so that farmers can continue to farm.

MDIS Benefits Stakeholders

MDIS holds numerous benefits for a variety of stakeholders, including farmers, the environment, livestock producers, the ethanol industry, taxpayers and the food insecure worldwide.

MDIS Benefits Farmers

MDIS helps smooth out some of the wild price swings that can put some farmers out of business. By providing a greater level of income certainty, MDIS helps farmers plan for the future without decreasing farm income. Land prices and input costs rise dramatically when commodity prices rise, but when prices drop, these costs do not drop correspondingly. With a reasonable loan rate, farmers could make long-term investments in their farming operation that improve their long-term profitability.

Farmers who put their corn, wheat and/or soybeans into the inventory system would benefit from the receipt of storage payments. They would also benefit from the future sale of their stored commodity at the higher release price. With MDIS in effect, annual net farm income was higher, on average, in the early part of the period from 1998 to 2005 and lower in the latter part of the period from 2006 to 2010, but for the full 13 years, the MDIS net farm income averaged only slightly lower ($51.1 billion versus $52.1 billion). The low-price years would reduce the tendency to capitalize higher returns into land. While sufficient to keep current land in production, the moderated prices do not provide the kind of price signals that would lead to an overexpansion of productive capacity and lower prices over the longer term. Net farm incomes averaged over the ten years are almost identical ($79.2 billion per year under the current program and slightly higher with MDIS at $79.6 billion). From 1998 to 2010, farmers would have benefited from price signals that more accurately reflect the supply/demand situation at a given time, than when futures prices reflect herd-following speculative behavior on the part of some market participants.

MDIS Benefits Conservation

MDIS holds significant conservation benefits because price stability puts less pressure on environmentally sensitive land. During high price years, for example, demand pressures on land is reduced because farmers will not be incentivized to break native grassland or bring Conservation Reserve Program acres back into crop production. During low price years, net farm income would remain higher under MDIS. This means that farmers have more money to invest in conservation in order to meet their cost-share requirements under programs such as the Environmental Quality Incentives Program.

MDIS Benefits Livestock Producers

Less volatile commodity prices under MDIS help livestock producers keep input costs more stable and help prevent skyrocketing grain prices, which can bankrupt livestock producers. In the 2006 to 2010 period, higher prices put some producers over the financial edge; however, MDIS would have reduced commodity prices to a more reasonable and survivable level. Livestock producers are vulnerable to rapidly increasing feed prices, which they cannot quickly pass on to the consumer. Overall, MDIS would have provided livestock producers and industrial users with security in the availability of feed supplies and a more reasonable range of prices.

MDIS Benefits the Ethanol Industry

Abnormally high commodity prices are also damaging to the ethanol industry and can cause disruptions in the supply chain. Having access to a stable supply within a more predictable price range allows ethanol producers to engage in long-range planning. MDIS decreases price fluctuation faced by ethanol plants and ensures more stable production, which in turn helps put America on the road to energy independence.

MDIS Benefits Taxpayers

Throughout the study period, government payments for crops totaled $152.2 billion. Had MDIS been in place from 1998-2010 rather than the existing programs, taxpayers could have saved more than $95 billion compared to what the federal government actually spent on farm programs. This is a nearly 60 percent reduction in expenditures. Government payments with a continuation of the current programs and shocked production total $65 billion over the ten years from 2012 to 2021; with MDIS the estimated cost is $26 billion, also a 60 percent reduction.

Equally important, MDIS addresses perceptions among some consumers that the government is giving unwarranted handouts to farmers. By setting up a system that allows the price to range closer to costs of production, these policies allocate the costs to the major users of commodities, both domestic and international, rather than expecting the U.S. federal government to subsidize their purchases. In addition to the benefits they would receive under

MDIS as taxpayers, U.S. consumers would benefit from more stable commodity prices that would reduce the volatility of food costs. While commodity prices under MDIS increased in the 1998 to 2005 period according to the model, the farm portion of most processed food costs that U.S. consumers eat is relatively small, resulting in minimal long-term pressure on food prices. Average commodity prices in the 2006 to 2010 period under MDIS would not have increased as much as they did under existing policies, reducing upward pressure on food prices.

MDIS Benefits the Impoverished

In developing nations, a small increase in commodity prices can mean the difference between putting food on the table and going hungry. MDIS reduces the price swings that cause many people who are directly reliant upon staple crops like corn to go hungry when they can no longer afford food. Importers of U.S. corn, wheat and soybeans would have been assured of a stable supply of storable commodities, reducing the need for countries to protect local supplies of grains.

With farmers constituting as much as 60 to 70 percent of the poor in developing countries, higher prices in the 1998 to 2005 period under MDIS would not adversely affect these farmers because of the large amount of food that they produce for self consumption. In addition, they would receive a more stable income for the product they do sell into the market. In times of high prices, many subsistence farmers and urban poor are often priced out of the market, increasing the number of chronically hungry persons in the world. As a result of the price spike in 2007 and 2008, more than 200 million people fell into the chronically hungry category. By moderating the price spikes, MDIS reduces the price pressure on the poor in developing countries. In addition, MDIS assures participants in the marketplace of an adequate supply of grain, reducing the hoarding tendency, which often results in localized price spikes.

Conclusion

Many challenges lie ahead in the writing of the next farm bill. Funding will be tight and it will be critical to come together in a bipartisan manner to outline the top priorities for the omnibus agricultural legislation.

The average American pays less than 10 percent of his or her disposable income on food, which is the lowest rate of any industrialized nation in the world. It is a fantastic bargain. This deal is the result of our national investments in agriculture through farm policy, which have ensured that America's farmers and ranchers can continue to provide the safest and most abundant food supply in the world. The primary purpose of the next farm bill ought to be as a strong safety net that protects farmers and ranchers during tough times for the health of our nation and our rural economies. A forward-thinking and well-designed safety net will be much more cost-effective than reactionary legislation that is put forward in times of emergencies.

When writing the next farm bill, lawmakers must be penny-wise, but not pound-foolish. The MDIS program will have a cost, but as the study by the University of Tennessee demonstrates, it will save money in the long term. Permanent disaster programs, too, save money. For example, the U.S. spent $30 billion between 1996 and 2002 in emergency and ad hoc disaster programs to help farmers and ranchers when prices collapsed and the farm bill had no safety net for them[11]. Keeping that in mind, the cost to extend SURE and similar disaster assistance programs for five years, which could have replaced those ad hoc disaster programs, is $8.9 billion.

We must also complete the next farm bill this year to protect against even further cuts to agriculture. USDA cut $4 billion from agriculture programs by renegotiating the Standard Reinsurance Agreement in 2011. Congress approved a budget reduction to agriculture programs of more than 15 percent for the 2012 Fiscal Year, a cut that was two to three times deeper than the average across-the-board reduction in discretionary spending. By waiting until 2013 or later to complete the next farm bill, there may be even less funding available, making it nearly impossible to pass a farm bill that will protect America's family farmers and ranchers in tough times.

By coming together in a strong, bipartisan fashion, it is possible to craft a fiscally responsible 2012 Farm Bill with an adequate safety net to protect America's family farmers and ranchers and to help make rural communities vibrant. On behalf of the members of National Farmers Union, thank you for the opportunity to outline our priorities and I look forward to working with you to enact this critical legislation.

[11] USDA Economic Research Service, retrieved from http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm

STATEMENT BY
STEVE RUTLEDGE
ON BEHALF OF THE APPROVED INSURANCE PROVIDERS
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

MARCH 14, 2012

Madam Chairwoman, Ranking Member Roberts, and Members of the Committee, thank you for inviting crop insurance companies to appear at today's hearing to discuss farm policy and the importance of crop insurance as agriculture's fundamental risk management tool.

My name is Steve Rutledge. I am Chairman of Farmers Mutual Hail Insurance Company of Iowa located in West Des Moines, Iowa. Farmers Mutual Hail has been in the business of offering risk management tools to agricultural producers for more than a century. Today, we write both private hail insurance and federally reinsured multiple peril coverage in 15 states.

I am pleased to have the opportunity today to present this testimony on behalf of the approved insurance providers (AIPs). The statement was developed jointly by National Crop Insurance Services (NCIS), the Crop Insurance and Reinsurance Bureau (CIRB), and the American Association of Crop Insurers (AACI). Therefore, it encapsulates the common views of these organizations.

This morning, I will examine how crop insurance evolved to become the essential policy that it is today; discuss the role crop insurance has played since 2008, a timeframe which contains the two most costly years in the history of crop insurance; outline recent challenges facing AIPs; and provide guidance as this Committee continues into the 2012 Farm Bill process.

The Function of the Private Sector Delivery System

Currently, there are 15 private sector insurance companies that sell and service policies through the federal crop insurance program. In 2011, these AIPs wrote more than $11.9 billion in federal multiple peril crop insurance premiums covering nearly 265 million acres of farmland, protecting more than 80 percent of eligible crops. The potential liability exceeded $113 billion.

These private sector companies service policies that encompass all farmers and ranchers participating in the federal and private programs, including those who are limited resource and socially disadvantaged. In partnership with the federal government, our members comprise the delivery system for this critical risk management program.

The Increasing Importance of Crop Insurance in Protecting America's Food, Fiber, Feed, and Fuel Production

Although the crop insurance program was originally launched in 1938, it was not particularly successful because, as late as 1979, it was available in only one-half of the nation's counties, and in those counties, only one or two crops were covered. In 1980, Congress passed legislation designed to increase participation in the crop insurance program and make it more affordable and accessible for farmers. This modern era of crop insurance was marked by the introduction of a public-private partnership between the U.S. government and private insurance companies. Under this partnership, private insurers began administering insurance policies and delivering indemnities quickly to insured farmers.

Congress greatly enhanced the crop insurance program in 1994 to strengthen the public-private partnership and encourage greater farmer participation. This landmark legislation, and a subsequent bill enacted in 2000, put us on the path to success by combining federal dollars with farmer premiums to make otherwise cost-prohibitive, high-coverage crop insurance policies universally affordable to farmers of all sizes. The changes also expanded the role of the private sector in developing new products—such as revenue insurance policies—that would help farmers and ranchers manage their risks and enhance their marketing plans. With these additional changes, participation in the program greatly expanded.

By 1998, more than 180 million acres of farmland were insured under the program, representing a three-fold increase over 1988. And since 1998, crop insurance has continued to evolve in positive ways. In 2011, nearly 265 million acres were protected by crop insurance. Since 1998, meaningful buy-up coverage has increased by over 125 million acres, while basic catastrophic (CAT) coverage has declined by over 42 million acres, to a low of 19 million acres insured in 2011. Federal support combined with producer premiums in 2011 provided over $113 billion in liability protection, compared with approximately $28 billion in 1998.

Today, crop insurance is the cornerstone of most famers' risk management portfolios and covers all major grain and oilseed crops; cotton; nursery; many fruits, vegetable and tree nut crops; rice; potatoes; forage and livestock. We appreciate that farmers and ranchers have found crop insurance to be a great value and look forward to being involved in discussions regarding proposals intended to enhance crop insurance coverage.

2011: A Year for the Record Books

With claims still being filed, crop insurance companies have already paid out a record $10.3 billion in indemnity payments to America's farmers and ranchers in 2011. This has already surpassed the former record of $8.68 billion in indemnities paid in 2008.

The year 2011 was perhaps one of the most destructive weather years in history—featuring severe droughts in the Southern Plains, hard freezes in Florida, flooding along the Mississippi and Missouri Rivers, tropical storms in the South and Northeast, and a broad swath of destruction in the Central Plains. To date, roughly one out of every four dollars of indemnity payments went to farmers and ranchers in Texas, who have received $2.5 billion in indemnities.

For every dollar of premium in Texas for the 2011 crops, producers have received $2.32 in indemnities.

Based on crop insurance indemnities paid, the next hardest hit state was North Dakota, with $1.6 billion in indemnities. The other states to fill out the top five were Kansas, South Dakota and Minnesota. Together, these five states accounted for 60 percent of the 2011 indemnities paid nationally.

Since 2008, private crop insurance company indemnity payments have totaled more than $28 billion. This figure is significant for a number of reasons. First, the private sector, not taxpayers, is carrying a significant portion of the risk for these policies. Second, the policies are being written and managed by private sector crop insurance agents who meet personally with the farmer and devise a plan that fits the farmer's risk profile. Nearly 5,000 certified loss adjusters determine losses and ensure that the farmer complies with the mandates of the policy to reduce fraud and abuse. Lastly, it is the private sector, not the government, that delivers the indemnity payment. These companies must deliver the crop insurance indemnity payment to the producer within 30 days. Contrast that with government-run disaster programs, which can take months, or years, to get the payments into the hands of farmers and ranchers.

When farmers and ranchers are left picking up the pieces after weather or market disasters, they rely on speedy 30-day delivery, not cumbersome 30-month delivery. The fact that the United States is planting crops just months after such devastation in 2011 should not be taken for granted. Crop insurance is permitting farmers and ranchers to recover from last year's disasters and return to their normal practices in 2012.

Crop insurance is more than just periodic payments. It has become indispensible for producers because it helps them obtain needed operating capital, which would otherwise be highly restricted. Equally important, farmers have also integrated crop insurance and marketing to the point that they are very willing to buy crop insurance at high coverage levels, even if they expect no indemnity, to ensure the adequacy of resources to cover forward marketing commitments in the event disaster strikes.

Doing More With Less

The year 2008 was significant for crop insurance for a number of reasons. First, it is the second costliest year in American history in terms of damage to the agricultural sector. Next, since 2008, crop insurance has taken more than $12 billion in federal funding cuts, a figure which sets agriculture apart as having been one of the only sectors that has taken repeated budget reductions to help address the deficit and curb government spending.

The first reduction of $6 billion occurred as part of the 2008 Farm Bill. Another $6 billion resulted from the 2011 Standard Reinsurance Agreement negotiations between crop insurance providers and the U.S. Department of Agriculture.

The 2008 farm bill cut was more than 10 percent of baseline crop insurance funding, while the SRA cut was an added cut of more than 7 percent of baseline funding—a very large total reduction in the federal investment in crop insurance infrastructure in just four years. This reduction is astounding when one considers that crop insurance represented only 8 percent of farm bill spending and a meager one-tenth of one percent of overall government outlays.

And while federal financial support for crop insurance has been reduced by recent cuts, insurers' exposure to risk has been increasing. Rising demand for major food, fiber, feed, and fuel crops since 2008—fueled by booming exports and the growing renewable fuel industry—has pushed commodity prices to record highs. While this has been great news for the agricultural sector and has been a factor in pulling the overall U.S. economy out of the prolonged and deep recession, it has greatly expanded the value of the crops and hence the risk exposure of AIPs.

The crop insurance delivery system has responded and is doing more with less resources and doing it well. That is why crop insurance has been widely praised by leading farm groups and farmers as the single most important risk management tool available. In the interest of time, I will not read through the long, positive string of quotes from most major commodity groups, but I am including a sampling of quotes pulled from newspapers across the country in this statement for the record.

- "Crop insurance—which is the most important component of the farm safety net for specialty crop producers and growers of most major crops—was specifically created to ensure that private insurance companies, not taxpayers, shoulder the burden of funding payouts following crises." - Roger Johnson, former agriculture commissioner for North Dakota and current president of the National Farmers Union, in an op-ed that appeared in the **Omaha World Herald** on May 31, 2011.

- "Now I understand that when Congress starts trimming the budget, everyone is going to argue that their specific program deserves protection. While I can't speak for other aspects of federal spending, I can attest to the fact that crop insurance and other aspects of farm policy work for me. Without a doubt, they are the policies that keep family farms like mine in business and our nation is food secure." - Greg Schwarz, president of the Minnesota Corn Growers Association, in an op-ed that appeared in the **Minneapolis Star Tribune**, June 13, 2011.

- "Because of the many challenges, all young farmers depend on components contained in the 2008 Farm Bill—most notably crop insurance—to provide lenders with the confidence and collateral they need to extend loans. Politicians continue to put these components to the test, even though without crop insurance, farmers throughout the South, Midwest, and various other parts of the country, would have been left with no crop—and no starting point on which to rebuild—due to the range of floods, droughts, tornadoes and frosts, this year alone." - Matt Huie, a 35-year-old farmer who raises cotton, corn, sorghum, and livestock, in an op-ed that appeared in the **Dallas Morning News** on August 17, 2011.

- "Without crop insurance, I'm not sure that my operation would still exist—and the same goes for many of my neighbors—not just in Kansas but in the Texas panhandle where they haven't seen a drop of rain since October 17, and Missouri, where flooding has left thousands of acres under water and unproductive." - John C. Thaemert, Vice President & Trust Officer at Citizens State Bank & Trust Co. in Ellsworth, Kansas and past president of the National Association of Wheat Growers, in an op-ed that appeared in **Agri-Pulse** on September 6, 2011.

- "But perhaps most importantly for those of us who farm, the crop insurance program has the efficiency and speed of the private sector when it comes to getting payments into the hands of those who have suffered economic loss. The crop insurance policy recognizes that farmers are often over-extended after planting and will be very short of cash in hand if a crisis hits until the harvest season comes." - Dee Vaughan, the current president of the Southwest Council of Agribusiness and the former president of the National Corn Growers Association, in an op-ed that appeared in the Lubbock **Avalanche-Journal** on September 11, 2011.

- "The speed of delivery of crop insurance — because it's administered by private-sector companies — makes it a different kind of animal. In fact, if a natural disaster strikes and I'm covered by a crop insurance policy, typically the payment comes to me in one or two weeks, not in one or two years. Because of that speed of delivery, I can quickly recover from the loss and replant the field, garnering myself some needed income for the year and putting some food on the tables for consumers." - Quentin Bowen, who raises corn and soybeans, in an op-ed that appeared in the **Lincoln Star-Journal** on October 31, 2011.

- "Now is not the time to weaken crop insurance and put taxpayers—instead of private insurance companies—on the hook for picking up the pieces. If anything, discussions should be centered on ways to strengthen crop insurance and the rest of the safety net. After all, there's far more at stake than farmers in the next farm bill." - Neil Widner, chairman of the American Crystal Sugar Co. and a sugarbeet, wheat and soybean farmer, in an op-ed that appeared in the **Fargo Forum** on November 30, 2011.

- "Crop insurance is the quintessential tool for managing farm risks because it allows each farmer to pay for the plan that makes the most sense for him or her. Just like car insurance, health insurance or homeowner's insurance, crop insurance allows the individual to assess his tolerance for risk and loss, and purchase plans to meet those needs." - Jay Armstrong, who farms corn, soybeans, and wheat, in an op-ed that appeared in the **Garden City Telegram** on December 24, 2011.

The 2012 Farm Bill, and Beyond

How crop insurance emerges from the 2012 Farm Bill process will hold major ramifications for this risk management program and for America's farmers and ranchers who have come to rely on it. The ability of federal crop insurance to shoulder a significant portion of the risk that U.S. producers face lies with the legislators who are writing the 2012 Farm Bill and charting a course for the future of farm policy.

We firmly believe that crop insurance should remain the core risk management tool, and we are committed to the public-private partnership of program delivery, which directly supports more than 20,000 private sector jobs across the country. The private sector should continue to provide and deliver crop insurance options, share in the risk of loss caused by changing markets and natural disasters, and adjust losses for insurable crops. We believe the private sector, not the government, is the best way to provide the individual risk management information and tools that are indispensible for producers today. We understand that is the way farmers and ranchers want the program to operate, and trust in our congressional leaders to stay the course.

As development of the 2012 Farm Bill progresses, the crop insurance delivery system is in a unique situation. Companies are still processing and delivering record payouts to farmers and ranchers for their 2011 losses. At the same time, crop prices remain elevated far above historic levels, and projections show that producers will continue to take advantage of that and push themselves to plant to capacity. This indicates the need for crop insurance is likely to rise, as will insurers' risk exposure. With this growth comes an increasing sensitivity to additional changes to the program and the delivery system - because the industry's administration and organizational infrastructure continues to be pushed to the limit.

For example, reporting and regulatory requirements have increased already through the SRA, and new farm bill provisions could impose additional requirements. The AIPs maintain very serious concerns about the President's recent budget proposal, which would weaken the program and delivery infrastructure by removing an additional $8 billion in funding over the next 10 years. This program, the primary risk management tool for producers, is now adjusting to the cumulative effects of funding cuts over the past four years, record claims in 2011, and significant program changes in store for 2012 and 2013. Any further changes affecting the program must be considered very carefully as swift changes can have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers. In short, we risk undoing the great progress made in protecting U.S. agriculture from risks that farmers and ranchers cannot manage alone.

In the development of the 2012 Farm Bill, many commodity organizations and lawmakers have stated their support for crop insurance, and in developing Title I proposals, many have expressed an interest in revenue protection. Revenue protection policies, which insure producers against yield losses and revenue losses, made up two-thirds of crop insurance policies nationwide in the 2011 crop year and accounted for 81 percent of premium. Revenue coverage is clearly a vital link in the farm safety net, and we are proud to be – and should remain – providers of the products currently available.

While we believe that Title I programs should not compete with crop insurance at all, we recognize the difficulty in creating revenue programs within Title I that are distinctly different from crop insurance revenue products. In 2011, policies with coverage levels of 80 and 85 percent accounted for about one-fourth of total premium. New supplemental revenue programs potentially compete with and may displace these high levels of crop insurance protection that Congress and AIPs have worked so hard for so long to achieve. We recognize and share the concern about program duplication, and we respectfully request that interaction between Title I programs and crop insurance – the adverse direct or indirect effects on crop insurance – be minimized.

As providers of this successful risk management tool, our goal is to strengthen our ability to assist producers in managing their risk through a strong, efficient, and effective crop insurance program. It is the key to financial stability for America's farmers and ranchers, enabling them to supply our country with food, fiber, feed, and fuel. Without this support, large numbers of producers would be unable to manage weather and market risks with the success they can today.

Conclusion

What Mother Nature or the wildly fluctuating commodity markets have in store for farmers and ranchers this year is unknown. But 2011 taught all of us to expect the unexpected, and those of us in the crop insurance delivery system will be ready to help farmers pick up the pieces no matter what the future holds.

In summary, crop insurance providers are committed to continued private sector delivery of this successful – and essential – risk management tool. We believe in competition and the provision of services through the market, and we think that is the way producers want the program to operate. As farmers and ranchers increasingly rely upon crop insurance to manage risk and as our risk exposure continues to rise, we respectfully caution against swift changes that could negatively impact the program. Crop insurance continues to adjust to the cumulative effects of funding cuts over the past four years, record claims in 2011, and significant program changes in store for 2012 and 2013. Additional cuts such as those proposed in the President's budget could have the unintended effect of impairing the delivery system, reducing service, and even limiting coverage to producers.

We are hopeful that policymakers will recognize the record of success that crop insurance has demonstrated and will continue with a policy that recognizes the key role crop insurance plays in helping farmers and ranchers manage risk and ensuring an ample and stable U.S. food, fiber, feed, and fuel supply.

Madam Chairwoman, Ranking Member Roberts, and Members of the Committee, thank you for the opportunity to be here today. We look forward to continued dialogue with you and your staffs throughout the farm bill reauthorization.

Testimony of

Travis Henry Satterfield

Before the U.S. Senate
Committee on Agriculture, Nutrition, and Forestry

Hearing on Risk Management and Commodities in the 2012 Farm Bill

Washington, DC
March 14, 2012

Introduction

Chairwoman Stabenow, Senator Roberts, and Members of the Committee, thank you for holding this hearing concerning risk management and commodities in the 2012 farm bill. I appreciate the opportunity to offer testimony on farm policy from the perspective of America's rice producers. I am here today on behalf of both the US Rice Producers Association and the USA Rice Federation.

My name is Travis Satterfield. I am a rice, corn, soybean, and wheat producer from Benoit, Mississippi and I have been farming now for 42 years. In addition to farming, I also serve as a Director of the Producers Rice Mill in Stuttgart, Arkansas; as a member of the Board of Directors for the Mississippi Rice Council; and I serve as a member of the Mississippi Farm Bureau Farm Policy Task Force. I am also past president of the Delta Council where I continue to serve as chair of the Council's Rice and Small Grains Committee and a former member of the Board of Directors for Farmers Grain Terminal in Greenville, Mississippi.

U.S. Rice Industry Overview

The U.S. rice industry contributes $34 billion in economic activity and provides jobs and income for not only producers and processors of rice, but for all involved in the value chain, contributing to 128,000 jobs. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, and in my home area, the Mississippi Delta region including Arkansas, Mississippi, and Missouri, where a total of 3 million acres of rice, on average, are produced annually.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a rice crop of nearly $3 billion as measured in farm gate value.

Today, about 85 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and the third largest exporter worldwide. On average, between 40 to 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Mexico, Japan, Canada, and Haiti. In 2011 we exported over $2 billion in rice to markets around the world.

Americans consume 25 pounds of rice per year. Of the rice produced by our famers that remains in the domestic market, 59% is bound for direct human food use, 15% is dedicated to processed foods, 12% is used to produce beer, 12% is for pet food, and the balance is used for other purposes.

Rice is a wholesome and nutritious grain that helps form the foundation of a healthy diet. The Dietary Guidelines for Americans and MyPlate recommendations, published jointly by the Departments of Agriculture and Health and Human Services, call for 6 servings of grains daily, with half the servings coming from whole grains, such as brown rice, and 45 to 65 percent of calories coming from complex carbohydrates, such as rice. Rice is a wholesome source of nutrition, with no sodium, no cholesterol, no glutens, and no trans or saturated fats.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. All of the major rice-production areas in the U.S. host important waterfowl activity during winter months. Rice-growing areas provide surrogate habitats for hundreds of wildlife species that rely on wetland conditions for species survival, some of which would be threatened but for the wetland environments provided by flooded rice fields.

Without rice farming, wetland habitats in the U.S. would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl, shore birds, and a host of other wetland-dependant species. In the Delta region of Arkansas, Mississippi, Missouri, and northeast Louisiana, at least 70 wildlife species rely on our rice fields for habitat. Some 230 species of wildlife utilize California ricelands during the year, with 31 listed as species of concern.

Importance of Agriculture and Cost-Effective Farm Policy

The U.S. rice industry also shares a certain amount of pride alongside the rest of American agriculture for what we do for the nation's economy. Agriculture still matters.

Over the course of the current economic downturn, here is an excerpt of what objective sources ranging from the Federal Reserve to *The Wall Street Journal* had to say about what

America's farmers and ranchers have been doing to help get our nation back on track and people back to work:

"In 2010, rural America was at the forefront of the economic recovery... "[R]ising exports of farm commodities and manufactured goods spurred job growth and income gains in rural communities...If recent history holds true, rural America could lead U.S. economic gains in 2011." *Federal Reserve of Kansas City, 2010 report.*

"Growers' improved lot is rippling out to other industries." *The Wall Street Journal, October 12, 2010.*

We read the same kinds of reports during the last recession when the manufacturing sector was in crisis:

"Farm Belt Is Becoming a Driver for Overall Economy...The present boom is proving that agriculture still matters in the U.S. Rising farm incomes are helping to ease the blow of the loss of manufacturing jobs in Midwest states...'The farm sector is a significant source of strength for the U.S. economy,' says Sung Won Sohn, chief economist of Wells Fargo Bank...Although farmers themselves are a tiny part of the population, they have an outsize impact on the economy because farming is such an expensive enterprise. A full-time Midwest grain farmer often owns millions of dollars of equipment and land, and spends hundreds of thousands of dollars annually on supplies." *The Wall Street Journal, December 17, 2003.*

And, for those old enough to remember the 1980s, publications such as *The Economist* recalled the impact on the rest of the economy when agriculture was not doing well:

"The 1990s were so good [for Chicago] partly because the 1980s had been so bad. 'Everything that could possibly have gone wrong did' says William Testa, the senior economist at the Federal Reserve Bank of Chicago. The region was hit by a crushing combination of high energy prices, a strong dollar, high interest rates, and a farm recession." *The Economist, May 12, 2001*

Last year alone, U.S. farmers and ranchers spent nearly $320 billion in communities across the country to produce agriculture products valued at some $410 billion. Put in perspective, the value of total U.S. agriculture production was greater than the 2010 GDP of all but 25 nations, and total production cost was greater than all but 28. And, according to the Department of Agriculture, U.S. agriculture is expected to positively contribute $26.5 billion to the U.S. balance of trade in fiscal year 2012 after having contributed over $40 billion just the year before.

Agriculture also matters to our national and global security. Consider what this Committee's Ranking Member, who has also served as Vice Chairman on the Intelligence Committee, had to say on this topic:

"Over the next several decades the world's population will rise from 6 billion to 9 billion people. During that same time frame we must double our agriculture production in order to feed a troubled and hungry world...It is also a matter of national security. A well-fed world is a much safer and stable place than a hungry world. Full bellies lead to stability, economic growth and peace. Hungry bellies lead to discontent, instability, and extremism...We must feed this world." *Senator Pat Roberts (R-KS), former Ranking Member of the Senate Select Committee on Intelligence, Ranking Member of the Committee on Agriculture, Nutrition, and Forestry.*

And, one of the reasons we are here today, I expect, is because while U.S. agriculture is critically important to America, farm policy is also critically important to U.S. agriculture.

Without farm policy, U.S. producers would be unilaterally exposed to global markets distorted by withering high foreign subsidies and tariffs, and have no comprehensive safety net . In fact, DTB & Associates issued a report last fall, similar to the study on tariffs and subsidies developed and maintained by Texas Tech University (http://www.depts.ttu.edu/ceri/index.aspx.), which found that:

"U.S. subsidies...have dropped to very low levels in recent years. In the meantime, there has been a major increase in subsidization among advanced developing countries... Since the countries involved are major producers and consumers of agricultural products, the trade-distorting effects of the subsidies are being felt globally. However, because the run-up in subsidies is a recent development, and because countries have not reported the new programs to the WTO or have failed in their notifications to calculate properly the level of support, the changes have attracted little attention. We believe that when trade officials examine these developments, they will discover clear violations of WTO commitments."

This aggressive increase in foreign subsides and tariffs might also explain why foreign competitors worked to derail WTO Doha Round negotiations, causing then Chairmen and Ranking Members of the Senate Finance Committee and House Ways & Means Committee to register their opposition to pursuing a lopsided agreement against the U.S. interests:

"Since the WTO Doha Round was launched in 2001, we have supported the administration's efforts to achieve a balanced outcome that would provide meaningful new market access for U.S. agricultural products...particularly from developed and key emerging markets. Unfortunately, the negotiating texts currently on the table would provide little if any new market access for U.S. goods, and important developing countries are demanding even further concessions from the United States." *Ways & Means Committee Chairman and Ranking Member Rangel and McCrery and Finance Committee Chairman and Ranking Member Baucus and Grassley.*

Moreover, while many successfully negotiated trade agreements have promised market access gains for agriculture, much of what was promised has yet to materialize or is continually threatened by artificial sanitary, phytosanitary (SPS) and other non-tariff barriers. This is why programs such as the Market Access Program and Foreign Market Development Program are of vital concern to the rice industry and must be reauthorized in the 2012 farm bill. It has not gone unnoticed that budget reductions currently being considered (such as the elimination of the Direct Payment) will result in a dollar for dollar loss in farm income. Producers must be provided the tools not only to attack these obstacles to trade but to increase exports through market promotion and thereby increase farm income through increased open and fair trade.

But, beyond even these barriers that are imposed by foreign competitors are barriers to exports imposed in whole or in part by the U.S. government. For example, rice was completely excluded from the free trade agreement negotiated with South Korea, foreclosing for the foreseeable future any new market access for U.S. rice producers in that country. Iraq, once a top export market for U.S. rice, has instituted restrictive specifications on rice imports that has led to a 77 percent drop in sales of U.S. rice to that country. Another market that has the potential to become a top five export market almost immediately is Cuba. Unfortunately, the U.S. government maintains restrictions on our agricultural exports to this country. Cuba was once the number one export market for U.S. rice prior to the embargo and we believe it is potentially a 400,000 to 600,000 ton market if normal commercial agricultural exports are allowed to resume.

In total, U.S. rice exports to date for the current marketing year are down 24 percent compared to last year.

And, while the rice industry is still a long ways off from having a crop insurance product that is relevant to rice producers, the general need for federal involvement in insuring crops where losses are highly correlated is also obvious, as even the American Enterprise Institute has admitted:

"The empirical evidence on the viability of either area-yield or multiple-peril crop insurance seems clear. When normal commercial loading factors are applied, the premiums required by insurers to offer an actuarially viable private crop insurance contract are sufficiently high to reduce the demand for such contracts to zero...Thus, private markets for multiple-peril crop insurance are almost surely infeasible, and the weight of the empirical evidence indicates that area-yield contracts are also not commercially viable..." *American Enterprise Institute, "The Economics of Crop Insurance and Disaster Aid, 1995.*

Fortunately, for the American taxpayer, in addition to all of these justifications on why we have a farm policy in this country, we can add to the list at least one more reason: farm policy is cost-effective.

In fact, U.S. farm policy has operated under budget for over a decade and accounts for only one quarter of one percent of the total federal budget. Not including additional cuts scheduled under sequestration, U.S. farm policy has, to date, been cut by about $18 billion over the past 9 years, including in the 2004 and 2010 Standard Reinsurance Agreements (SRAs), the FY2006 reconciliation package, and the 2008 Farm Bill.

In the most recent five years, average funding for U.S. farm policy, based on real funding levels, including crop insurance, was $12.9 billion per year, which is 28% less than the previous five-year average of $17.9 billion and 31% less than the average of $18.8 billion that incurred in the preceding five years.

Funding of that portion of farm policy that assists rice producers has declined from $1.2 billion a decade ago to about $400 million annually, with this amount largely reflecting Direct Payments.

Meanwhile, U.S. consumers are paying less than 10% of disposable income on food, less than consumers in any other nation.

This is why we in the rice industry believe so firmly that future cuts must focus on areas of the budget outside of farm policy that have not yet contributed to deficit reduction yet comprise a significant share of the federal budget. This is also why we would urge lawmakers to reject cuts to U.S. farm policy that would exceed the level specified by the House and Senate Agriculture Committee Chairs and Ranking Members in their letter to the Joint Committee on Deficit Reduction last fall.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of policies consisting of the non-recourse marketing loan, loan deficiency payments, and the direct and counter cyclical payments. The farm bill also included the addition of Average Crop Revenue Election (ACRE) as an alternative to counter cyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added Supplemental Revenue Assurance (SURE) as a standing disaster assistance supplement to federal crop insurance.

The 2008 Farm Bill made very substantial changes to the payment eligibility provisions, establishing an aggressive adjusted gross income (AGI) means test and, albeit unintended by Congress, resulting in the very significant tightening of "actively engaged" requirements for eligibility. USDA was still in the process of implementing many of the provisions of the 2008 Farm Bill in 2010, and the final payment eligibility rules were only announced in January of that same year, a mere two years ago. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as Congress considers the 2012 farm bill.

Regarding ACRE and SURE, frankly, neither policy has proved much value to rice farmers. Specifically, in the first year of ACRE signup, only 8 rice farms representing less than 900 acres were enrolled nationwide. With changes, this revenue program may provide more value for some rice growing regions like California. And SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who suffered significant monetary losses in 2009 due to heavy rains and flooding occurring prior to and during harvest, or the significant losses last year as a result of spring flooding in the Mid South. SURE's inability to provide disaster assistance for such catastrophic events further highlights the continuing gap in available programs designed to help producers manage or alleviate their risk.

Regarding the traditional mix of farm policies, the nonrecourse marketing loan, loan deficiency payment, and countercyclical payments have not yet provided payments to rice farmers under the 2008 Farm Bill. The new price paradigm has, as a practical matter, greatly limited the protections afforded to producers under these farm policy features. In fact, if the protections provided were ever to trigger for rice farmers, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farms in business through even a single year of severely low market prices.

As such, whatever its imperfections, the Direct Payment alone has assisted rice producers in meeting the ongoing and serious price and production perils of farming today.

For rice producers, as for most other producers, the existing levels of price protection have simply not kept pace with the significant increases in production costs, costs such as energy and fertilizer that are exacerbated by escalating government regulations. It is for this reason that rice farmers believe strengthening farm policies in the 2012 Farm Bill would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit.

Crop Insurance

Risk management products offered under Federal Crop Insurance have been of very limited value to rice producers to date due to a number of factors, including artificially depressed actual production history (APH) guarantees, which I understand is also a problem for many other producers; high premium costs for a relatively small insurance guarantee; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops.

For example, since rice is a flood-irrigated crop, drought conditions rarely result in significant yield losses as growers simply pump additional irrigation water to maintain moisture levels to achieve relatively stable yields. However, drought conditions do result in very substantial production cost increases as a result of pumping additional water. As such, what rice farmers need from federal crop insurance are products that will help protect against increased production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs.

In this vein, many in the rice industry have been working for over the past four years now to develop a new generation of crop insurance products that might provide more meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. Although the objective was to gain approval from the Risk Management Agency (RMA) of at least two new products that could be available to growers in time for the 2012 crop year, this has not materialized. But, it is important to stress that even if these products had become available this year, we do not believe that they would have put rice producers anywhere near on par with other crops in terms of the relevance that crop insurance has as a risk management tool.

As such, rice producers enter the 2012 farm bill debate at a very serious disadvantage, having only a single farm policy that effectively works and that farm policy being singled out for elimination.

2012 Farm Bill

With the foregoing as a backdrop, the U.S. rice industry developed a set of farm policy priorities in September of last year to guide us during consideration of the 2012 Farm Bill. The U.S. rice industry is unified in its firm belief that farm policy designed to support a strong and dynamic U.S. agriculture sector is absolutely vital. We also believe that the planting flexibility provided under the 1996 Farm Bill and the countercyclical policies that have been in place for more than a decade now have served this nation and its farmers well. In particular, as we noted earlier, the 1996 Farm Bill's Direct Payments have provided critical help to rice farmers – offering capital farmers could tailor to their unique needs. We are very proud to stand by this farm policy.

However, given budget pressures and other considerations facing Congress that have caused policymakers to consider altering this approach in favor of more directed and conditioned assistance, we developed the following priorities:

- First, we believe the triggering mechanism for assistance should be updated to provide tailored and reliable help should commodity prices decline below today's production costs, and should include a floor or reference price to protect in multi-year low price scenarios.
- Second, as payments would only be made in loss situations, payment limits and means tests for producers should be eliminated.
- Third, federal crop insurance should be improved to provide more effective risk management for rice in all production regions, beginning with the policy development process.

More specifically relative to each of these points, we believe that:

Price Protection is a Must

Given price volatility for rice is the primary risk producers face that they do not have other good means of protecting against, with price fluctuations largely driven by global supply and demand; given rice is one of the most protected and sensitive global commodities in trade negotiations, thus limiting access to a number of key markets; given costs of production have risen to a point where the current $6.50 (loan rate)/$10.50 (target price) assistance triggers are largely irrelevant, we believe the first priority should be to concentrate on increasing the prices or revenue levels at which farm policy would trigger so that it is actually meaningful to producers, and would reliably trigger should prices decline sharply.

Options for Different Production Regions

In addition, there should be true options for producers that recognize that a one-size-fits-all approach to farm policy does not work effectively for all crops or even the same crop such as rice in different production regions.

In the Mid-south and Gulf Coast production regions, a price-based loss policy is viewed as being most effective in meeting the risk management needs of producers. Specifically, this policy should include a price protection level that is more relevant to current cost of production; paid on planted acres or percentage of planted acres; paid on more current yields; and take into account the lack of effective crop insurance policies for rice.

In the California production region, although the existing revenue-based policy still does not provide effective risk management, efforts to analyze modifications which will increase its effectiveness continue. Since rice yields are highly correlated between the farm, county, crop reporting district, and state levels, we believe the revenue plan should be administered for rice at either the county or crop reporting district level to reflect this situation rather than lowering guarantee levels to use farm level yields. By setting loss triggers that reflect local marketing conditions, delivering support sooner, and strengthening revenue guarantees that account for higher production costs as well as the absence of effective crop insurance, California rice producers are hopeful that an effective revenue program can be developed.

Whatever is done should be plain and bankable. The current SURE has too many factors and is not tailored to the multiple business risks producers face — it is not plain. The current ACRE, while offering improved revenue-based protection, is complicated by requiring two loss triggers; providing payments nearly two years after a loss; and provides no minimum price protection — it is not bankable. The marketing loan and target prices are plain and bankable — unfortunately the trigger prices are no longer relevant to current costs and prices.

Whatever is done should be tailored and defendable. We believe it makes sense to provide assistance when factors beyond the producer's control create losses for producers. We generally think more tailored farm policies are more defendable. For this reason, we like the thought of updating bases and yields or applying farm policies to planted acres/current production and their triggering based on prices or revenue, depending on the option a producer chooses. However, policy choices should not result in severe regional distortions in commodity policy budget baselines from which reauthorized commodity policies must be developed.

Whatever is done should be built to withstand a multi-year low price scenario. Whether in a revenue-based plan, or a price-based plan, reference prices should protect producer income in a relevant way in the event of a series of low price years. Ideally, this minimum could move upward over time should production costs also increase, this being of particular concern in the current regulatory environment.

Whatever is done should not dictate or distort planting decisions. Direct payments are excellent in this regard. SURE or similar whole farm aggregations tend to discourage diversification, which could be a problem for crops like rice. Any commodity specific farm policy that is tied to planted acres must be designed with extreme care so as to not create payment scenarios that incentivize farmers to plant for a farm policy. Whatever is done should accommodate history and economics and allow for proportional reductions to the baseline among commodities. Some commodities are currently more reliant on countercyclical farm policies (ACRE/CCP) while others are receiving only Direct Payments in the baseline. Generally, the least disruptive and fairest way to achieve savings across commodities would be to apply a percentage reduction to each commodity baseline and restructure any new policy within the reduced baseline amounts.

Pay Limits/Eligibility Tests Should Be Eliminated

The likely outcome of new farm policy is that it will provide less certainty for the producer (a likely decrease or elimination of Direct Payments). Since it will likely be designed to provide assistance only in loss situations, the second priority is that the policy should not be limited based on arbitrary dollar limits. Assistance should be tailored to the size of loss. A producer should not be precluded from participating in a farm policy because of past income experience. Any internal limits on assistance should be percentage-based (i.e. 25% of an expected crop value) and not discriminate based on the size of farm.

Crop Insurance Should Be Maintained and Improved

Although crop insurance does not currently work as well for rice as it does for other crops, the third priority would be to improve availability and effectiveness of crop insurance for rice as an available option. We would also support improvement to the product development processes (we have struggled with two 508(h) submissions for over 4 years and are still not completed with the process), and to the APH system such that any farmer's insurable yield (pre-deductible) would be reflective of what that farmer actually expects to produce. In no case should the crop insurance tools, which are purchased by the producer, be encumbered with environmental/conservation regulation or other conditions that fall outside the scope of insurance.

2011 Budget Control Act Efforts

Although the details of the 2011 Farm Bill package that was prepared by the House and Senate Agriculture Committees in response to the Budget Control Act were not disclosed, based on discussions and reports we believe that that package at least represents a good framework on which to build the 2012 Farm Bill. The 2011 package included a choice of risk management tools that producers can tailor to the risks on their own farms, providing under each of those options more meaningful price protection that is actually relevant to today's production costs and prices. It also included provisions to improve crop insurance and expedite product development for underserved crops such as rice.

We are concerned that effective support for rice producers under the price-based option was set well below cost of production, that late changes to the revenue-based option minimized its potential as an effective risk management tool for rice producers, and that pay limits and AGI rules would still serve as an arbitrary constraint upon U.S. competitiveness, globally. Still, even with these areas for improvement, the U.S. rice industry very much appreciates the Members and staff who put enormous time and effort into what we believe represents a good blue print for ongoing Farm Bill deliberations and we thank you.

Again, thank you for this opportunity to offer testimony in behalf of the nation's rice farmers. We certainly look forward to working with you on an effective 2012 Farm Bill we can all be proud of.

Statement by Michael Scuse
Acting Under Secretary for Farm and Foreign Agricultural Services
Before the Committee on Agriculture, Nutrition, and Forestry
United States Senate
March 14, 2012

Risks Facing America's Farmers and Ranchers

Chairwoman Stabenow, Senator Roberts, thank you very much for the opportunity to speak to you today on risk management and commodity programs in light of the 2012 Farm Bill.

Currently, agriculture is a bright spot in our economy, contributing one in every twelve jobs in America. Record high crop prices are providing great opportunities and have resulted in record income for farmers, falling farm debt, and growth in farm equity. However, agriculture also faces new challenges and pressures. Our farmers and ranchers today are faced with two primary risks as they produce our food: price volatility and production losses due to natural disasters or pests.

Price volatility in both commodities and inputs has become a major factor impacting producers. For the 2007-11 crop years, the price received for corn averaged $4.63 per bushel, ranging from a low of $3.55 for the 2009/10 crop to a projected high of $6.20 for the 2011/12 crop. The all-milk price averaged $17.42 per cwt. during 2007-11, reaching a low on $12.93 in 2009 and a high of $20.14 in 2011. The prices of inputs have also exhibited considerable variability in recent years. For example, the price paid for diesel fuel averaged $2.76 per gallon during 2007-11, ranging from a low of $1.69 in 2009 to a high of $3.62 in 2008, only slightly above last year's $3.53.

While crop prices have been very strong recently, the cost of production has also increased, with high input costs making it more costly to farm. For example, the average variable cost to plant and harvest an acre of corn has doubled in nominal terms between 1997 and 2011, and increased by over 80 percent for cotton. These high input costs increase the financial risk involved in agricultural production, and further underscore the need for a strong safety net.

No industry's success or failure is more closely tied to the weather than food production. In the past year we have seen crops fail due to lack of rainfall, too much rainfall, blizzards, fire, and heavy flooding that both destroyed crops and prevented planting. Because of the uncertainty that price volatility and unexpected natural disasters creates for producers, maintaining a strong safety net is as important today as it has ever been.

Results from 2008 Farm Bill

The programs included in the 2008 Farm Bill create a safety net that has provided significant risk protection for our farmers and ranchers. I would like to provide an overview of these programs and share some recent examples that demonstrate how the various parts of our current safety net - including disaster payments, commodity support programs, crop insurance, and farm credit - have helped producers manage the risk and uncertainty associated with producing food.

Disaster Programs
Five new disaster programs, administered by the Farm Services Agency (FSA), were included in the 2008 Farm Bill – the Supplemental Revenue Assistance Payments Program (SURE), Livestock Forage Program (LFP), Livestock Indemnity Program (LIP), Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP), and Tree Assistance Program (TAP). In total, these programs have paid more than $3.8 billion to more than 200,000 producers from program inception.

In 2008, producers in Texas suffered significant losses due to drought, while producers in North Dakota and Iowa suffered losses due to too much moisture. This past year, several states along the East Coast were affected by Hurricane Irene and Tropical Storm Lee. The SURE program provided producers in these states, as well as many nationwide, with significant assistance for their losses as they recover from natural disaster. SURE has paid more than $3 billion to producers in over thirty states. Major recipient states include Texas ($450 million), North Dakota ($381 million), and Iowa ($328 million). Although these states have been key beneficiaries, some recipient states, such as Vermont, New Hampshire, and New Mexico, are not significant producers of major program crops and for them disaster assistance is virtually the only form of federal agricultural aid available to producers.

During 2011, widespread drought impacted producers in many states, particularly Oklahoma, Kansas, New Mexico, and Texas. Dry conditions forced many ranchers to either reduce or liquidate livestock herds or purchase hay. LFP provided significant immediate assistance to many of these ranchers suffering from drought. LFP payments, which have totaled more than $550 million since program inception, are based upon the U.S. Drought Monitor. Payments can be made within weeks of a qualifying drought.

During the spring of 2009, severe blizzards and winter storms hit parts of the Northern Plains causing substantial livestock deaths. LIP provided assistance to producers who lost livestock due to such natural disasters, allowing them to rebuild livestock herds quickly. LIP has paid out $144 million from program inception with North and South Dakota accounting for 40 percent of total outlays.

Due to Colony Collapse Disorder (CCD), many beekeepers have suffered significant losses in recent years. ELAP covers producers of aquaculture, bees, and other species. ELAP provides funds for losses that are not covered by other disaster programs, and has paid out $31 million from program inception. It has provided substantial assistance to beekeepers whose bees have suffered from CCD.

In August 2008, Tropical Storm Fay hit the Florida Keys causing substantial damage. TAP, which provides assistance for tree death losses, provided $2.1 million to Florida producers who suffered fruit and nut tree, bushes, and vine damage. Nationwide, TAP has paid nearly $14 million from program inception. TAP and ELAP often provide assistance to producers who may not have access to federal crop insurance, and are critical in this era of widely varying weather events.

These five disaster programs expired on September 30, 2011. As of today, the only FSA program currently providing disaster assistance coverage is the Noninsured Crop Disaster Assistance Program (NAP). NAP provides financial assistance to producers where crop insurance is not available and when low yields, loss of inventory, or prevented planting occur due to natural disasters. NAP payments are typically less than $100 million annually.

Commodity Support Programs
In the spring of 2009, extended dryness and an early April freeze caused significant losses for wheat producers in Oklahoma and parts of Kansas. The Average Crop Revenue Election (ACRE) program, first authorized by the 2008 Farm Bill, provided approximately $90 million to wheat producers in Oklahoma to help compensate for lost 2009 revenue. ACRE payments are made based on revenue risk, rather than just price risk, and require that both state- and farm-level triggers be met before a producer receives a payment. Because it is an alternative to traditional programs, an ACRE participant forgoes counter-cyclical payments and realizes a 20 percent reduction in direct payments and a 30 percent reduction in marketing assistance loan rates for all commodities on the ACRE-enrolled farm. Once a farm is enrolled in ACRE, that farm is required to stay enrolled in ACRE through 2012. ACRE participation accounted for 14 percent of base acres across all crops in 2011. Participation for 2011 crops is strongest for corn (16 percent of base), soybeans (16 percent) and wheat (14 percent). The bulk of enrollment occurred in 2009, the first year of the program.

ACRE payments have varied significantly across locations and years. For the 2009 crop year, about $430 million in ACRE payments were made, by far the highest payout year. Wheat producers accounted for about $300 million of that total.

With high market prices for program crops in recent years, Counter Cyclical Program (CCP) payments have been modest, with only producers with peanut base benefitting in fiscal year (FY) 2011. Prices can shift dramatically, however, even within a short time period. For example, cotton farmers received $1.2 billion in CCPs for the 2008 crop, as cotton prices were severely depressed in the aftermath of the financial crisis and in the face of large cotton stocks. Variable production costs per acre were $444, compared to a production value of $492, leaving little room for any return for the operator in the absence of government assistance. No CCPs are expected for the 2011 and 2012 crops. In comparison, CCP totaled $4.4 billion in FY 2006 and $3.2 billion in FY 2007, when market prices averaged significantly lower.

Similar to the situation for CCPs, high crop prices have greatly reduced marketing loan benefits, which are expected to total less than $2 million in FY 2012. Now, one of the key benefits of marketing assistance loans is the interim financing provided to farmers that help them with their cash flow needs. The value of loans made is estimated to total about $7 billion in FY 2012.

Dairy producers have also weathered extremely volatile conditions in recent years. During 2009 dairy producers suffered significant losses. In 2009, the all-milk price dropped to $11.30 per hundredweight, the lowest since 2003. Over $938 million was paid directly to milk producers under the Milk Income Loss Contract (MILC) program for February through November 2009 production and April 2010 production. The MILC is a price-based, counter-cyclical payment program for dairy producers that includes a "feed cost adjuster" that increases the size of the payment depending on ration costs. Feed costs are currently at very high levels and, with dairy prices declining, MILC payments are expected to total $180 million in FY 2012, starting with February production. These are the first MILC payments to be paid to dairy producers since April 2010. The authority for MILC payments ends on September 30, 2012.

Unlike the other safety net programs, the sugar program is designed to operate at no net cost to the federal government. Since the 2008 Farm Bill, sugar prices have stayed considerably above support levels and no sugar program costs have been incurred by the Commodity Credit Corporation.

Credit

For some producers, particularly beginning farmers and ranchers, FSA's credit programs are a critical piece of the safety net. Over the last few years, many farmers have struggled to obtain credit due to tight credit markets resulting from the financial crisis. In early FY 2009, loan demand surged to levels that had not been seen since the early 1980s. Demand for farm loan program assistance in FY 2009 and FY 2010 reached its highest levels since FY 1985. Use of the guaranteed farm ownership program in FY 2010 reached an all-time high, and direct operating and farm ownership obligations nearly doubled compared to FY 2008 levels.

An unusually high number of direct operating loan applications have been received from new customers since FY 2009. Historically, about 20 percent of direct operating loan applications in any given year are from farmers who do not already have FSA loans. Since 2009, that number has increased to over 40 percent. Further, FSA lending programs provide substantial leverage of federal resources. For FY 2012, $108 million in budget authority will allow the agency to make almost $4.8 billion in direct and guaranteed loans.

The surge in loan volume and dramatic rise in "first-time" borrowers are two indicators of the important safety net role played by FSA direct and guaranteed loans. A third indicator of this important role, and perhaps the most important, is the fact that delinquency rates and loan losses on FSA direct loans remains at historically low levels. In fact, currently over 95 percent of our direct loan borrowers are paying their loans on time despite being told by their home town bankers that they are too risky for the bank to loan them money. Without this important safety net these creditworthy farmers and ranchers would be unable to obtain the credit necessary to maintain their operations.

Crop Insurance

The Federal Crop Insurance Program, administered by the Risk Management Agency (RMA), is the primary risk management program available to our Nation's agricultural producers and a vital component of the farm safety net, addressing both the risks associated with price volatility and with unexpected disasters. It provides risk management tools that are compatible with international trade commitments, creates products and services that are actuarially sound and market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector. The Federal Crop Insurance Program provided more than $113 billion in risk protection on over a million policies covering 264 million acres in crop year 2011. Reflecting extensive crop losses, the program has paid out over $10 billion in claims for lost revenue or damaged crops.

Producers generally have a choice of crop policies with coverage that they can tailor to best fit their risk management needs. For major crops, producers can buy subsidized insurance coverage for a yield-only loss, or revenue protection to provide coverage against a decline in yield or price. Today, almost 93 percent of the acreage in the program is insured at "buy up" levels of coverage that range from 50 percent up to 85 percent. A small amount of business is still insured at the catastrophic level of coverage for which premiums are fully subsidized. Indemnity payments are usually made within 30 days after the producer signs the claim form.

To ensure that our programs are best tailored to the needs of a diverse set of producers, RMA works closely with private entities under authority provided under section 508(h) of the Federal Crop Insurance Act. Over the past two years, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) has approved product submissions that are covering an increasing variety of commodities. For example, work in conjunction with producer groups around the country resulted in new programs or modifications to existing programs, including: Louisiana Fresh and Processing Sweet Potato program; Trend-Adjusted Actual Production History (APH); APH-Olives; Popcorn Revenue insurance; Specialty-Trait Soybeans; Texas Citrus Tree policy enhancements; and Annual Forage.

Also at the request of growers, RMA combined the Plum Crop Insurance Provisions and the Stonefruit Crop Insurance Provisions to expand insurance availability for plums to additional states such as Idaho, Oregon and Washington. In 2010, changes were made to the Sunflower policy to provide optional units by type, specifically allowing farmers to have separate optional units for their oil and non-oil sunflowers. In addition, Buckwheat insurance coverage was made available to producers in selected counties in Minnesota, North Dakota and Washington.

In 2010 we also made significant revisions to livestock gross margin insurance (LGM) for dairy producers to make participation more attractive. These changes, which included moving the premium billing date to the end of the insurance period and providing graduated producer premium subsidies, caused a surge in sales. RMA revised the funding allocation for LGM-Dairy, eventually making about $16 million in underwriting capacity available for the product. This funding was exhausted in March of 2011 and sales were suspended until October 2011. Before the 2011 reinsurance year, expenditures for all livestock products combined had never approached $5 million in any one year.

With the beginning of a new fiscal year in October 2011, new funding became available and sales of LGM-Dairy began anew. However, in January 2012, RMA ended further sales of LGM Dairy for FY 2012 to ensure that some funding remains available to facilitate sales of the seven other livestock insurance plans. Funding for livestock insurance products is currently capped by the Federal Crop Insurance Act at $20 million in any fiscal year.

To address concerns raised by ranchers, the FCIC Board approved the expansion of the Rainfall Index and Vegetation Index Pasture, Rangeland, and Forage program and the Apiculture program into several states. In addition, RMA has worked with the Precision Agriculture Industry to expand the use of precision agriculture by allowing producers to use their acreage and yield to monitor records in conjunction with other precision farming records to separate and report production history and for assisting in loss adjustment determinations. Finally, the 2008

Farm Bill directed RMA to enter into one or more contracts with qualified entities to carry out research and development regarding a policy to insure dedicated energy crops. A private sector study indicated that camelina was the only commercially-grown dedicated energy crop for which crop insurance was currently feasible. Coincidentally, a private sector product for camelina was submitted to the FCIC Board shortly after the study was completed. That product was approved by the FCIC Board, and coverage is now being offered in selected counties in Montana and North Dakota.

In addition to efforts to meet a very complex and diverse array of producer needs, RMA has also made changes that involve a very large number of producers, such as the recent revisions made to premium rates for corn and soybeans. The Federal Crop Insurance Act requires that RMA operate the Federal crop insurance program in an actuarially sound manner. This means that, on average, total premiums charged should cover losses plus a reasonable reserve, resulting in an expected loss ratio at or below 1.0.

RMA contracted for a comprehensive review of its premium rating methodology that was completed in the spring of 2010. Although that review determined that the rating methodology is generally consistent with accepted actuarial methodologies and practices, it recommended that RMA evaluate its use of historical loss data in establishing premium rates and consider incorporating long-term weather data. A subsequent study recommended placing greater weight on loss data from more recent years when determining premium rates (as opposed to the current approach that places equal weight across all years). For crops/areas like corn and soybeans in the Corn Belt which have experienced few losses in recent years, this generally results in lower premium rates.

RMA has generally accepted the recommendations from the study and has taken action to phase in the changes starting in crop year 2012 for corn and soybeans. We anticipate that the remaining analytical work will be completed in time to be implemented for the 2013 crop year for wheat, cotton, rice, and grain sorghum. Premium rate changes will continue to be implemented for other crops as they come due for their periodic rate reviews, which typically occur every 3 to 5 years. Premium rates for a crop and/or area will not increase more than 20 percent in any given year, per premium rate increase limits in the Federal Crop Insurance Act.

Streamlining and IT Efforts across RMA and FSA

RMA and FSA continue to work towards greater coordination on information sharing and streamlining programs, reducing both internal duplication and the burden on farmers. As an example, the 2002 Farm Bill required the Secretary to develop a Comprehensive Information Management System (CIMS) to be used by FSA and RMA in the administration of their respective programs. CIMS was made available for use in September 2007. Today, it provides access for over 12,000 users from RMA, FSA, and crop insurance companies to a single source of program information regarding producers, crop acreage, and production.

The next stage of information sharing is now underway with the Acreage Crop Reporting Streamlining Initiative (ACRSI), an effort involving not only RMA and FSA, but also the Natural Resources Conservation Service (NRCS) and the National Agricultural Statistics Service (NASS). The goal of ACRSI is to establish common data standards and a reporting framework, facilitating 'one-stop' reporting by producers of production information and enabling greater USDA sharing of information. Together with CIMS, ACRSI will greatly improve the integrity and accuracy of data collected and reported to USDA, and will allow RMA and FSA to efficiently identify discrepancies, misreporting and potential fraud, waste and abuse. Both for farmers and USDA, data management and reporting burdens will be greatly reduced. ACRSI has already demonstrated results. Before the ACRSI initiative, FSA had 17 acreage reporting dates for 273 crops and RMA had 54 acreage reporting dates for 122 crops. With ACRSI, there are now 15 acreage reporting dates common to both RMA and FSA programs. There are a few exceptions for which it was not possible to establish a common date, though such exceptions are few.

In time, CIMS and ACRSI will allow producers to provide "common information" one time at their first visit to USDA or their crop insurance agent and have that information shared seamlessly across USDA. However, this will not eliminate the need for each agency to collect data independently. While there is considerable overlap in the customer base between FSA and RMA, they are not identical. In addition, there is a significant amount of data that RMA needs for the operation of its programs that is not collected by FSA –and vice versa –it will still be necessary for each agency to collect the data that is unique to its programs. .

Technology is also key to making our services more convenient and efficient over time. As you know, FSA is proposing to close 131 field offices across the country in response to declining budgets and a declining workforce. Just 10 years ago, FSA had roughly 17,000 people working for FSA. Today, that number is closer to 12,000. To help FSA continue to provide effective delivery of our programs despite declining budgets and a shrinking workforce, we will continue to invest in and make progress with the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project. The initial design for MIDAS is completed and the program is now in the build phase, where the system is configured, the applications are developed and the IT infrastructure is put in place. Assuming MIDAS is funded at $107.5 million in FY 2012, by 2013 the first version of MIDAS will begin to operate covering farm records, customer data, and acreage reporting. This first version of MIDAS will reduce the time for county office employees and farmers to conduct business, and provides a scalable platform to continue to deliver additional programs in a timely manner. Our goal is to build and deliver a solution that is adaptable to the needs of customers today and in the future.

President's FY 2013 Budget

Lastly, I'd like to talk about several components of the President's FY 2013 Budget which, as you know, proposes to reduce the deficit by $32 billion over ten years by eliminating direct farm payments, reauthorizing disaster assistance, decreasing crop insurance subsidies, and better targeting conservation funding to high priority areas. Farmers and ranchers know the importance of a healthy economy, which raises incomes and increases demand for their products.

The budget would maintain a key component of the safety net for producers in times of volatility and natural disaster by extending the 2008 Farm Bill disaster assistance programs (or implementing similar programs) through the 2017 crop year, or to the end of the next farm bill, at a cost of about $8.4 billion over 10 years.

Given budgetary pressures, the President's FY 2013 Budget proposes eliminating direct payments. Direct payments are made regardless of economic need. Having strong disaster assistance programs along with a growing increase in producer participation in crop revenue insurance programs provides income assurance to bankers should disasters strike during the growing season and targets assistance to when and where it is most needed. Eliminating direct payments would create savings of about $31.1 billion over 10 years.

Finally, I'd like to talk about the President's proposed changes to the crop insurance program. The proposal focuses on four elements:

- First, premium rates for catastrophic coverage are adjusted to reflect the historical loss experience for this coverage. Since first being authorized in 1994, losses for catastrophic coverage have consistently been well below the 1.0 target loss ratio. This suggests that the catastrophic premium rate could be significantly reduced without adversely impacting the soundness of the crop insurance program. This re-rating will not impact or affect farmers in any way, as they are not charged a premium for this level of coverage, but it will provide savings of about $255 million over 10 years.
- Second, the proposal would reduce the administrative and operating expense (A&O) payment that is provided to the companies for the delivery of the crop insurance program. This proposal further reduces the existing cap on A&O and would save about $2.9 billion over 10 years.
- Third, the proposal would reduce the expected return to companies from the sale of crop insurance. In the new Standard Reinsurance Agreement, the target rate of return on retained premium to the companies for the risk they retain is about 14 percent. Of course, in any given year underwriting gains can be larger or smaller than the target because of crop losses or price movements. The agreement is structured to provide about a 14 percent return on retained premium to the companies over time. Based on independent studies, we believe that roughly a 12 percent return on retained premium is sufficient to adequately support the industry. This would save $1.2 billion over 10 years.
- Fourth, the proposal would reduce by 2 percentage points the amount of premium subsidy provided on behalf of producers who are currently purchasing policies where the subsidy to them is more than 50 percent of the premium. This will not affect any producer whose subsidy is at 50 percent or below. This would save about $3.3 billion over 10 years.

We recognize these are difficult choices and we take very seriously any proposed changes or cuts to the farm safety net. As this Committee and this Congress work to craft a Farm Bill proposal and decide how best to allocate our limited resources, we welcome further debate and discussion with you on the best path forward.

Conclusion

As we look to the future, the volatile market and weather conditions of recent years underscore the importance of providing an adequate safety net to producers. Thank you very much for allowing me to appear before you today. We look forward to working with you and providing any technical assistance that Congress needs in developing the next farm bill. I will be happy to answer any questions.

Statement of the
American Farm Bureau Federation

TO THE

SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTY
REGARDING: RISK MANAGEMENT AND COMMODITIES IN THE 2012 FARM BILL

March 14, 2012

Presented by Bob Stallman

President, American Farm Bureau Federation

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My name is Bob Stallman. I am president of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. Farm Bureau is the nation's largest farm organization, representing producers of virtually every commodity, in every state of the nation as well as Puerto Rico. We represent more than 6 million member families.

I would like to thank Chairwoman Stabenow and Ranking Member Roberts for holding this hearing and inviting me to testify. The farm bill touches the lives of every agricultural producer in this country. It was a long, hard road to passage of the 2008 farm bill, and thanks to the hard work of the House and Senate Ag Committees, the end product was a fiscally responsible compromise that served this nation's farmers well.

We all face many challenges in writing the 2012 farm bill, with the budget deficit at the top of the list. The baseline for many farm bill programs decreased since passage of the last farm bill. Thirty-seven programs included in the last bill do not have a baseline because of tough choices made when it was created. The renegotiation of the Standard Reinsurance Agreement reduced the spending baseline even further, without any consideration to capture those savings. It is an extremely challenging environment in which to draft a bill that provides an adequate safety net, and we look forward to working with the Committee to ensure the final product is a fiscally-responsible package that provides taxpayers and America's farmers with the maximum bang for their buck.

Farm Bureau's testimony is based on the premise the Committee will draft farm legislation that reduces spending by $23 billion over the next 10 years as was suggested to the Joint Committee on Deficit Reduction by the chairs and ranking members of the House and Senate Ag Committees. In addition, we assume the same proportional cuts will be enacted -- $15 billion in commodity program reductions, $4 billion in conservation program reductions and $4 billion in nutrition program reductions.

As a general farm organization, we place high priority on ensuring the bill benefits all agricultural commodity sectors in a balanced, coordinated manner. While some interested parties can push Congress to allocate more funding for programs that benefit only their producers without worrying about the impact of that funding shift on other commodities, Farm Bureau does not have that luxury and will seek balance among all producers' interests.

The business of farming has always been risky and will always be. Some level of risk is acceptable and is a natural part of the business cycle. One of the factors we have kept in the forefront of our decision-making process is that two of our primary risk management tools -- crop insurance and commodity programs -- have changed fairly significantly over the past 10-15 years. Historically, commodity programs provided price risk protection and crop insurance covered yield risk. However, due to the increase in the number of producers using revenue insurance programs rather than yield loss programs, and the implementation of the Average Crop Revenue Election (ACRE) and the Supplemental Revenue Assurance Program (SURE), those lines have become increasingly blurred.

Another key priority for Farm Bureau is to ensure that producers will take their production signals from the marketplace rather than from a federal government program. This is the major reason we are concerned about allowing producers to pick and choose between various program options. Simply put, it is impossible to ensure one option does not provide more government benefits than the next and drive production decisions.

FARM POLICY PROPOSAL

While Farm Bureau believes a single program option should be extended to all crops, the program needs to include the continuation of a multi-legged stool approach to provide a fair, flexible and effective safety net. Two legs of that stool should consist of a strong crop insurance program and continuation of the marketing loan program with modifications to better reflect market conditions. Marketing loans and the crop insurance program provide protection at the individual farm level.

We believe the third leg of the stool should provide catastrophic revenue loss protection at the county level, or at the crop reporting district level if county level data is unavailable, rather than the farm level. This approach not only protects against catastrophic area-wide losses, it also will go a long way toward addressing moral hazard concerns and keeping administrative costs down.

These deep loss events are typically beyond any producer's control, and are events that would endanger the financial survivability of the farm, and which, in the past, have prompted enactment of ad hoc disaster programs. Our plan focuses on protecting farmers from these situations and brings program benefits into play only when they are needed, rather than being considered a supplemental source of annual income.

Under our plan, each producer of a program crop, as well as producers of apples, potatoes, tomatoes, grapes and sweet corn, would be provided a coverage level equal to 75 percent of the last five years' Olympic average revenue. This would be provided for the same fee charged for catastrophic crop insurance - $300 per commodity per county. Farmers can then supplement that coverage with one of the current crop insurance programs based on their own assessment of their farm's risk management needs.

While this is a deep loss program and would not provide producers with payments as often as other proposals contemplated, it would provide more coverage in times of catastrophic losses when assistance is most critical. In addition, because the deep loss program would take some of the risk off of the table, individual policies would be rerated. Our economic analysis shows a producer would receive crop insurance for 9 to 22 percent less per year than they are currently paying – that is money that stays in his or her pocket – and it is a benefit that a producer would see every year regardless of a payout under the deep loss program. The following chart shows premium reductions per commodity and the amount of likely payout on an annual basis.

Farm Bureau's Deep Loss Program Impacts for the U.S.
(Premium Reduction based on 75% revenue protection)

	Average Payment/Acre	Average Premium Reduction
Corn	$11.60	8.7%
Sorghum	$11.63	8.8%
Cotton	$22.10	10.0%
Soybeans	$7.97	10.8%
Wheat	$9.17	14.8%
Rice	$38.63	23.1%

One of the other benefits of our approach is that much of the program would likely qualify to be notified in the green box non-trade distorting category when the Doha negotiations are completed. Under the rules of the WTO, such payments up to 70 percent qualify for that designation, so only the last 5 percent would be notified as non-product-specific amber box.

Following is an example of how the deep loss plan works with an individual crop insurance policy wrap:

Assume a corn farm located in a county with the following 5-year county average yields and harvest prices.

	Yield (bu/ac)	Price ($/bu)
Year 1	193	$4.00
Year 2	187	$4.95
Year 3	180	$4.50
Year 4	168	$6.00
Year 5	172	$5.50
5-Year Olympic Average	180	$4.98

The 5-year Olympic average revenue for this county is 180 bushels times $4.98 = $894.

A 75% county-level revenue guarantee results in payments when county revenue falls below $670 (75 percent of $894). The revenue decline could be due to a decline in prices, county yields, or both.

Assume the individual farm has an actual production history (APH) yield for corn of 185 bushels per acre. For the current crop year, the projected corn price for crop insurance purposes is $5.00 per bushel. The expected farm revenue is 185 bushels per acre times $5.00 = $925 per acre.

A 75 percent revenue protection crop insurance policy would provide an insurance guarantee of $925x75% = $694 per acre.

The following tables show calculated program payments for a number of price/county yield outcomes and calculated crop insurance indemnities for a number of price/farm yield outcomes:

It is important to keep in mind that the deep loss program is based on county yields while the individual crop insurance policy wrap is based on farm yields. It is also critical to note that the Farm Bureau deep loss program does not allow for deep loss program payments and individual insurance loss payments to overlap. Any payment received from the deep loss program would offset any indemnity occurring under the individual crop insurance policy. Following is an example of this point.

Deep Loss Payment

	Harvest Price				
	$ 4.00	$ 4.25	$ 4.50	$ 4.75	$ 5.00
125	$ 170.41	$ 139.16	$ 107.91	$ 76.66	$ 45.41
130	$ 150.41	$ 117.91	$ 85.41	$ 52.91	$ 20.41
135	$ 130.41	$ 96.66	$ 62.91	$ 29.16	$ -
140	$ 110.41	$ 75.41	$ 40.41	$ 5.41	$ -
145	$ 90.41	$ 54.16	$ 17.91	$ -	$ -
150	$ 70.41	**$ 32.91**	$ -	$ -	$ -
155	$ 50.41	**$ 11.66**	$ -	$ -	$ -
160	$ 30.41	$ -	$ -	$ -	$ -
165	$ 10.41	$ -	$ -	$ -	$ -
170	$ -	$ -	$ -	$ -	$ -
175	$ -	$ -	$ -	$ -	$ -
180	$ -	$ -	$ -	$ -	$ -

Revenue Insurance Indemnity

	Harvest Price				
	$ 4.00	$ 4.25	$ 4.50	$ 4.75	$ 5.00
134	$ 157.75	$ 124.25	$ 90.75	$ 57.25	$ 23.75
135	$ 153.75	$ 120.00	$ 86.25	$ 52.50	$ 18.75
140	$ 133.75	$ 98.75	$ 63.75	$ 28.75	$ -
145	$ 113.75	$ 77.50	$ 41.25	$ 5.00	$ -
150	$ 93.75	**$ 56.25**	$ 18.75	$ -	$ -
155	$ 73.75	**$ 35.00**	$ -	$ -	$ -
160	$ 53.75	$ 13.75	$ -	$ -	$ -
165	$ 33.75	$ -	$ -	$ -	$ -
170	$ 13.75	$ -	$ -	$ -	$ -
175	$ -	$ -	$ -	$ -	$ -
180	$ -	$ -	$ -	$ -	$ -
185	$ -	$ -	$ -	$ -	$ -

Assume the harvest price is $4.25 per bushel, county yield is 150 bushels per acre, and farm yield is 155 bushels per acre. This farmer would be eligible to receive a crop insurance payment as soon is currently possible for the **$35.00** per acre revenue insurance indemnity.

In addition, because the county-based deep loss coverage also triggered, the crop insurance company would receive a reimbursement of **$32.91** per acre.

So even though the farmer would have received a reduction in premium rates, he or she would have the same coverage and timing of crop insurance payments as they do today.

If a producer suffered an indemnity-triggering individual loss without a county loss, the full calculated indemnity would be received by the farmer. For example, assume a $4.25 price, a 160 bushel per acre county yield and a 150 bushel per acre farm yield. The producer would receive an indemnity of **$56.25** per acre.

If a producer suffered a payment-triggering county loss without an individual loss, the farmer would receive the program payment only. For example, assume a $4.25 harvest price, 155 bushel per acre county yield and 165 bushel per acre farm yield. The producer would receive a program payment of $11.66 per acre.

Because our deep loss plan is based on the crop insurance program, we also believe some enhancements should be made to the current program. We note the high level of participation in the enterprise unit program following the pilot program that increased the premium subsidy available to that program. We strongly urge the enterprise unit program be permanently extended.

We also support looking at alternatives to rectify the declining Actual Production History (APH) issue. If direct payments are eliminated, crop insurance becomes the major safety net and it simply does not work in times of several consecutive disaster years. We support re-evaluating the yield plugs used in disaster years, as well as the county T-yield.

Last October, at our request, House Agriculture Committee Chairman Frank Lucas (R-Okla.) submitted our deep loss proposal to the Congressional Budget Office (CBO) to be scored. Unfortunately, because of several competing demands on CBO analysts, we are still awaiting that score. While we are confident our proposal would meet the $15 billion targeted for deficit reduction from the commodity title, we recognize our deep loss approach is a new concept not previously considered by CBO.

It requires CBO to use assumptions regarding the premium-reduction effect of re-rating numerous crop insurance products, including for the five fruits and vegetables our concept proposes to cover, which is somewhat new for CBO analysts. We are also fully aware that some view our deep loss farm policy proposal as "revolutionary" rather than "evolutionary."

This past week, the AFBF Board reaffirmed its continued belief that our deep loss concept is the best farm policy option, particularly in light of the budget realities that face the writing of a new farm bill. We believe it may even become a more viable choice down the road once all the numbers are in. However, recognizing the challenges we face in securing a CBO score, coupled with the House and Senate Ag Committee leadership's request that farm groups find "common ground," the Board also expressed some openness to discussing another concept that addresses several of the policy objectives adopted by our voting delegates two months ago.

While we continue to believe deep loss principles provide the best farm policy approach, we do want to play a positive role in the farm bill discussions. Today, we want to do that by communicating our willingness to evaluate middle-ground alternatives.

The Board approved consideration of one such concept under which the current crop insurance program would be continued and serve as the primary component of the safety net. In addition, the marketing loan program would be continued, while direct payments, counter-cyclical payments, the ACRE program and the SURE program would be eliminated.

This supplemental "group or area insurance" program would act as the third leg of the safety net and allow, but not mandate, a producer to purchase a county-based yield or revenue policy "on top" of their individual crop insurance policy. If there was a loss at the county or crop reporting district level, the producer would be eligible to receive a supplemental indemnity that covers losses down to the individual policy level.

Importantly, this program insures against area-wide losses rather than individual losses. This approach alleviates broad risk without undercutting an individual producer's skill to competitively manage farm level risk.

The principles we will seek in any final outcome include:

- Basing the safety net on planted rather than base acres;
- Delivering the program through private crop insurance companies;
- No payment limitation in effect;
- Equitable treatment of all commodities by offering this to program crop commodities and to fruit and vegetables that have crop insurance coverage;
- Being easy for farmers to understand and for USDA to administer;
- Being scalable to meet budget requirements; and
- Keeping delivery and administrative costs low.

PAYMENT LIMITATIONS/MEANS TESTING

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions. Simply stated, payment limits bite hardest when commodity prices are lowest. Our federal farm program, even one focused on deep losses, is based on production. Time and time again, this has proved to be the best manner for distributing assistance to those most responsible for producing the nation's food and fiber. Farmers who produce more take more risk, have higher investments and face more losses in down years. To be viable, we must recognize realistic economies of scale to justify the large capital investment costs associated with farming.

CONSERVATION COMPLIANCE

With the elimination of direct payments and other farm support programs, some have called for extending conservation compliance to crop insurance programs. We are adamantly opposed to this and believe crop insurance is vital to a farmer's risk management strategy and must not come with government strings attached. When farmers make their annual crop insurance decisions, the only option is the federal crop insurance program -- which could be denied as a result of a single unforeseen event if compliance is attached to it.

Consider the situation where a huge rainstorm causes a gulley to appear in a farmer's no-till field overnight. The right thing to do is repair it quickly to minimize further degradation. But doing so requires prior approval from the Natural Resources Conservation Service (NRCS), which is often a two or three day process. Farmers know that even two or three days can make the difference between making the planting window and missing it. If a producer didn't have permission to repair the gulley prior to planting, he or she would be out of compliance and denied eligibility for crop insurance under the approved conservation plan. This is just one example of the difficulties that would be experienced if compliance was required for crop insurance.

DAIRY

Farm Bureau supports Rep. Collin Peterson's (D-Minn.) bill to eliminate the dairy price support program and the Milk Income Loss Contract program and to use the funding associated with those programs to offer a voluntary gross margin insurance program for dairy producers.

RESEARCH

Farm Bureau opposes any cuts to research funding. We recognize the key role that agricultural research plays in making and keeping the farm sector competitive, profitable and responsive to the country's changing food, feed and fiber needs. However, with research costs rising faster than funding, USDA will have to increase its efforts to prioritize research. We encourage Congress to call for establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry-to help specialty crop producers offset problems in securing a labor force sufficient to handle peak production stages. This growing problem makes this type of research imperative.

NUTRITION

The School Fruit and Vegetable Snack Program should be expanded as it will promote healthy eating habits among children and provide increased market opportunities for fruit and vegetable producers.

SPECIALTY CROPS

The State Block Grants for Specialty Crops program should be continued and expanded if possible.

SUGAR

Farm Bureau supports maintaining the current sugar program.

CONSERVATION

We support the farm bill's conservation programs. The 2008 farm bill is the "greenest" farm bill in history in terms of providing conservation benefits that assist producers in their environmental enhancement efforts. However, with conservation programs also under budget pressure and projected over the next ten years to cost even more than the commodity programs, we recommend prioritizing "working lands" programs over land retirement programs.
We support provisions in the draft bill that reduce the number of conservation programs from 23 to 13. Fewer programs will be simpler and less expensive to administer, as well as less confusing for producers. If funding for conservation has to be reduced, we prefer it to come from administrative savings rather than out of the pockets of producers.

The most popular conservation program has been the Environmental Quality Incentives Program (EQIP). It provides landowners the planning and resources they need to conduct a myriad of conservation practices that help preserve soil and water and enhance wildlife. Importantly, it also provides them resources to deal with increasing regulatory requirements.

Farm Bureau supports reducing the number of acres eligible for enrollment in the Conservation Reserve Program (CRP) as a way to reduce funding. We believe this should be undertaken gradually as Tier 1 and Tier 2 land currently enrolled in CRP contracts expire. That land should not be allowed to be enrolled in the program in the future.

RURAL DEVELOPMENT
Farm Bureau supports the United States Department of Agriculture developing, funding and improving programs that enhance the lives of rural Americans and foster development of robust rural communities. America's farmers and ranchers need viable rural communities able to supply the services needed to support their families and agricultural operations. Congress and the administration should seek ways to stimulate rural jobs and economic growth within rural communities.

As USDA encounters budget limitations, it is vital for USDA Rural Development to find innovative solutions to the issues facing rural America. Farm Bureau supports USDA implementing a regional approach to give its rural development programs greater flexibility in promoting and leveraging innovation in rural regions across the country. These regional partnerships, whether the efforts of just two communities in one county or a multi-county or multi-state effort, depend on a flexible statutory definition of a "region" to encompass the multiple ways that rural citizens and their communities partner.

Farm Bureau supports rural development programs that help farmers and ranchers and the communities where they live capture more of the profit and jobs generated from the commodities they produce.

In conclusion, we appreciate the hard work of this committee to ensure that America's farmers and ranchers have a practical safety net that provides protection against the vagaries of the market and weather and allows our farmers to continue to produce the safest, most abundant, and least expensive food supply in the world. We look forward to working with you toward that goal.

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Statement by Steve Wellman, President
American Soybean Association

before the

Committee on Agriculture, Nutrition and Forestry
United States Senate

March 14, 2012

Good afternoon, Madame Chairwoman and Members of the Committee. I am Steve Wellman, a soybean, corn and wheat farmer from Syracuse, Nebraska. I currently serve as President of the American Soybean Association. ASA represents soybean farmer members in 30 states on national and international issues of importance to our industry. It is a pleasure to appear before you today to discuss commodity programs and risk management for the 2012 Farm Bill.

Reasons for a Farm Program Safety Net

Before presenting ASA's position on commodity programs, I would like to explain why farmers believe an income safety net is essential for production agriculture. Critics of farm programs argue that agriculture is no different from other businesses, so why should the government support it? They also point to the historically high commodity prices we have enjoyed in recent years and say it's time to eliminate or phase out these programs.

To the first point, U.S. agriculture has always been and remains based on the family farm as the economic unit of production. My farm covers 1,800 acres of cropland, and I have 90 head of cattle. I have one full-time employee who works in my family operation. I am in competition not only with farmers in South America and other countries around the world, but with my neighbors and producers across the country.

Programs to ensure food production in the U.S. is stable and produced in large enough quantities to meet demand are important to our nation. We do not want to become dependent on imports for our food. We should support agricultural production in the U.S. to continue meeting our food needs and to increase our production of renewable fuels, such as ethanol and biodiesel. With one out of every 12 U.S. jobs tied to agriculture, a positive trade impact by farm products, renewable fuel production, plus the security of a large portion of our country's food supply grown domestically, it quickly becomes apparent that farming is an essential asset for our nation's economy and security. Numerous factors such as government policies that restrict trade, surplus global production, and unfavorable weather all negatively affect our farmers' ability to operate profitably. Government support for risk management and crop insurance programs is a necessary investment to protect our country's valuable asset.

Regarding current price levels, farmers all remember 1995 and 1996, when prices were relatively high and Congress decided to phase out the target price program to reduce costs. Three years later, prices for most commodities fell sharply due to global oversupply and reduced demand. By 2001, prices were down an average of 45 percent for major commodities, and Congress had to step in to provide emergency assistance.

I can tell you what would have happened on my farm without that assistance. For the six year period of 1998-2003, government support exceeded my net income from grain farming. Government support during these six years and crop insurance indemnities in 2002 were vital to keeping me in business. Many of my neighbors and producers around the country had the same experience. The reality in farming is that markets are cyclical. We need a safety net, not to pay us year-in and year-out, but to keep us in business when, through no fault of our own, we can't make ends meet.

Farmers want to make their living from the market, not from the government. We support policies that allow and encourage us to respond to market signals, and which provide assistance only when the economics of farming are so negative that we have no other recourse. We believe we perform a vital service in providing our country and a growing world with an abundant supply of high quality food, feed, fiber and fuel at reasonable prices. And we very much appreciate the recognition and ongoing support of this Committee and Congress for what we do.

Background on Past and Current Farm Programs

To underscore this statement, I would like to provide some background on how farm programs and policy have become increasingly market-oriented in recent years. When I started farming in 1981, the prevailing thinking was that, as the world's largest exporter of major commodities, the U.S. could support prices by idling productive farmland and diverting surpluses into farmer-owned reserves. In order to be eligible for payments under the old Target Price program, we were restricted to growing crops on acreage bases determined for each farm. Moreover, we had to grow those crops in order to receive these payments.

This policy resulted in planting distortions and overproduction of crops already in surplus, further depressing prices and shifting increasing quantities into reserve. It prevented farmers from responding to market signals that called for greater production of crops which did not have acreage bases, including soybeans. And it made the U.S. the supplier of last resort, as competitors in Europe and South America increased production and exports, knowing that our crops would be held off the market until prices rose above world price levels.

This policy remained in place until 1996, when Congress enacted the landmark "Freedom to Farm" legislation. Under "Freedom to Farm," the government safety net was decoupled from planting decisions, and producers were allowed to plant any program crop on their farm. The result has been a return to competitiveness and greater profitability for U.S. agriculture. In response to increased global demand, soybean plantings rose from 60 million acres in 1995 to

75 million acres in 2010. Most producers have wholeheartedly supported the planting flexibility provided under the last three farm bills. For soybeans, which have relatively modest supports under the Marketing Loan and Counter-Cyclical Payment Programs, maintaining planting flexibility is of paramount importance.

Position on Commodity Programs in the 2012 Farm Bill

Let me now turn to ASA's position on programs for the 2012 Farm Bill. We recognize that deficit reduction is a national priority, and that agriculture should do its fair share in helping to bring down federal spending. We supported the deficit reduction efforts of leaders in both the Senate and House Agriculture Committees last fall, when they committed to cut $23 billion from the cost of the next farm bill. We believe this level of cuts will still allow the Committees to write new farm legislation that continues to provide an adequate safety net to producers.

We also recognize that cuts in the commodities title will come from elimination of the Direct Payment program, and that existing programs will need to be restructured. While Direct Payments to soybean producers are not as significant, proportionate to crop value, as payments to producers of other crops, this program has been the cornerstone of planting flexibility for the past 15 years. However, since payments are made regardless of price levels, and prices have been historically high for several years, Direct Payments have become untenable in the current budget environment.

As ASA looked at program alternatives to help farmers manage risk, we concluded that the best complement to income protection under the existing crop insurance program would be a revenue-based program that partially offset losses that exceed a specified revenue threshold. This approach would make significant changes to but is similar to the current ACRE program, which has had limited participation due to its complexity, reductions in Direct Payments and Marketing Loan rates, and a state-level revenue-loss trigger. ASA supports a single farm-level trigger under which producers would be required to document losses on a commodity-specific basis, so payments would be made only when actual losses occur. This requirement would address criticism that payments under current programs are made regardless of commodity prices and yields. We also support a revenue loss requirement under this program of not less than 10 percent, and a coverage band not to exceed 15 percent.

While payments under this program would be tied to actual production in the current year, we do not believe it will distort planting decisions and production. Requiring farmers to document actual losses in order to receive revenue payments would be a significant deterrent to "planting for the program" rather than following market signals. Additionally, using moving Olympic average prices as part of the revenue threshold calculation would make the program responsive to market price movements over time. Finally, revenue payments would only be made on a specified percentage of actual revenue losses that exceed a threshold loss, thereby further limiting the possibility of planting distortions.

We acknowledge that a revenue-based program may not be appropriate for producers of certain commodities, or in areas where yield variability is relatively low. We support providing flexibility or alternative programs for these producers, provided they do not have the potential to affect planting decisions and reduce planting flexibility. The argument may be made that, with prices expected to remain at historically high levels, the chance that fixed support prices tied to actual production could distort producer cropping decisions is relatively small. However, as I stated earlier, we need go back no further than 1999 to 2001 to see how wrong such projections can be.

Opposition to Restructuring Crop Insurance

I would also like to state ASA's strong support for the existing crop insurance program as the foundation for risk management under the farm safety net. Soybean producers actively participate in crop insurance, and repeatedly express opposition to any restructuring of the program or reductions in its baseline for deficit reduction. We applaud the decision by the leaders of both the Senate and House Committees last fall to leave crop insurance untouched in developing a farm bill proposal that met your deficit reduction target.

I would add that ASA opposes making crop insurance premium subsidies subject to payment limitations, or subjecting crop insurance participation to conservation compliance requirements. These provisions are appropriately applied to eligibility for farm program benefits. Tying either to crop insurance would discourage participation in the most important risk management program for soybean producers.

Finally, Madame Chairwoman, I would like to reemphasize the importance of maintaining planting flexibility and avoiding the possibility of planting distortions under any alternative programs the Committee may consider in restructuring the farm safety net. Analysis and modeling by noted agricultural economists show the potential for planting distortions under some alternative farm program policy options, as well as the potential for the United States to exceed its WTO commitments as a result of these farm policy options under a low price scenario where prices fall 15 percent per year for three years from current levels. The avoidance of farm program-induced planting distortions and allowing producers to respond to markets while managing risk has been the most valuable policy provided under the current farm program and must be maintained.

Attached to my written statement is an annex that provides personal experiences from several members of the ASA Board of Directors on past and current farm programs.

Thank you again for the opportunity to testify today. I look forward to answering any questions.

Annex

"Under the target price farm bill of the 1980's and early 1990's, we were forced economically to plant crops that require more tillage, such as cotton and peanuts, and had little to no ability to rotate. Under subsequent farm bills that are decoupled from bases, we are now able to implement rotations that reduce erosion and make more efficient use of our resources because we can develop better farming practices according to market signals."

Wade Cowan
Brownfield, Texas

"In the late 1980's and until Freedom to farm legislation, we were required to plant all our corn base area in order to maintain our corn base and not lose government support. Our corn base was about 2/3 of our total area, and on some farms 100% -- so we were 'required' to plant more corn that our best crop rotation plan for soybeans/corn would allow. The requirement to maintain base area caused us to plant more corn than the market indicated we would. It was a great relief when the Freedom to Farm legislation passed and we could plant the right crop at the right time."

Ray Gaesser
Corning, Iowa

"In the 80's and early 90's, I planted cotton on all my allotment acres. Most of that time, cotton prices were fairly low, so we planted cotton hoping to break even on expenses and collect government payments for any profit we might have."

"Into the late 90's, I was still planting 75% cotton and 25% soybeans. Cotton yields were declining due to nematode infestations. It turned out that corn was the perfect rotation crop for this problem in cotton because the reniform nematodes could not grow on the corn roots. With decoupled payments, I was no longer tied to cotton production. I increased soybean and corn acres from 2001 to 2006, since they were more profitable. Beginning in 2007 and through 2010, I planted cotton again because market prices dictated that I needed to plant some."
"Through the 2000's, I chose the crops that were most profitable for me to plant based on market expectations, not due to government program payments as in the 80's and 90's."

Danny Murphy
Canton, Mississippi

"I remember in the 70's and 80's, when strict adherence to base limitations was important, staff from the old ASCS (pre-FSA) would have to come out and measure what was allowed. Because of my desire to maximize the allowed program crops to be planted, split fields often were needed. For example, I might be allowed to plant some odd number, such as 52 feet, in the last corn field. And at times planting was delayed until this measurement occurred. Soybeans took the balance."

"Later a tolerance factor was introduced, I think 5% was implemented, and most times we could make whole fields fit the allocation. What an improvement!"

"As we all know, the years of transition to planting flexibility have allowed farmers to focus on fields and crops as the priority, not arcane government bases which were established decades earlier."

Rob Joslin
Sidney, Ohio

"When I started farming in the late 70's, I felt I had to plant corn to be protected against market fluctuations. The only real safety net at the time was the deficiency payment program, which was not available to oilseeds. Also at the time, the conventional wisdom in the farm policy arena was that 'corn was king.' The meaning was clear that the national policy was screaming out the message to farmers that we needed more corn and coarse grains. I responded by planting all I was allowed and participating to the fullest extent of my eligibility."

"The Freedom to Farm legislation in the mid-90's allowed me to keep that valuable corn base as a hedge against the loss of deficiency payment protection while at the same time chase market signals instead of farm policy. My crop rotation has benefited as well and I've been able to adjust plantings without fear of losing valuable crop acreage base history."

An Ohio farmer, forwarded by Rob Joslin

National Association of Wheat Growers

Testimony of Erik Younggren
President, National Association of Wheat Growers
before the Senate Committee on Agriculture, Nutrition and Forestry
Hearing on Risk Management and Commodities in the 2012 Farm Bill
March 14, 2012

Madam Chairwoman, Ranking Member Roberts and Members of the Committee, thank you for the opportunity to address you today. I'm Erik Younggren, a fourth-generation wheat farmer from Hallock, Minn. I work with two of my cousins on our family's farm and have been an active part of the farm's management for 17 years. I am also serving as president of the National Association of Wheat Growers.

We know you and your staffs have been working intently since early last fall on crafting an appropriate and well-functioning farm and food policy reauthorization. Agriculture is known for its history of working in a bipartisan fashion, and we appreciate your continued efforts to work together to craft a functional farm safety net for the farmers who supply our nation with something each American needs several times a day, food.

Federal fiscal responsibility is important to wheat growers because we know a functioning and solvent U.S. government is one of many factors that help us maintain thriving farms, strong rural businesses and a secure domestic food supply. Our nation's wheat farmers are proud to produce enough wheat to supply the nation's domestic needs and provide 20 percent of the world's wheat exports, making the U.S. the world's largest wheat exporter.

Today I hope to share some of the experiences I have had and knowledge I have gained working my family's farm, as well as the policy priorities of the National Association of Wheat Growers for the reauthorization of the 2008 Farm Bill.

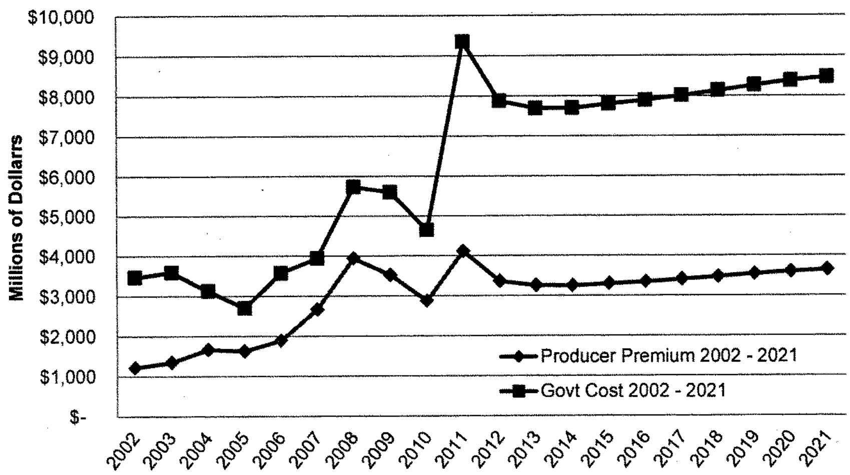
Primary Farm Risk Management Through Crop Insurance

Agriculture is arguably the industry most susceptible to natural disasters. While science and technological advancements have enabled producers to increase production efficiencies, farmers still remain defenseless in the face of crop production losses from weather hazards, insects and other uncontrollable events. Historically, a strong crop insurance program has protected the livelihood of producers against inevitable acts of Mother Nature and volatile price swings while ensuring consumers a safe, abundant and affordable food supply.

Crop insurance provides a public good to our nation and consumers all over the world. By helping ensure the stability of U.S. farmers, the government is helping to ensure a stable food supply – a necessary government responsibility. History shows the stability of a safe, available food supply is the first step to the development of a society. Defense specialists will testify that the stability of an established nation also depends, in part, on a stable food supply. In fact, in many cases, food aid accompanies our soldiers in their efforts to stabilize the volatile regions of the world.

The federal crop insurance program provides risk management tools to address production and revenue losses. Today, approximately 75 percent of total policy premiums come from revenue protection policies, while the remaining stem from crop production policies. Since the inception of federal crop insurance in the early 1930s, the program has become one of the most important cost-share, farm risk management tools available. On average, the federal government contributes 60 percent of crop insurance premiums, while the individual producer contributes the remaining balance.

Federal Crop Insurance Producer and Taxpayer Premium Cost

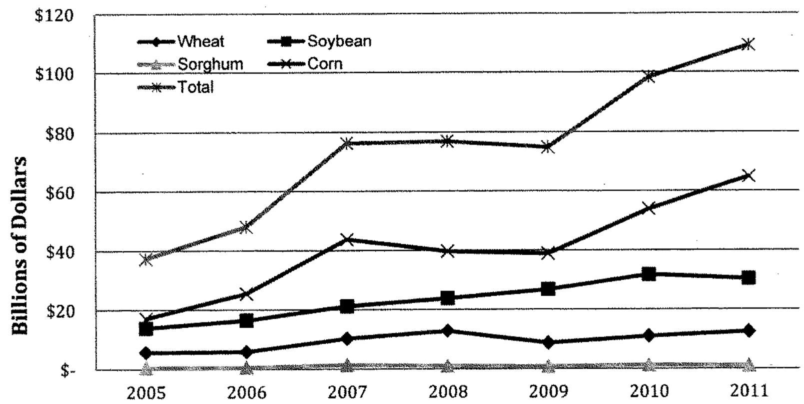


(Source: 2002-2011 Actual obtained from FCIC, 2012-2021 Projections obtained from CBO)

Government subsidization of the federal crop insurance program is absolutely necessary to maintain affordable and competitive policies for America's farmers. The extremely high level of risk involved with production agriculture prohibits private entities from writing agricultural policies, which have extremely limited and risky profit potential. Without government involvement, private companies would target high-profit, low-risk areas and leave highly vulnerable regions without sufficient coverage options. As the crop insurance structure is now organized, private companies are able to write policies for regions and states that have historically shown losses. The public-private partnership ensures that all areas have equitable access to crop insurance.

Aside from stabilizing and expanding the cost and availability of crop insurance, the partnership between the government and private industry allows for streamlined service for America's farmers. Private companies are able to be more flexible in meeting their customers' needs and providing quick, local and comprehensive solutions for farmers, while the government provides oversight and enhanced security. Private agents have the ability to travel more extensively and operate longer hours than government employees, which means farmers can operate their business around their farms' schedules. Housing and storing data within the USDA Risk Management Agency (RMA) system enhances security and allows producers to keep track of sensitive information. Perhaps the largest beneficiary of the cost-share approach is the taxpayer. Because of this successful public-private partnership, the federal government is not liable for the large investment of hiring agents and providing them the resources to cover the countryside, writing policies or building infrastructure to meet the needs of farmers in rural communities.

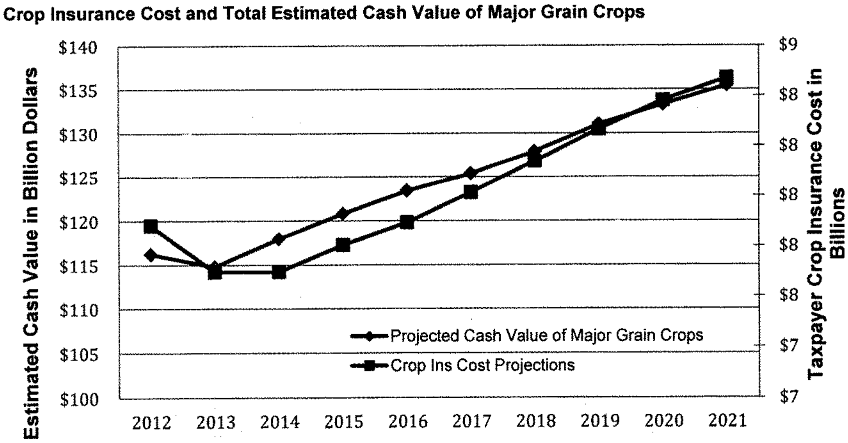
Cash Value of Major Grain Production Covered by Crop Insurance



(Source: USDA Risk Management Agency)

The most recent Congressional Budget Office (CBO) projections predict that the current crop insurance program will cost an average of $7.7 billion per year through 2021. Compared to the 2011 cash value of major U.S. grain crops enrolled in the program, more than $109 billion, public investment in crop insurance shows an excellent return to the U.S. economy. That level of return on investment is expected to increase over time. Over the next ten years, as the cash value of crops are expected to increase, American taxpayers are expected to pay less than five cents per person per day to maintain current crop coverage options and protect the domestic food supply.

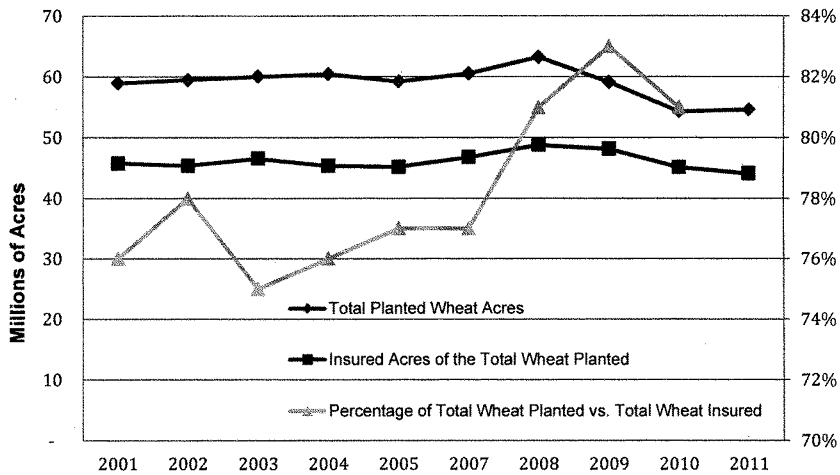
Crop Insurance Cost and Total Estimated Cash Value of Major Grain Crops



(Source: Feb. 2012 USDA Long-term Projections, March 2011 CBO Crop Ins. Baseline Projections)

Overall, the federal crop insurance program has proven to be one of the most widely-used risk management tools available for row crop producers. Specifically, wheat acres are insured in 41 of the 50 U.S. states. As crop insurance has become more affordable and coverage options have expanded, a larger percentage of productive acres have been enrolled in the program, a trend that is expected to continue.

U.S. Historical Total Planted Wheat Acres vs. Total Insured Acres



(Source: USDA Risk Management Agency "State Profiles" *2006 Data Unavailable*)

It is more important now than ever to maintain a steady course of federal support for the federal crop insurance program in order to ensure affordable and reliable coverage options for growers. With program stability, American farmers will continue to produce the safest, most abundant, and affordable food supply in the world in one of the riskiest businesses there is.

Risks and Crop Insurance on My Family's Farm

My family farm operation has benefited enormously from the evolution of crop insurance in recent decades, showing how important this tool has become.

We raise sugar beets, hard red spring wheat and soybeans in a five-year rotation on fields that total about 5,500 acres. Our ideal, four-year crop rotation on each field is to plant in cycles of sugar beets, wheat, soybeans and wheat. We have found this rotation helps alleviate disease issues arising from continuously cropping each field to the same crop every year.

We farm in the heavy gumbo soil in the heart of the Red River Valley, in the northwest corner of Minnesota. Our land is pool-table flat, which makes us highly efficient in running equipment but also poses problems because flood water spreads out and takes a long time to recede. This has been particularly evident in a very severe wet cycle that started in mid-1990s and continues to cause significant flooding in our river valley. Last year, my fields were completely flooded into May, a month after normal planting. It was also evident in the flood of 1997, when the River was about 12 miles wide by the time it reached our place.

My farm is only 20 miles south of the Canadian border. Because we are so far north, we have a relatively short growing season and need to get into the field as soon as we can to have a chance of getting our crops to maturity. I can remember killing frosts as late as June and as early as August, so time is of the essence for us.

For these reasons, our biggest production risk is the weather. We are prone to frequent flooding in spring and occasionally in summer, as well as heavy, yield-robbing rains. Our humid summers are conducive to disease and fungus growth.

Crop insurance has long been a part of our farm. Going back to the 1970s, crop insurance contracts protected the actual production history (APH) or historical yield from each field.

Throughout the 1980s, my dad's yields hovered around 30 bushels per acre. In 1985 he insured his crop at an average production history of 47 bushels per acre with a coverage level of 65 percent, or 31 bushels per acre. The price for spring wheat at that time was about $3.75 per bushel, and most of our fields raised about 50 to 60 bushels of wheat per acre, producing an actual revenue of about $180 to $190 per acre. The crop insurance contract provided a total coverage of $115 an acre, and the producer paid premium was $4.57 per acre. Comparatively, in 2011, I paid $11.40 per acre for coverage of $326 per acre. My expected revenues per acre last year based on a five-year production history would have been in the neighborhood of $550 per acre, so I had unprotected expected revenue of more than $220 per acre.

I was in high school during the 1980s, and I remember some pretty good years on the farm. I remember thinking farming was easy; all you do is put a seed in the ground, watch it rain, care for it, harvest it and sell the crop. Little did I know that would be as good as it got for the next 20 years as our farm faced weather, disease and market risks beyond what I could imagine as a teenager. What I have learned since is that there are many things that can go wrong including drought (in 1988), disease like Fusarium head blight, or scab (through the 1990s), floods (2000s) and poor prices. Even with good yields, farmers are not guaranteed large revenues.

My dad would tell anyone that you don't mess with Mother Nature. I learned that lesson in the drought of 1988. This drought caused some of the worst dust storms in our area on record, including an extended dust storm that closed schools in South Dakota in late February 1988.

Because of the lack of rainfall and snow melt, the only wheat harvested on our farm that year was on some new land we had rented for the first time. It had been summer-fallowed the year before to help the soil build moisture. That year, crop insurance protected the yield of the crop, costing $3.61 per acre for guaranteed minimum revenue of $111.53 per acre. We were able to keep the farm going that year, but it was tough as crop insurance covered 65 percent of what we were used to bringing in, about $170 per acre. Farming is a low-margin business and a 35 percent loss can put you under pretty fast.

During the mid-1990s, our wheat yields were hit a tragic blow because of scab. Yields waffled between 15 and 25 bushels per acre, maybe up to 30, and we felt fortunate to hit 40 bushels per acre. Because crop insurance is based on historical yields, our insurance protection dropped to somewhere between $90 and $100 per acre. Back in the 1970s, my dad and uncle had built nine 6,000 bushel bins. They thought they had nine quarters of wheat with a 40-bushels yield target, so a good crop would fill all of those bins. And here we were, in the 1990s trying to get back to where we were in the 1970s. This wasn't a really wonderful time to start farming. It is of little wonder why so few of my classmates and neighbors came back to farm in the 1990s.

In the late 1990s, researchers' work on scab began to show benefits on my farm. Since 1997, this complex, intransigent disease has been tackled through an organized project funded by USDA known as the U.S. Wheat and Barley Scab Initiative (USWBSI). As a program authorized in legislation by Congress, this project leverages USDA and university funding to make progress toward understanding the impact of crop rotation and fungicides combined with new variety development which, as you know, is a long-term process.

While these important research findings have helped us manage scab, we have not eliminated it, and we know the right conditions at the wrong time have brought it back to our area and others around the country. For this reason, we continue to be strong supporters of the USWBSI as authorized in the 2008 Farm Bill and full funding for it and other vital USDA-Agricultural Research Service (ARS) research programs.

Crop Insurance and Wheat Yields for Younggren Farms

Year	Actual Weighted Yield	Insured Bushels Per Acre	Insured Bushels Per Acre as % of Actual Weighted Yield	Crop Insurance Type	Coverage Level	Insurance Indemnity Paid
1997	39.4	27.5	69.8%	APH	65%	No
1998	45.8	28.1	61.4%	APH	65%	No
1999	45.2	27.7	61.3%	CRC	65%	No
2000	50.0	29.2	58.4%	CRC	65%	No
2001	35.2	29.7	84.5%	CRC	65%	Yes
2002	43.3	30.0	69.4%	RA	65%	Yes
2003	70.5	28.6	40.6%	RA	65%	No
2004	57.6	29.2	50.6%	RA	65%	Yes
2005	15.4	30.8	199.3%	RA	65%	Yes
2006	54.6	31.0	56.8%	RA	65%	No
2007	58.5	31.7	54.3%	RA	65%	No
2008	59.5	34.2	57.6%	RA-HPO	70%	No
2009	56.9	33.5	58.9%	RA	70%	No
2010	69.6	38.3	55.1%	RA-EU	75%	No
2011	37.5	38.7	103.2%	RA-EU	75%	Yes

By the early 2000s, we were predominantly wet. By this time, insurance that provided $115 of protection in 1985 had shrunk to provide only $91 of protection per acre in 1999 and 2000. We started purchasing Crop Revenue Coverage (CRC) crop insurance in 1999. This CRC policy allowed me for the first time to protect my farm revenue as opposed to only farm production. Although this is a better tool, through the 2000s our crop insurance protection continued to decline while we fought rid our insurance guarantee calculation of low yields suffered through the 1990s. Because of our crop rotation in which wheat is planted only two or three times every five years, it can take 15 years to get a low yield worked out of the APH calculation. Some well-timed disaster programs kept many farms in our area afloat through the low production years of the late 1990s and early 2000s.

Just in the last six years, we have had good crops, so most of our poor yields have finally fallen off the APH calculation. I now only have one plug yield in my APH calculation where just a few years ago, some fields had one plug yield paired with a very low yield that brought down the APH on that field. This improvement and historically high prices have allowed the crop insurance revenue guarantees to protect us better than the contracts ever have.

Because our insurance premiums were getting awfully high between 2008 and 2010, we went to enterprise units. In 2008 our insurance premiums skyrocketed to more than $25 an acre. An enterprise unit combines all acres of my spring wheat crop within a county into a single unit. By using enterprise units, I reduced the premium cost to a more reasonable level while increasing the coverage to a higher percent of my risk. Last year, I also used enterprise units.

On behalf of the farmers in my area, I would like to thank the committee members for any part they played in making available crop insurance based on revenue. Those revenue plans have been our saving grace. As you can see in the table provided, by the late 1990s our declining APH was significantly under our actual wheat yields, which made the amount covered by our insurance guarantees laughable. Revenue products in which the market affects insurance prices have helped to make my coverage on a par with what my input expenses have been. In the past, the insurance price was set arbitrarily, so my input costs would go up and down based on the market though the insurance protection stayed the same and at times proved inadequate. Now with the correlation of commodity prices and energy prices, which compromise a large part of my input price risk, I can cover much of the risk I have from the volatile market prices.

We are very thankful for the revenue products beginning with Crop Revenue Coverage (CRC) that have evolved to revenue assurance products, which include the recent advent of enterprise units, which provide economical options for the premium that is shared between me and the nation's taxpayers.

Last year, we had a wet spring, so we did not plant spring wheat until June, and even then we planted it into heavy, wet soil. Though conditions were far from ideal, we had little choice but to get the crop into the ground or risk not having enough growing days for it to get to maturity. That year, spring wheat was slated to be planted on low, flood ground, and it struggled to sprout. It didn't establish a good stand, and we ended up with yields about average, but the price dropped 11 percent, prompting a crop insurance claim. Though this experience was not typical, unfortunately, farming is, for us, a risky business. On my farm, we have had disasters that affected all the crops on my farm in 2001, 2002 and 2005 and less significant losses on a field or two in 2004 and 2011. Disasters on my farm are defined as whole farm revenue declines not based on a single crop.

Like others who raise the major row crops, we forward contract our spring wheat using the Minneapolis Grain Exchange. With today's wide price fluctuations, knowing that there is an insurance policy backing me up in that forward sale is extremely beneficial. Before crop insurance revenue products became available, we waited until the crop was established, estimated the yield potential, and then sold on the futures market what we couldn't store on the farm. Now we can respond to the market and confidently sell up to half of our insured production history before the crop is in the ground and sell the other half after planting. I do buy puts in the market to set a floor on the uninsured portion of my crop to guarantee as high of a price as I can in the marketplace.

Crop insurance isn't a cure-all, though. As wheat farmers, we are subject to discounts when we sell our product. A farmer has some control over discounts, but many times they have more to do with weather conditions than with production practices. For example, protein is a grading factor for spring wheat and, therefore, determines the price we get for our grain. Wheat kernels develop protein when the plant is stressed from heat. In the past few years we have experienced cool, wet summers that have not stressed the wheat plant into making protein. As a result, the discounts we receive when we sell our wheat have been up to $1.35 per bushel.

Secondary Farm Risk Management Through Farm Programs

The continued health of the farm sector through our recent economic downturn and the less-than-extraordinary weather and market conditions in recent years is a testament to the commitment of Congress to maintain federal support for production agriculture.

NAWG supported passage of the 2008 Farm Bill due to the inclusion of a number of programs of significance to wheat growers including crop insurance, the direct payment, conservation programs, renewable fuels programs, market development programs and research funding.

The programs of interest in this hearing - crop insurance and Title I programs including the direct and counter-cyclical (DCP) and marketing loan programs, the Average Crop Revenue Election

(ACRE) program and the Supplemental Revenue Assistance (SURE) program - were each designed to serve a specific function in contributing to the farm safety net and risk management system available to producers.

In general:

- As I have outlined in depth, **crop insurance** is a vital risk management cost-sharing program to address a combination of production and price risks up to a specified coverage level. It is largely predictable and can be purchased by an individual farmer based on his or her operating conditions. Though arguably the most heavily relied-upon risk management component of the current farm bill by wheat growers, it does have limitations in meeting the totality of producers' risk management needs. These limitations include the fact that it does little to help growers protect against volatility in local market conditions such as basis risk, and that coverage can deteriorate after multiple years of disaster.

- The **direct payment** works as a reliable cash flow tool that enables growers to secure operating loans. It can be used to provide assistance with the expense of crop insurance, allowing producers to purchase more than they might be able to otherwise, or to help offset uncertainties related to input costs. It is also a relatively trade-friendly safety net program, which is of utmost importance to many agricultural producers in trade-dependent sectors, including wheat.

- The **counter-cyclical program** is designed to protect growers from the most extreme dips in market prices by creating a floor price. However, this tool has been rendered largely ineffective due to a target price for wheat that is far below the cost of production and that has not been triggered for 10 years.

- The **marketing loan program** is designed to address price risk by creating a floor price for marketing purposes and providing liquidity for growers in times of difficult marketing conditions. Because it is more tied to local prices, it can help compensate for some basis risk in a way that other safety net programs aren't able. However, its utility is limited by the low loan rate. A few wheat farmers still rely on this risk management tool.

- The **ACRE program** is an optional, commodity-by-commodity, farm revenue protection program that creates an alternative to receiving CCPs at the cost of reducing direct payments by 20 percent and taking a 30 percent reduction in the loan rate. It gives producers an option for revenue protection beyond what is available in the federal crop insurance program. In general, the recent wheat price history has made ACRE guarantees attractive, but it is a moving target offering varying degrees of utility to wheat growers depending on their location, production mix and other factors.

- The **SURE program** is a program that was designed to supplement crop insurance in providing risk protection for growers in times of natural disaster. It offered whole-farm coverage that allowed wheat growers to fill the income gap between insurance coverage levels and cost recovery or income needs. This program's main problem a severe delay in farmers receiving payments.

Wheat growers find varying degrees of utility in each of these programs, but some frustration has been expressed with the web of federal farm programs that is growing in complexity. However, farmers are growing in experience with some of the new revenue programs and continue to find areas for improvement.

During the 1996 and 2002 Farm Bills, my farm did benefit from the loan deficiency program. The loan deficiency payment is calculated from a posted county price that is based on the local market for my hard red spring wheat. If that price is below the target price, I could receive a payment for this price risk. Unfortunately, the target prices were arbitrarily set and now are too low to be of consequence.

ACRE in the 2008 Farm Bill gave us a look at a revenue product in Title I. On my farm, we took a carefully considered ACRE because I felt the market price was so high it would be hard for Minnesota to not trigger a payment in the first year. Unfortunately, the program was so confusing I never did really figure out how it worked. Also, the stipulation that the landlord had to sign up made for an impossible situation of trying to explain something that I don't understand to elderly landlords. Finally, in the end, we decided that if ACRE didn't trigger in the first year, it most likely wouldn't trigger in any subsequent year, and the dependability of the direct payment was preferred to the uncertainty of getting an ACRE payment.

Aside from ACRE being complicated, another reason we didn't opt for ACRE was because it didn't provide an acceptable trigger mechanism. The double requirement that both an individual's farm and the entire state both experience a loss proved to be unworkable in many wheat-growing states, where the weather and growing conditions can be highly variable and the size of the state can be as large as some small countries. If one half of the state had a major loss, but the other half had a good crop, it was all too often the case that the state level trigger wouldn't be tripped.

This was especially true in North Dakota. The Minnesota wheat area is the northwestern part of the state. The eastern side of North Dakota had the same weather problems as we did, though the western side of North Dakota had record yields and pushed the state above the trigger. Is it fair that those farmers in North Dakota didn't qualify but their neighbors on the other side of the state line did? I believe we can learn an important lesson from the ACRE program: that the trigger needs to be as close to the farm-level as possible.

The SURE program was another Title I program that has been beneficial to some wheat growers in helping us cope with natural disasters and large-scale losses. The SURE program expired last September and, as of now, has not been extended. The SURE program helped to fill in one of the holes wheat farmers face in crop insurance and with quality-based losses. For example, in 2009 some Minnesota wheat farmers were discounted heavily because their spring wheat had abnormally low protein. Because crop insurance is based off of the futures price and not the price received by the farmer, crop insurance did not cover this price loss. SURE was able to cover that price risk. The major problem with SURE was that it did not provide timely benefits, reducing its utility as a safety net during a true time of need.

There has been significant discussion over the last several months about farm programs, with perhaps dozens of options explored. I think it is important at this point to remember that our current policies have contributed to the success of U.S. agriculture. Farm income is up, and farmers are receiving the vast majority of their income from the marketplace. If given the choice, many of my friends and neighbors would likely choose to keep our current policies and safety net as they are. Unfortunately, that no longer seems practically, or politically, possible. With the overarching need to reduce federal budget deficits, we recognize that agriculture needs to do our part.

NAWG's Risk Management Policy Priorities

As you will note from its prominence in my testimony, the National Association of Wheat Growers' highest priority for federal investment in farm safety net programs is the portion of crop insurance premiums subsidized by the federal government, the public part of one of the most well-functioning public-private partnerships undertaken by our government. More than 85 percent of non-irrigated wheat acres planted are covered by crop insurance. We believe crop insurance is essential to the farm safety net and to the reliable production of our nation's food supply.

Perhaps one of the strongest testaments to crop insurance is the performance of the agricultural industry in 2011. Despite extreme weather losses and market volatility faced over the past 12 months, U.S. agriculture is poised to continue into a new year as one of the strongest segments of our nation's economy. **NAWG strongly opposes any reductions to the baseline available for the federal crop insurance program.**

Furthermore, we would request that Congress make permanent the enterprise and whole farm unit subsidies; provide authority for growers to purchase a combination of individual and group risk coverage policies such as the Total Coverage Option introduced by Congressman Neugebauer; expand a North Dakota pilot program that allows the personal T-yield (PTY) to be used as a replacement yield in the APH calculations; and allow the Risk Management Agency to revise the yield plug to be based on the grower's PTY to better address declining yields.

We have been meeting with our fellow producer groups for several months now in efforts to find a new set of policies that can provide a safety net that is as strong as our current at a lower cost and delivered in a fashion that is acceptable to American taxpayers. While we haven't agreed on every policy point, we have agreed crop insurance is the first priority for those crops that have insurance products available. Additionally, we have found that there are regional and market differences that don't allow the same farm program to work for everyone.

As you work to define risk management programs in Title I of the farm bill reauthorization, NAWG encourages you to keep a few basic principles in mind:

First and foremost, the **nation's wheat farmers call on you to reauthorize this legislation this year,** before the expiration of the current bill on Sept. 30. This will provide reliability for the nation's food supply as our wheat farmers go to the fields this fall to plant the 2013 crop.

Secondly, we ask you **to outline programs that are understandable and build on the lessons farmers have learned from the revenue crop insurance products**. Even with the inception of revenue-based Title I programs in the last farm bill, it took USDA, farmers and all of our advisors much study and research to determine how they would work on the farm. Our farmers, extension specialists, bankers, landlords and other farm partners need to be able to understand these programs so we can appropriately adapt our risk management plans.

We know **these programs must be defensible to our nation's taxpayers and friendly to our trading partners, on whom we depend heavily.**

Realizing the probability that direct payments may not be a politically viable option, NAWG supports reallocation of funding away from direct payments to an alternative Title I safety net program. We support multiple safety net programs, including a disaster program in Title I. We recognize different production areas of the country rely on a variety of farm programs to provide a multi-legged safety net. However, we call on you to **make sure that changes to existing programs or newly-created programs do not affect planting decisions and allow producers planting flexibility**, which has been a central tenet to the last three farm bills.

NAWG supports a revenue-based program modeled on programs in the 2008-authorized ACRE and SURE programs with an on-farm trigger, and coverage by commodity as part of a multi-legged safety net. Coverage close to the farm provides a safety net with fewer holes for farms with losses than coverage at the state, crop reporting district or county levels. Additionally, although programs that provide whole-farm protection may sound appealing, it is important to note that they discourage diversification, one of the most basic tenets of risk management by producers.

Furthermore, we would request that any revenue-based program cover as large a portion of our planted acres as possible. Previous Title I programs have been based on historical base acres while crop insurance has covered a portion of planted acres. As we work to define new programs that build upon the safety net provided by crop insurance, we request that they use planted acres in all calculations.

It is my analysis that groups that want to tie crop insurance to conservation compliance believe farmers like crop insurance enough that they will do anything to keep it. However, the significant number of acres that go uncovered every year refute this. **Any regulation that disincentivizes producers from participating in the crop insurance program shifts more risk to farmers in highly variable areas.** NAWG believes we need to keep as many people in the crop insurance program as possible. In fact, RMA has been working to expand crop insurance to underserved areas and farmers. More regulation will hinder their participation.

Conclusion

On behalf of the nation's wheat farmers, I appreciate your attention to my perspective on our nation's agricultural risk management programs and that of the National Association of Wheat Growers. We are committed to working with you and the vast array of other stakeholders to federal agriculture programs as you outline a path forward through these serious and uncharted fiscal times. I am happy to answer any questions you have of me or my Association, now or at a later date.

DOCUMENTS SUBMITTED FOR THE RECORD

MARCH 15, 2012

March 14, 2012

The Honorable Debbie Stabenow
Chairwoman
Senate Committee on Agriculture, Nutrition and Forestry
328A Russell Senate Office Building
Washington, DC 20510

The Honorable Pat Roberts
Ranking Member
Senate Committee on Agriculture, Nutrition and Forestry
328A Russell Senate Office Building
Washington, DC 20510

Dear Chairwoman Stabenow and Ranking Member Roberts:

As the three major trade associations representing the credit providers to agriculture, we wanted to express our unified view regarding the need to maintain a strong and vibrant Federal crop insurance program as a vital risk management tool for farmers and ranchers.

Agriculture is an inherently risky business, both in terms of weather and markets. It is also a capital intensive business. Federal crop insurance provides producers with an effective tool to manage their risk, and it provides lenders with greater certainty that loans made to producers will be repaid. Federal crop insurance is an important component allowing lenders to take on the additional risk of financing many young and beginning producers who have less collateral and equity.

The Federal crop insurance program has evolved into a broad-based safety net for producers. It is instrumental in assuring that American agriculture remains solid, solvent and globally competitive. Without the risk protection provided by Federal crop insurance, agricultural lenders would be forced to increase underwriting standards, increase costs to offset risk and likely be forced to reduce credit availability to some producers for their production, equipment and land purchase needs.

Financially strong crop insurance companies, reinsurance companies and agents are critical to delivering the benefits derived from a strong program. The private-sector delivery system currently in place for Federal crop insurance is working efficiently and effectively, and we believe its overall framework should remain intact.

In summary, the Federal crop insurance program is working. It continues to provide significant risk management support to producers. Producers enjoy the ability to select revenue and yield protection that enables them to obtain adequate capital from lenders to continue to be successful in their operations.

As the leading credit providers for agriculture, we strongly support consistent levels of funding for Federal crop insurance and urge the Committee to maintain the effectiveness of the program as you consider the next Farm Bill. Should you have any follow-up questions or concerns, we would be pleased to visit with you, and your staff, as the farm bill process further evolves.

Sincerely,

American Bankers Association   Independent Community Bankers of America   The Farm Credit Council

Senate Committee on Agriculture, Nutrition & Forestry
"Risk Management and Commodities in the 2012 Farm Bill"
Oral Statement as prepared for the record
Ruth Gerdes
March 15, 2012

Chairwoman Stabenow, Senator Roberts, Members of the Committee, my name is Ruth Gerdes and I am a crop insurance agent from Auburn, Nebraska. But, first and foremost, my husband, Myron, and I are proud to be 4th generation Nebraska farmers.

The testimony I offer today is on behalf of the Crop Insurance Professionals Association, the Independent Insurance Agents and Brokers of America, the Professional Insurance Agents of America, and the agent division of the American Association of Crop Insurers.

I say I am a farmer first because I became an agent after my husband and I suffered back-to-back, devastating crop losses in 1983 and 1984. Being a stay-at-home mom with newborn twins born in 1982, I was angry about our financial situation. We had paid thousands of dollars for crop insurance, and it was questionable if we could survive. I pulled our policy out in 1984 and realized we would not be in the financial bind we were in had we purchased the right crop insurance. So, I became an agent for two reasons:

1. I needed a job; and
2. I did not want anyone else to suffer what we had.

After numerous lean years, many sleepless nights, and years of hard work by both Myron and I, we did survive, and the philosophy of putting the farmers' needs first grew my part-time job into an Agency that I am proud to say is successful because of the farmers we insure. Myron and I no longer worry if we will lose our farm. But what about those farmers just coming into the business? Will they have the support of viable, strong crop insurance?

Today, you could fill football stadiums across the country with families whose farms and livelihoods have been saved by Federal Crop Insurance. In fact, one of the best witnesses on how indispensable crop insurance is to farming is not at this witness table. He is, however seated behind me. His name is Mike Woltemath, and with the Chairwoman's permission I would ask Mike to stand just for a moment. Mike and his wife, along with his parents, farm near Hamburg, Iowa and Atchison County Missouri. The Woltemath family saw their land, their home, their farmsteads and everything they worked for all their lives go under water during last spring's flooding. Those of you around this table who have seen the devastation of flooding know the wreckage it leaves behind.

Mike and producers across this country are what Federal Crop Insurance is about. It is not about agents, it is not about companies, nor is it about anyone else. So, I hope after this hearing, Senators and staff you spare a minute to visit with Mike. And, if you do, I would bet the farm which Myron and I love so dearly that Mike would tell you that his number one goal in the 2012 Farm Bill is, first, do no harm to crop insurance, and allow my agent the resources to her job.

Mike would tell you, do not cut crop insurance, but build on it. And Mike would also tell you, whatever you do, do not let the government take over crop insurance. While the government can take years to pay a producer on a SURE loss, with crop insurance, farmers are paid in a matter of weeks. Ironically just last week I got a call from the FSA office asking for information on Mike's 2010 policy so they could pay him his SURE payment from 2010.

As agents, we are not 9-to-5 salaried, government employees. We pay our own staff, buy our own health insurance, and fund our own pensions. We are judged on the quality of risk management education, and service that we provide on the high stakes financial decisions farmers must make, decisions that could make or break their operation. We are part insurer, and lately, it seems, full-time compliance officers. We are also part financial advisor, part-time marketing advisor, part Farm Bill interpreter, and often just a trusted friend to lean on when your farm is being flooded by Mother Nature. As agents, we are not judged by when we punch in or punch out, but by the results of the policy we provide our farmer.

Federal crop insurance was created in 1938 because without federal involvement, farmers would not have business interruption insurance. But, run by the government, it languished for 42 years. What happened next is what made crop insurance what it is today. In 1980, Congress turned delivery over to the private sector. In 1994 and 2000, Congress passed sweeping improvements, the latter under the incredible leadership of this Committee's Ranking Member, Senator Pat Roberts, and Senator Bob Kerrey, and their very able staff who I count myself truly blessed to have worked closely with. In 1996 crop insurance was revolutionized when, Kansas State Professor Art Barnaby worked with Rick Gibson to develop the first revenue product. Federal crop insurance, which today covers $114 billion in liability, stands on Rick and Art's shoulders. I personally want to thank Rick and Art for their tireless efforts on behalf of our farm, and all those I insure. Agriculture owes each of these gentlemen a debt that can never be repaid.

Since the 2000 crop insurance bill, frankly, I believe that the federal government has made mistaken policy choices that undermine the future of crop insurance. But, I am not here today to dwell on these points. Instead, like every farmer each spring, I must look forward, hopefully, with confidence and faith, and see opportunity in even the toughest challenges.

Budget constraints and critics of farm policy threaten all of us, and are certainly tough challenges. These obstacles threaten to undo the critical work that the people around this table have done since their earliest vision in 1980. But I have seen the people around this table in action before, including my two Senators, Senator Nelson and Senator Johanns, and I have faith, hope, and confidence that you will overcome these challenges and, yes, even find opportunity along the way, to not only protect crop insurance but to improve it for our nation's farmers.

Thank you for the opportunity to be here today and thank you for countless hours of work on behalf of agriculture.

CANADA'S AGRICULTURE, FOOD AND BEVERAGE INDUSTRY

CANADA

North America's Location of Choice for Confectionery Manufacturers

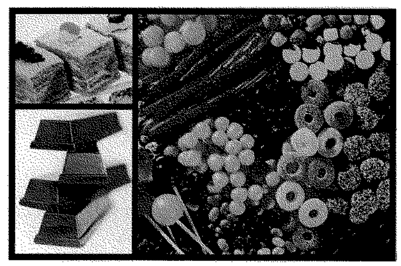
OH CANADA: HOW SWEET IT IS!

Canada's business environment is among the best in the world. Indeed, given its openness to foreign trade and capital investment, a superb infrastructure and ready access to American and Mexican markets, Canada is the location of choice for manufacturers of confectionery products wishing to supply North America.

The North American Free Trade Agreement (NAFTA) makes Canadian, American and Mexican markets a single trade entity. This provides Canadian-based businesses access to a market of more than 400 million consumers. U.S. markets can be supplied quickly and efficiently, as most Canadian manufacturing centres are less than 90 minutes from the border and 50 per cent of American consumers live within a one-day's drive.

In the last ten years, the value of Canadian exports of confectionery products to the U.S. has increased fourfold, and in 2004, Canada enjoyed a trade surplus of US$700 million.

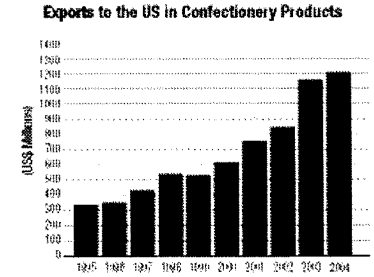
Moreover, the recent KPMG study, *The CEO's Guide to International Business Costs*, G7-2004 Edition, confirms that Canadian-based food processors, in general, enjoy significant cost advantages compared to their U.S.-based competitors.



Many of the world's largest confectionery firms have established operations in Canada. Many others have chosen to have their products co-packed in Canada, where agricultural inputs and packaging materials are readily available at competitive costs.

Firms seeking to invest in North America should consider Canada first.

Exports to the US in Confectionery Products



Source: Statistics Canada

Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

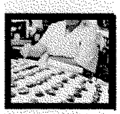
Canada

INVEST IN CANADA

Consider these HARD FACTS

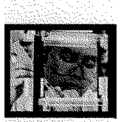
SUGAR REFINERS IMPORT THE VAST MAJORITY OF THEIR RAW MATERIALS AT WORLD PRICES:
Canadian sugar users enjoy a significant advantage – the average price of refined sugar is usually 30 to 40 per cent lower in Canada than in the U.S. Most manufactured products containing sugar are freely traded in the NAFTA region.

SPECIALLY PRICED DAIRY INGREDIENTS:
Confectioners benefit from highly competitive dairy prices administered by the Canadian Dairy Commission (CDC) under five-year agreements with the sector. Details, including administrative requirements, can be found on the CDC Web site, referenced as "Class 5" under the Special Milk Class Permit Program. For more information, visit: www.cdc-ccl.gc.ca.



SKILLED WORKERS AND COMPETITIVE LABOUR COSTS:
Canada possesses a highly skilled workforce known for its loyalty to employers. Canada's average labour costs are lower than in the U.S., which are attributed to Canada's lower salaries and wages combined with Canada's universal health coverage.* In addition, federal and provincial programs provide assistance for training and re-training of employees.

COMPETITIVE ENERGY, LAND AND BUILDING COSTS:
Canadian electricity and gas costs are lower than those in the U.S. and most of Western Europe. Canada's serviced industrial land and factory construction costs are lower than those in most of Western Europe and competitive with those of the U.S.*



LOWEST COST R&D:
Canada's R&D tax treatment is the most generous in the industrialized world. *

IMPORT FOR RE-EXPORT:
Confectioners manufacturing products exclusively destined for export markets may import duty-free ingredients used in the manufacturing process.

* KPMG Competitive Alternatives Study, *The CEO's Guide to International Business Costs*, G7-2004 Edition
www.competitivealternatives.com

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For further information about Canada's agriculture, food and beverage industry and investing in Canada, visit Agriculture and Agri-Food Canada's Web site:
www.ats.agr.gc.ca

To find out more about Canada's overall investment opportunities, visit:
www.investincanada.gc.ca

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Ottawa, Ontario
K1A 0C5

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Facsimile: (613) 759-1667
Email: invest-investir@agr.gc.ca

Introduction of Ruth Gerdes

Chairwoman Stabenow, Ranking Member Roberts, I want to thank the two of you for holding today's hearing focusing on commodity and risk management program policy issues.

I am particularly pleased you have put together this second panel to focus on how crop insurance can serve as a valuable tool in producers risk management strategies and have invited Ruth Gerdes to testify.

Ruth is a longtime friend of mine who has lifelong ties to agriculture. Growing up on a farm and ranch in Western Nebraska, to her studies at the University of Nebraska, to marrying her husband Myron and joining him on his family farm near Auburn, Nebraska.

However, it is Ruth's expertise as a crop insurance agent that sets her apart.

Ruth has advocated the need for strong risk management tools for over two-decades. Including her work with Senator Bob Kerrey and Senator Pat Roberts on the development of the Agricultural Risk Protection Act of 2000 – responsible for much of today's Federal Crop Insurance program – and her advice to me during the 2002 and 2008 farm bills.

However, just as important as our working together for farmers and ranchers back home, I am especially pleased to have worked with Ruth and the University of Nebraska Medical Center in continuing to push forward innovative ways of tackling cacinoid cancer.

Ruth was diagnosed with this disease in 2006 and was told her condition was inoperable. In 2007 she became the first person in America to undergo revolutionary hepatobiliary surgery. Today, I am happy to report, she is living tumor-free and ready to work with us in ensuring a strong safety net for America's farmers.

QUESTIONS AND ANSWERS

MARCH 15, 2012

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Ryan Best

Senator John Thune

1) As a Future Farmer of America, what could this Committee do in writing the next Farm Bill to best provide assistance to your generation of farmers and ranchers?

Thank you, Senator Thune, for your question. We in FFA are proud of our organization that for 85 years has helped students discover their passions and build careers in agriculture. Today, FFA has achieved the highest membership in the history of the organization. Without a doubt, our ability to serve these students depends heavily upon the strength, capacity and vitality of school-based agricultural education programs across the United States.

For students to be members of FFA, they must first be enrolled in school-based agricultural education. Currently, some 7,500 programs serve nearly 800,000 students in middle and high schools throughout the nation. The primary funding for these programs comes from local school budgets; however, small, but important, sources of funding come from states and the federal government to help provide educational opportunities to students that often supplement what they would receive in high school. These include experiential learning programs and access to equipment and technology to prepare them for the modern technical world of agriculture and agribusiness.

FFA is a federally chartered organization whose authority and responsibility have historically resided within the U.S. Department of Education. While this connection is invaluable, going forward we will also need the strong support and connection to the U.S. Department of Agriculture. Over the past several months there have been cabinet level discussions between Agriculture Secretary Vilsack and Education Secretary Duncan to find ways the two agencies can work together to ensure school-based agricultural education is optimizing workforce development for all our young people. The Secretaries asked their respective staffs to develop an interagency agreement that would outline how this could work, and we are pleased with the progress being made.

The challenge before us is how to make this interagency cooperation permanent or move it to a longer-term agreement. We would appreciate your Committee putting forward language for the Farm Bill that directs USDA and the Secretary to provide ongoing involvement, support and engagement with school-based agricultural education. This will provide stronger support for FFA and agricultural education, better align our programs with those offered by USDA and benefit the nation by helping motivate, educate and influence the next generation of farmers, producers, scientists and agricultural producers. Most of this could be accomplished by the inclusion of references to school-based agricultural education within the educational mission of USDA.

We would be pleased to provide specific language that would help facilitate that action by the Committee.

Thank you.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill

March 15, 2012

Questions for the record

Mr. Bob Carden

Senator Pat Roberts

1) Folks seem increasingly concerned about the amount of government regulation impacting their business and the unnecessary inefficiencies these regulations create. Do you, as an agent, see this type of over-regulation in the crop insurance program, and if so, where?

Response

We do indeed see overregulation in crop insurance. Currently, we are unable to correct many inadvertent errors when made by a grower in reporting information to us, or by someone on our staff mistakenly transposing data when entering it into a computer system. We often struggle to get timely information from FSA, such as 578s, maps, etc., yet the deadlines we must meet are inflexible no matter how long it takes to get this information. We feel a legislative fix to these issues is extremely important as other avenues have been exhausted.

We are also continually filling out new forms for the companies as a result of regulations they receive from RMA, such as conflict of interest, covenant not to sue, controlled business reports, etc. It seems that these forms are never settled, as we are asked to sign them multiple times throughout the year, rather than once at the beginning.

Another area of duplication of services comes when, if a claim is expected to exceed $500,000, RMA may choose to "participate" in the loss adjustment process. In essence, what this means is that, in addition to a company adjuster working the claim, an RMA employee is there as well. While RMA does not choose to participate in all claims, on the ones that they do, claims settlement is almost always delayed, sometimes by years. If RMA were simply to review the claims, which would seem more in line with its role as regulator of the program, efficiency of payment would be achieved without sacrificing program integrity.

For illustrative purposes, we added to Ruth Gerdes' written testimony an image of how paperwork agents must handle has proliferated in recent years even as agent compensation has dropped dramatically for so many. I firmly believe that a more collaborative approach between RMA and companies and agents can best accomplish the goals the agency seeks, including program integrity. The agency anticipating and working through issues together with agents and companies before there is a problem is more effective than fixing problems after they are brought to the agency's attention. As agents, we are the eyes and ears of RMA and companies on the ground and are in the best position to achieve policy objectives efficiently and effectively.

Finally, some of the most egregious overregulation occurred in the last SRA agreement. With the inception of that document, RMA for the first time gave itself the ability to regulate the negotiation between companies and agents for the value of agent services. This has resulted in wild swings in agent compensation rates from year to year (as much as 50 percent or more), and made it impossible to do any kind of meaningful operational planning on the part of an agency as we literally have no idea how much money we will be receiving in a given year until the year is almost over and our work already done. This is no way to run a railroad, much less an agency protecting people's livelihoods, and crop insurance is losing agents due to this change.

Further, we would seek relief from this through the court system, as our founding fathers intended, except for the fact that the SRA bars us from doing so. I suspect this is unlawful, but am barred from even trying to find out. Legislative relief on these last two points is the minimum needed.

Senator John Thune

1) Do you believe the RMA's determination of high risk areas and subsequent higher premium levels, is appropriate?

Response:

I am informed by Ruth Gerdes, my friend and agent colleague from Auburn, Nebraska, that RMA did a tremendous job under very difficult circumstances relative to this issue in the wake of last spring's flooding in the Iowa, Nebraska, and Missouri region of the country. Experiences elsewhere may be different, but this has not been an issue for me in Florida.

While determination of high risk ground and proper rating associated with that ground is important, we can say from experience that the single most important factor in determining proper rates is the farmer, and, therefore, we are very wary of any new schemes that would tie APHs or rating to the land as opposed to the farmer who is farming that land. We would also argue for greater flexibility in terms or how a farmer can insure what has been deemed high risk ground. For example, we believe a farmer should be able to insure high risk ground under an enterprise unit separately from his or her non high risk ground. This type of change would allow the farmer to have better risk management across the entire operation.

2) In your opinion, what would you tell us is the most significant or most often occurring area of crop insurance abuse among your customers?

Response

I see very little, if any, abuse of the program on the part of my customers. In fact, the abuse often moves in the other direction, such as not having the ability to correct legitimate errors when discovered, and having no forgiveness in the time to collect data when the ability to get it timely is truly out of both the agent and farmers' hands. Most of the situations I run into have little to do with abuse, but rather with unintentional reporting mistakes, which we try to correct when discovered. I don't think I've dealt with a true case of farmer abuse in years.

We work hard to ensure 100% compliance with all rules and regulations that we must deal with under crop insurance, some that make sense to us and others that do not. As I have stated, from my years of experience, intentional violations are few and far in between. I am convinced that the way Washington could help us to avoid 99% of the inadvertent errors is to allow us as agents and companies to correct errors when they occur, just as FSA has the authority to correct errors, and to require FSA to ensure we as agents receive 578s, maps, and other information, including any corrections, as quickly as possible. When a producer or agent comes forward and says they made a mistake in reporting or transposing information or discovered a discrepancy that they want to correct, that should not be characterized as abuse; it should be characterized as a person wanting to correct a mistake. We should want and encourage people to come forward and correct errors when they discover them, rather than make them afraid to step forward. This does not take away from the ability to take disciplinary action if there is reason to believe the misinformation was provided intentionally.

Senator Klobuchar

Question regarding the volatility that we have seen in today's marketplace and how it has changed the relationship with the agents and producers, and are agents seeing producer's significantly re-evaluating their risk?

Response

I think that the volatility we see in today's market has placed an even greater emphasis on the service we provide to our clients. It is also my experience that, yes, producer's are spending considerably more time on risk evaluation and how insurance can help to mitigate that than ever before. Most of the meetings I have with my farmers last longer, and go into greater detail, than ever before. With the increase in production expenses, as well as the increased value of the crops, they are much more concerned with making sure they are making the right decisions as to how much risk they can, and should, take in the production and marketing of their crops. They can't afford a big mistake, and our role is to help them understand how crop insurance can help them avoid such an issue.

As I noted in my testimony, as agents, we are not just selling producers a policy. We are walking through the risks they are going to face and tailoring their policy to those risks. In this sense, we are part insurance agent, part risk manager, part financial adviser, part co-crop marketer, and a partner on the farm in the sense that our advice and counsel may be what sinks or floats the farm that year. This is the inestimable part of the work agents do, the part that cannot be easily quantified but matters most to the producer. Government workers have their role to play in providing producers with good farm policy, but they are not suited to take on the role we as agents play and the first to tell you this are farmers themselves.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Chuck Coley

Senator Pat Roberts

1) A lot of folks would probably say that marketing loan rates are set so low that they really don't matter anymore. But cotton uses the marketing loan as an actual marketing tool, even when prices are well above the loan rate. How important is the marketing loan to the cotton industry and how does your industry use the loan?

Answer: The non-recourse marketing assistance loan is a cornerstone of the cotton program. The industry has proposed replacing the statutorily-established loan rate with a formula that could reduce the loan rate in times of low prices. The objective is to provide yet another basis for resolving the Brazil case even though the loan is projected to remain well below prevailing market prices for the foreseeable future. Preservation of a marketing assistance loan with an option to redeem based on a world price formula is important to the industry. In current market conditions with the loan well below the market, the loan serves as a basis for financing. The loan also allows merchants and marketing cooperatives to make orderly marketing decisions over the nine month term of the loan.

The loan also provides a vehicle for establishing certain industry practices. By establishing standards for loan eligibility, the industry has been able to adopt standard packaging, standardized compression and electronic documentation. In order to be eligible to store cotton pledged to CCC as collateral, warehouses must adopt certain practices that improve flow to market. And finally, if cotton process should fall dramatically, the ability to redeem cotton at the prevailing world price and move it to market ensures US farmers can compete with centralized government schemes as well as prohibit the build-up of price depressing carry-over stocks. At the same time with the loan rate well below the prevailing world price, it is those price signals, not the loan rate, that provide planting and marketing signals. In short, the marketing loan is not market distorting and serves a number of critical functions for the US cotton industry as a whole.

Senator John Thune

1) You say in your testimony you oppose further restrictions on payment limitations, does this mean you are satisfied with current payment limitation and adjusted gross income (AGI) restrictions set forth in the 2008 Farm Bill?

Answer: Because payment limitations are set at arbitrarily determined levels and apply to all "program" crops (except peanuts which have a separate limit) they have different impacts across regions and commodities, and in general, are particularly discriminatory to the Sunbelt and irrigated west. For example, the current $65,000 limitation per legal entity on Counter-cyclical payments when the CCP is at its maximum may cover as few as 200 acres of cotton in California but 1,000's of acres of corn or soybeans in Iowa. A 200 acre cotton farm in California or any irrigated area is not competitive nor can it achieve an economy of scale when a cotton harvester that can cover 1,500 plus acres costs $750,000. In addition, as part of the compromise in the 2008 farm law, payment limitations are applied as direct attribution rather than using the 3-entity rule. This was a significant but underappreciated compromise.

The AGI test established first for disaster programs and later applied to all programs is particularly discriminatory to diversified operations and is the classic example of mission creep. First, the AGI was touted as a means to keep wealthy individuals who don't actively farm from receiving benefits, but the current farm and non-farm income tests disqualify active farmers who may have had several profitable years from receiving benefits and in some cases denies all benefits. This results in difficulty obtaining financing since banks are leery of determining program eligibility. The test has been taken further by requiring farmers to allow the IRS to review their returns to identify those who "may" be out of compliance in spite of third party certification.

The most disruptive of all limits was the limit on marketing loan gains and loan deficiency payments. Fortunately, they were removed, but frequently, members of Congress propose legislation to reinstate them. The limit on MLGs and LDPs is particularly disruptive to orderly marketing when prices are low because USDA lacks the ability to track eligibility in real time. Consequently a producer may make a sale only to determine later that they exceeded their limit and must repay CCC at the least opportune time. In summary, we strongly oppose limits and means-tests of all kinds as inappropriate to sound farm policy. However recognizing the political realities, we urge Congress not to further restrict eligibility through means-tests, lower limits on benefits or reinstitute limits on MLGs and LDPs.

2) Do you feel comfortable advocating for an additional level of crop insurance for cotton – which would mean that cotton's safety net would be pretty much based solely on crop insurance?

Answer: Absent the imperative need to resolve the Brazil case and meet budget realities the industry would prefer to continue to have access to the combination of marketing loan, direct and countercyclical payments which have served us well. However, in reviewing the WTO ruling we believe that programs delivered through crop insurance offer the best opportunity to come into compliance if Direct Payments cannot be continued. While the current negotiations allow Brazil to posture and object to virtually all proposals, we believe the proposal to move the cotton program to an area-wide insurance basis with modification to the marketing loan will ultimately serve as a strong basis to resolve the case. Privately delivered crop insurance is an excellent and successful example of a public-private partnership. Agriculture programs have undergone significant scrutiny in recent years. It is our firm belief that moving to an insurance product purchased by producers and operated in an actuarially sound manner is defensible to the American people during these difficult budget times. Ultimately, an insurance product allows the industry to maintain a viable safety-net with a significant reduction in projected costs compared to current programs.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Jarvis Garetson

Senator John Thune

1) If you have to give up direct payments what would be an acceptable alternative to you for your operation?

Answer: We must keep crop insurance whole or improved with higher levels of support to help farmers buy up coverage. An alternative that would not require a check to be written by the government would be an income tax credit.

2) Is USDA, specifically RMA and FSA, allowing you to submit yield data from precision equipment on your combines or other harvesting equipment as acceptable production evidence?

Answer: Yes they are, but I find it difficult to keep my equipment calibrated close enough through out the day. Conditions vary by hybrid, moisture content, test weight, and yield. Our farm does not use this as the primary means of production evidence, but we do have the data as a backup for proof if needed.

If there are other questions please feel free to ask. You are always welcome to come to southwest Kansas anytime. Thank you for your time and commitment to this extremely important committee.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Jimbo Grissom

Senator Pat Roberts

1) How much longer do you think it will take to get a peanut revenue crop insurance product out to the countryside without Congressional action?

Response: We are hoping to have a program in place for the 2013 crop using the regular process with USDA's Risk Management Agency. However, to ensure agency timely action, the Agriculture Committee could assist the process by including language in the new farm bill to direct RMA to implement the program as soon as practicable, but no longer than 30 days after the date of enactment. Since peanut growers are submitting a proposal to RMA in April, we should know if implementation is possible in 2013 after consulting with RMA over the next few months. Many growers will not be able to plant peanuts next year unless they first have a peanut revenue crop insurance program in place by 2013. Peanut growers first need access to revenue crop insurance that they can rely on as the basis to underpin a new peanut program being discussed in the structuring of the new farm bill.

a) You mentioned in your written testimony that this process has been ongoing for 2 and a half years. How much money has the peanut industry invested in this process do date?

Response: The various state peanut growers associations have conducted numerous conference calls and meetings and spent countless hours in discussing ways to advance revenue crop insurance for peanuts. Peanut growers have also retained the services of Dr. Stanley Fletcher, Professor Emeritus & Director of the National Center for Peanut Competitiveness, to help develop peanut revenue crop insurance. Total peanut industry costs associated establishing such insurance are estimated around $200,000.

2) The budget situation that we face during this Farm Bill is going to require cuts and sacrifices from all of our farm sectors. Does your target price proposal take into an account some sort of overall cut to expenditures for the peanut sector and if so, how much?

Response: Our peanut program proposal assumes the elimination of direct payments. As you know, we made dramatic changes to our peanut program in the 2002 Farm Bill with the elimination of the peanut quota program. Our current marketing loan program has worked for peanut producers. With the elimination of direct payments, we have worked hard to find a program that will work for peanut producers. Increasing the target price, providing a substantive revenue choice and successfully obtaining a revenue crop insurance program will help offset the loss of direct payments.

It should also be noted that the new increased target price is below cost of production and market prices for peanuts. The proposed $534 per ton target price for peanuts represents only an 8% increase over the current target price of $495 per ton. The proposed $534 per ton target price was based on the National Center for Peanut Competitiveness study done in August 2011 using FAPRI

2011 baseline numbers. With new 2012 FAPRI baseline numbers, the study was redone for 2012 which indicated that the proposed target price should be $553 per ton. If peanut prices are at the $534 per ton price, there will be no peanuts planted in my area and region. Thus, we do not see that there will be any expenditures. That price will provide a safety net if the markets go south during the growing and harvest season. Peanuts do not have a revenue insurance program like the other row crops to protect them if market prices go south.

3) You talk about using the cost of production to guide your request for an increased target price. Please describe the difference between the cost of production for you in Texas and maybe another peanut grower in Alabama or North Carolina?

   Response: The cost of production is one of the reasons to raise the target price. Irrigation expense is the main difference in the cost of production for Texas peanut growers. Our area in West Texas averages at least 30 inches less rainfall per year than peanut growers in states, such as Alabama. In consultation with the National Center for Peanut Competitiveness which maintains 22 representative peanuts farms from Virginia to New Mexico, the Southeast peanut region (Alabama, Florida and Georgia) spends approximately $83 per acre for irrigation. In contrast, Texas spends approximately $212 per acre for irrigation.

4) A lot of folks would probably say that marketing loan rates are set so low that they really don't matter anymore. But the peanut industry uses the marketing loan as an actual marketing tool, even when prices are well above the loan rate. How important is the marketing loan to the peanut industry and how does your industry uses the loan?

   Response: The marketing loan is very important to peanut growers as evidenced by the large number of loans made each year. If a grower does not have his peanuts contracted and the price at harvest is inadequate, peanuts can be placed in the loan, which helps to prevent farmers from being forced to sell their commodity prematurely. The marketing loan gives farmers up to 9 months to market their peanut crop and repay their loan, allowing them to time sales to capture higher revenues, rather than selling at harvest, when prices are usually lowest.

Senator John Thune

1) In your testimony you provide that peanut revenue crop insurance options are critical to the future of the industry, and you also say that the peanut industry has worked with RMA for 2 ½ years to develop a revenue insurance product – but so far unsuccessful.

   In your opinion what are the reasons the peanut industry has been unsuccessful in being able to develop an effective revenue insurance product with RMA?

   Response: It is due to bureaucracy and the lack of a pricing mechanism for peanuts (since there is no commodity futures market for peanuts). We started working with private industry in the fall of 2009 to submit a 508 H research funding proposal to RMA. The Federal Crop Insurance Corporation approved funding of $188,800 for the proposal on August 12, 2010. At this point in the process, RMA is to be held harmless regarding uncooperative delays. We believe that a pricing methodology based on the Rotterdam price series can be used to set the projected price for both yield and revenue-based programs for peanuts.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Ms. Hope Hills

Senator Pat Roberts

1) **What can we do to bring more specialty crop producers under the protection of crop insurance?**

We all know that agriculture is an unpredictable, sometimes unstable business due to factors far beyond any of our control. Having crop insurance brings stability to an otherwise volatile business. That being said, the cost of crop insurance without the USDA subsidy would be unaffordable.

The 508(h) program has been successful in developing new insurance products for some specialty crops. Keeping a strong 508(h) program will continue to allow for third-party development of insurance products for specialty crops. Furthermore, Congress should consider adding additional sideboards to the insurance development process, requiring the companies who develop new products to engage the industries the products would serve. This would ensure that new insurance products have industry support and will have growers who want to utilize them once they are approved. Finally, some specialty crop growers are interested in an insurance product that would protect against market disruptions, like a food safety incident that caused harm to an industry. There is room for innovation to meet the needs of specialty crops in the crop insurance arena.

Although crop insurance works for my operation, special caution must be taken when looking at crop insurance for all specialty crops. With many specialty crop growers' planting decisions based largely upon market indicators, there is a valid concern that crop insurance could distort the marketplace. There are significant differences in the potential market impacts of price and revenue insurance products on annual or semi-annual specialty crop growers as compared to perennial crops grown on bushes, trees, or vines. Because planting decisions are more long-term and fixed, the development of products for perennial specialty crops would not have the same market distorting effects.

Additionally, over 300 different crops fall into the category of "specialty crops." Crop insurance for specialty crops is particularly complicated for a number of reasons, including that most are relatively small markets; most don't have futures or options contracts for price discovery; most have complicated good farming practices compared to our row crop friends; and a large number of non-weather related risks have to be taken into consideration.

Senator John Thune

1) **In your testimony you provide that crop insurance is your second level of risk management, and that you have not filed a claim in 10 years. Are you satisfied with the crop insurance options available for the crops grown in your operation? If not, what changes would you like this Committee to consider making?**

We believe strongly in crop insurance as a safety net for our operation. We began purchasing crop insurance in 2002 and have continued each year since then. We have an AGR 65/75 policy and CAT coverage. Under our policy, if our adjusted gross revenue drops below 65 percent of our five year average, it will pay 75 percent of the amount below that. We choose AGR because it is a multi-peril policy—it covers a broad spectrum rather than a specific loss. We are happy with this current policy and the options available for our farm. However, if more options became available, we and the rest of the blueberry industry would be open to considering other policies that would better suit our operations.

The best safety net, however, is one that you never have to use. Like most producers today, our risk management goes far beyond crop insurance. On our farm, we have invested heavily to mitigate the risks we face and give ourselves the best chance possible to have a strong crop year in and year out. These form our first line of defense; yet, the security provided by crop insurance allows me to invest in these other areas of our operation that are so important to the American consumer and to consumers abroad.

For instance, there is an old saying that you can't control the weather—well, when you grow a thin-skinned fruit in a northern state like Michigan, you have to try. We have installed a 30-foot-tall wind machine with an engine-driven propeller on top. It is used for frost protection mainly in the spring when the temperature drops to a point where it might damage the crop. If the trigger temperature is reached, the fan will push the warmer air down, which is sometimes layered above cold air that has settled in low areas. The wind machine can raise the air temperature by as much as 8 degrees depending on conditions, and one machine will cover about 15 acres. Ours is installed in a frost-prone field.

Drawing on the resources and expertise beyond the farm gate is also important. Our co-op, MBG, is a valued partner in how we mitigate risk and run a successful farming operation. Through the co-op, we have access to and utilize professional horticulturalists for advice and research. We use their other professional team members for assistance with food safety, labor laws, social responsibility, and a plant breeding program for improved varieties.

We also hire knowledgeable and experienced individuals each year for our harvest season. When hand harvesting fruits and vegetables, you need people with a specialized skill set.

Adherence to good farming practices for growing blueberries is perhaps the most important way to making sure that we have a good crop. This includes annually pruning each plant, weed control, and ground cover management with a goal of water and moisture conservation and erosion control. Other important practices include maintaining non-crop areas to promote native, beneficial insects and plants such as honey bees. We need them for pollination, so we work to have good habitat for the bees. Our farm also rents 150 honey bee hives to aid pollination.

To help protect the environment and our employees, we have a USDA-designed chemical and fertilizer containment building. We store all of our chemicals and fertilizers in this building, and do all of our mixing there. Our spray equipment is also stored there through the year.

We do all of these things to protect us from different types of disasters that can impact us, from pest and disease infestation, a food safety emergency, frost, flood or drought, and unskilled or not enough labor. These are our first line of defense in terms of risk management. Crop insurance is the second layer of our risk management strategy.

We all know that agriculture is an unpredictable, sometimes unstable business due to factors far beyond any of our control. Having crop insurance brings stability to an otherwise volatile business. Crop insurance allows farmers to continue our businesses in the event of a disaster.

In terms of measures that can be taken to strengthen crop insurance for specialty crops, the 508(h) program has been successful in developing new insurance products for some specialty crops. Keeping a strong 508(h) program will continue to allow for third-party development of insurance products for specialty crops. Furthermore, Congress should consider adding additional sideboards to the insurance development process, requiring the companies who develop new products to engage the industries the products would serve. This would ensure that new insurance products have industry support and will have growers who want to utilize them once they are approved. Finally, some specialty crop growers are interested in an insurance product that would protect against market disruptions, like a food safety incident that caused harm to an industry. There is room for innovation to meet the needs of specialty crops in the crop insurance arena.

Although crop insurance works for my operation, special caution must be taken when looking at crop insurance for all specialty crops. With many specialty crop growers' planting decisions based largely upon market indicators, there is a valid concern that crop insurance could distort the marketplace. There are significant differences in the potential market impacts of price and revenue insurance products on annual or semi-annual specialty crop growers as compared to perennial crops grown on bushes, trees, or vines. Because planting decisions are more long-term and fixed, the development of products for perennial specialty crops would not have the same market distorting effects.

Additionally, over 300 different crops fall into the category of "specialty crops." Crop insurance for specialty crops is particularly complicated for a number of reasons, including that most are relatively small markets; most don't have futures or options contracts for price discovery; most have complicated good farming practices compared to our row crop friends; and a large number of non-weather related risks have to be taken into consideration.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Ms. Pam Johnson

Senator Pat Roberts

1. There seems to be this urban myth floating around that if we eliminate direct payments, conservation compliance just mysteriously disappears. In reality, we know that conservation compliance can be attached to any Title I farm program, and it's also attached to disaster programs and conservation programs like EQIP. Do you think conservation compliance is working, and do you believe we need to add conservation compliance to even more programs such as crop insurance?

Answer: Yes I do think conservation compliance is working and that it is not necessary to attach it to other programs. Even with the end of the Direct Payment program and the possible end of the Counter Cyclical Payment program, as some legislative proposals would require, the marketing loan programs continues to be important to farmers, even at current price levels, to manage their cash flow needs while following their marketing plans. Conservation is important to farmers like me and compliance would not disappear without direct payments in Title 1. On our farm we participate in many programs to improve the productivity on working lands and to protect the soil and water. Some of those programs that are important to us are EQIP, CRP, CSP and CREP. I believe that conservation compliance should remain tied to Title 1 and conservation programs like EQIP, the programs that are administered by the federal government at Farm Service Agencies and the Natural Resources Conservation Service. We do not need to add conservation compliance to crop insurance which is sold and serviced by private insurance agents in partnership with premiums paid by farmers and the federal government.

2. Do you think conversations with your lender would be different if you couldn't afford to purchase crop insurance? How do you think those conversations would be different?

Crop insurance enables me to provide assurance that I will be able to repay my production loan in three ways. First, it obviously provides protection against crop loss so that I know that I will have the value of lost bushels as a means of loan repayment. Second, since I purchase revenue insurance, it also protects me against declines in price from what I expect to realize at the time of planting to whatever market weakness might occur by harvest time, even if yields do not vary significantly. Third, depending upon my marketing plan in any particular year, I may purchase revenue insurance with a harvest option so that forward pricing my crop with an instrument that requires delivery of bushels contracted ensures that I can purchase those bushels on the market even if prices rise above the planting price should I have an insurable loss.

Answer: This protection again crop and price loss, along with the ability to lock in an especially attractive harvest-time price allow me to convince my banker that I cannot only repay my production loans this year, but that these risk management and marketing practices allow me to borrow money for longer than annual production needs. My banker knows that my reduced cash flow variability will let me build cash reserves and make me a better risk for longer term loans to invest in the greater productivity of my farming operation.

Without affordable insurance, I don't know what my banker would say. We've never had to have that conversation. But I can only think that, at best, I would have to purchase lower coverage and go without the harvest option and possibly even the price coverage that revenue plans provide. That means I would have to be even more cautious in the amount of production inputs that I use so as to borrow less, even when the market is calling for more production. I believe this would limit what I am currently able to borrow now. Both my banker and I want me to be less exposed to the market or the weather turning against me.

Senator John Thune

1. In your testimony you shared with us the importance of crop insurance to your farming operation. Do you think crop insurance could be improved or modified to the point that no other federal safety net program would be needed?

Answer: There are always improvements that can be made. For example, in my testimony, I note the phase-in of changes in the rating methodology that will better reflect the loss experience in premiums paid for corn policies. Improvements such as these would allow growers to more efficiently manage their risk in each growing season. That is a necessary function that crop insurance can provide; however, crop insurance is not sufficient to manage the risk across crop years that growers face.

2. What would be your concerns of relying entirely on crop insurance as a safety net mechanism for your operation?

Answer: Crop insurance can manage risk within a growing season, but it cannot address the risk of price variability from year to year. If markets weaken over the winter after the past year's harvest is in, it will not matter that last year's price were strong. The spring's planting price will reflect the futures markets at that time.

Recall the sharp fall in farm commodity prices from 1995 to 2001. In the case of corn, prices fell from the 1995 high of $3.24 season average farm price to $1.82 in 1999, a 44% reduction. Even when prices rose off their lows, they were still 38% below 1995 levels in 2005.

This was not an occurrence that crop insurance was able to mitigate. Revenue insurance policy prices followed the decline in market prices, though spring planting prices may have been more favorable in some years.

The price depression was so severe that Congress provided program crop producers with market loss assistance payments, also known as "Double AMTA payments", from 1998 to 2001. In 2002, Congress passed the 2002 Farm Bill that established the counter cyclical program and gave growers price protection below the target prices.

Markets have improved and, since 2006, corn prices have been above the target price of $2.63 per bushel. As prices have continued to rise above target price levels, so have input costs. Just as macroeconomic factors have bid up farm commodity prices, the same forces have also raised the prices of inputs, notably energy-derived fuels, fertilizer and chemicals. Farmers seeking to plant more acreage have contributed to the rise in other inputs, including land rents.

As escalating input prices narrow producer margins, risks increase with more capital at stake in the cost of putting in a crop. Crop insurance can reduce some of this risk, again, within the growing season, but cannot be depended upon to insure the price component of revenue protection policies beyond the current year.

Unlike the 2002 Farm Bill, Congress will not have an additional $74 billion as was available in 2002. Now, we will have to cut spending, at least $23 billion and perhaps more. So, we must find every efficiency possible in every title of the 2012 Farm Bill. NCGA thinks that the ARRM program has found a number of efficiencies that will provide enough cushion for producers to adjust from sudden reductions in current revenues per acre. Each year the ARRM program will reflect the trend in market conditions. It will give growers time to adjust their operations and modify their plans for capital investment in the technology that has continued to improve productivity, especially if that trend turns downward. That is something I don't think we can rely on crop insurance policies to do, as important as they are to farm operation.

National Farmers Union

UNITED TO GROW FAMILY AGRICULTURE

Questions for the Record
Senate Committee on Agriculture, Nutrition & Forestry
"Risk Management and Commodities in the 2012 Farm Bill"
Hearing Date: March 15, 2012
Mr. Roger Johnson, President, National Farmers Union

Submitted by Senator Pat Roberts

Do you think your members would be able to continue to buy-up crop insurance at the levels they do today if the premium subsidy was reduced as the President's budget proposed? Or would they simply decrease their purchase levels to meet the ever growing demands on their pocketbooks?

Both the House of Representatives budget for Fiscal Year 2013 and the president's budget proposal for FY 2013 include spending reductions for agriculture programs. The following passage can be found in the president's budget report:

> *As part of the strategy to confront our fiscal challenges in a thoughtful and responsible manner the Budget includes $32 billion in savings over 10 years by eliminating direct farm payments, providing disaster assistance, reducing subsidies to crop insurance companies, and better targeting conservation funding, consistent with the Administration's deficit reduction proposal.*

Although the two-percent reduction in the crop insurance subsidies is to be directed towards crop insurance companies, it is likely that farmers will pay for some of the expenses of this change. Crop insurers will probably pass their increased costs on to their farmer-customers. It is hard to be sure of the final result of reduction in premium subsidies alone, but if coupled with changes in the structure of support, the outcome is easier to predict. Studies have shown that if crop insurance supports were structured in a fixed-dollar amount of premium subsidy, farmers would buy lower levels of coverage, less expensive revenue insurance products, and more yield insurance.[1] Participation in the program probably decreases slightly in terms of total acres insured. Farmers would have adjusted to higher prices for insurance by buying less insurance. Given that firm plans for how to achieve the two percent reduction in crop insurance premium subsidies were not included in the president's budget for FY 2013, it is difficult to predict the spending decisions of family farmers.

[1] Babcock, Bruce A. "Time to Revisit Crop Insurance Premium Subsidies?" March 2011. Center for Agricultural and Rural Development, Iowa State University. Online http://www.card.iastate.edu/policy_briefs/display.aspx?id=1154

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National Farmers Union
UNITED TO GROW FAMILY AGRICULTURE

Submitted by Senator John Thune

Do you support the current disaster programs authorized in the 2008 Farm Bill at their current levels, or would you agree that adjustments should be made?

NFU has long been among the leading proponents of a permanent disaster program. The unpredictability and inefficiencies associated with ad hoc disaster programs led to the inclusion of the Supplemental Revenue Assistance Program (SURE) and other related programs, such as the Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish (ELAP), the Livestock Indemnity Program, and others, in the 2008 Farm Bill. These were hard-won victories for family farmers and ranchers and ought to be properly utilized.

The permanent disaster programs were intended to make it possible for farmers and ranchers to recover quickly from devastating setbacks that result from weather without waiting for piecemeal ad hoc disaster assistance. Unfortunately, the programs were largely under-funded and administrative challenges delayed implementation of necessary procedures.

In order to operate more effectively, SURE and other disaster programs should be fully funded and partial advance payments should be made available so that assistance can be quickly provided in times of desperate need. The important progress in disaster aid made in the 2008 Farm Bill ought to be continued. Returning to a system of ad hoc disaster programs is sure to be much more costly for both the federal government and for farmers.

A fully funded set of disaster programs is more cost-effective than ad hoc programs. Consider that ad hoc programs are expensive, difficult to administer, extremely political and are not solely influenced by real conditions and/or need. Between 1996 and 2002, when the commodity title was removed from the farm bill, approximately $30 billion was spent on ad hoc disaster programs.[2] The cost to extend SURE and similar disaster assistance programs for five years in the 2012 Farm Bill was projected to be $8.9 billion,[3] according to 2011 Congressional Budget Office estimates.

NFU supports the disaster programs included in the 2008 Farm Bill, but additional funding and streamlined management of the programs is necessary if these programs were to be reinstated.

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[2] USDA Economic Research Service, retrieved from http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm

[3] Congressional Budget Office

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National Farmers Union

UNITED TO GROW FAMILY AGRICULTURE

Submitted by Senator John Thune

Do you believe the Market Driven Inventory System NFU is proposing would work equitably with all commodities?

The Market-Driven Inventory System (MDIS), as proposed by National Farmers Union, covers six of the eight major commodity crops. The three largest commodities – corn, wheat, and soybeans – along with oats, grain sorghum and barley, would all be eligible to participate in MDIS as the draft legislation is presently written. Rice and cotton were excluded from the MDIS study, conducted by Agricultural Policy Analysis Center at the University of Tennessee, due to those crops' unique market dynamics. Although it would require further research to design a program to adequately address the market behavior of cotton and rice, it is certainly feasible to do so.

Additionally, it is very likely that MDIS would moderate price volatility in non-participating crops to a significant degree. For example, although they are not directly linked, there is a long-term relationship between corn prices and rice prices.[4] The indirect impact of MDIS on rice price volatility is not as strong as the difference that could be made if rice was included in the system, but there would be some effect. The beneficial effects of MDIS, however, would be equitable throughout the crops that are included as part of the program.

Respectfully submitted for the record,

Roger Johnson, President
National Farmers Union

[4] Timmer, C. Peter. "Rice Price Formation in the Short Run and the Long Run: The Role of Market Structure in Explaining Volatility." May 2009. Center for Global Development. Online: http://www.cgdev.org/content/publications/detail/1422136/

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Steve Rutledge

Senator Pat Roberts

1. There is a lot of talk these days about reconfiguring Title I farm programs to center on a revenue program. Does this concern you at all? If so, can you discuss and rank some of the specific things we can do as we develop a revenue program to minimize your concerns?

Answer: While there are a number of Title I farm program revenue proposals that would supplement crop insurance, it is important to maintain a sharp focus on, and continue working to build, federal crop insurance as the premier risk management tool. It has the capacity and flexibility to respond to an ever-widening demand by producers for effective risk management when properly structured with industry input. Results for the 2011 crop year clearly demonstrate the need for and strength of private sector-delivered, federal crop insurance. It is also noteworthy that producers have increasingly purchased revenue insurance over time and have steadily increased their coverage levels. In addition, premium reductions and the new trend yield-adjusted Actual Production History that are slated for 2012 corn and soybeans will further increase coverage levels.

Given the ability of crop insurance to provide high and effective coverage levels and producers' strong commitment to maintaining and improving crop insurance, we approach the 2012 Title I programs with the goal of "doing no harm" to crop insurance and the successes it has achieved for producers. A key element in the goal of "doing no harm" is avoiding actions that lead to negative unintended consequences. We believe supplemental revenue assistance proposals not provided under crop insurance—a policy concept designed to provide a measure of producer protection against uninsured losses—can, in fact, precipitate an unfortunate outcome: penalizing the incentive to purchase higher levels of buy-up coverage.

Supplemental revenue assistance proposals that are available to producers at no cost and include coverage levels that coincide with coverage levels provided by crop insurance are likely to cause some producers to substitute the supplemental revenue program for crop insurance. The extent of the substitution will depend on the features of the supplemental program. If crop insurance indemnities are subtracted from (offset against) any supplemental revenue payments, the incentive to reduce crop insurance coverage levels would be much greater. This undoubtedly harms the crop insurance program. Subtracting indemnities assumes a 100 percent correlation between payments of the two programs, which does not exist. Producers would be penalized for buying the highest levels of coverage. In addition, the total level of protection against risk that would be available to the producer would be reduced.

Penalizing producers for increasing crop insurance protection is contrary to longstanding efforts to make crop insurance the standard for risk management and to reduce reliance on costly ad hoc disaster assistance programs.

The crop insurance industry opposes offsetting crop insurance indemnities with supplemental revenue payments. In 2011, $3 billion in premium, or 25 percent of the total premium, was at the 80 percent and

85 percent levels (Source: RMA Summary of Business). Permitting producers to buy crop insurance at these high levels and retain the benefits of such purchases incentivizes the use of crop insurance and improves the overall level of protection producers would have in the event of natural disasters or low prices.

2. The crop insurance industry has undergone a lot of change in recent years. The 2008 Farm Bill and the SRA removed significant amounts of funding from the crop insurance system. Please describe the impact of the 2008 Farm Bill and SRA on your business.

Answer: The 2008 Farm Bill and the new SRA not only made large funding reductions in the crop insurance program, but many new program requirements have been implemented that have increased the complexity and workload in delivering the program to producers. As a result, our business is changing substantially. For example, we have had to greatly reduce the commissions we pay our agents. This has put financial pressure on their businesses, causing contraction and consolidation. Many agents have expressed to me that they have been pushed as far as they can go and still remain viable. In addition, the many new administrative requirements of the Farm Bill and SRA have resulted in us reshaping our non-agent workforce. For example, we have greatly expanded our IT staff to develop new software and procedures for program delivery. Another issue has been the delay in payments to the companies that was part of the funding reduction in the 2008 Farm Bill. This has imposed a new, ongoing credit cost for us to be able to make timely payments to our staff and agents. As we face the 2012 Farm Bill, Congress should consider that the cuts of the past four years are still not fully implemented, and adjustments are not complete. Further funding reductions, either direct cuts or indirect cuts as a result of farm program interactions, will make it extremely difficult to avoid adverse consequences on program service and efficiency.

3. What specific component of the President's budget proposal worries you the most? If the President's budget were to be implemented, where do you think your business and the industry would be in five years?

Answer: The President's Budget proposal for 2013, if enacted, would likely cause very serious harm to the crop insurance delivery system. As noted earlier, the 2008 Farm Bill cuts and further reductions, as part of the new Standard Reinsurance Agreement, total $12 billion over 10 years. The 2008 Farm Bill cut was more than 10 percent of baseline crop insurance funding, while the SRA cut was an added cut of more than 7 percent of baseline funding—very large reductions in a short period of time. Further exacerbating the funding problem are the many losses experienced in 2011 due to adverse weather and further program changes new in 2012 that will reduce industry returns.

On top of all of these changes, the President's Budget proposes cutting program funding by another $7.7 billion over 10 years. In particular, the proposal would reduce the cap on Administrative and Operating expense payments (A&O) that was just imposed in the new SRA. The SRA cap has sharply reduced agent commissions in 2011, and the President's proposal would lower that just-imposed cap by 27 percent from its 2012 level. This would be devastating for many agents and lead to far fewer agents and agencies over the next 5 years, and that can only mean degradation in service, despite the best efforts we will take to continue helping farmers. The A&O cuts would also set back the company efforts to invest in IT and other technologies needed to meet all the new data demands coming from RMA, including the data-intensive initiative to report by common land unit (CLU), and provide services to farmers.

The President also proposes to reduce the rate of return to the companies. Unfortunately, the President's Budget and other recent statements by the Department of Agriculture regarding the rate of return have confused the issue greatly. There are serious questions about the numbers used to classify the industry's rate of return. The estimates appear to come from an outdated, controversial study and are based on gross revenue, not net returns. These figures do not accurately reflect company costs of delivering the crop insurance program and do not reflect all the changes to the crop insurance program since 2008 that have increased delivery costs and reduced company revenues.

The Administration confuses basic financial concepts used to calculate industry returns and fails to take into account that industry returns vary over time and differ among geographic regions. Furthermore, the Administration ignores funding cuts crop insurers have seen since 2008 and the catastrophic losses and record insurance payments made by private insurers over that period. Industry officials have met with the USDA to discuss these concerns and look forward to continued dialogue.

Among the specific concerns voiced about the Administration's estimates, which are as much as double the industry's estimates, are that they:

- Assume that government Administrative and Operating expense payments to companies on behalf of producers cover all program delivery costs, which they do not;
- Fail to account for certain other operational costs such as reinsurance ; and
- Ignore program changes and budget reductions in the 2008 Farm Bill and thereafter.

Finally, the President's Budget proposes to reduce the premium subsidies for farmers. At a time when key farm income support programs appear likely to face large cuts and possible elimination, we are concerned that reducing the subsidy (which effectively increases farmer-paid premiums) would impose an unnecessary burden and discourage farmer participation. Lower farmer-paid premiums have been instrumental in garnering participation in the program and creating the effective level of risk protection that farmers now have in place. It is this cost-shared protection from risk that benefits farmers, input suppliers, taxpayers and food consumers by helping to ensure a more stable U.S. agriculture. As the 2012 Farm Bill continues down its path, it is hoped that everyone recognizes that the system is working exactly as Congress designed by reducing taxpayer risk and speeding relief to growers when they need it the most. That's why farmers and their bankers are such big supporters of the existing crop insurance structure and have asked that it not be weakened further. We are doing more with less and fear that additional reductions would undermine the successful public-private partnership that took more than three decades to build.

4. There is a lot of talk in the business sector these days about overregulation. Are there examples of overregulation in your industry as well? If so, please provide some examples.

Answer: The crop insurance industry is a highly regulated industry. The government issues many rules and procedures that define how companies must conduct their business.

As anecdotal examples, the current Crop Insurance Handbook (CIH), which contains the official underwriting requirements for the crop insurance program, is now 796 pages in length. In 2001, the CIH was 416 pages, a 91% increase. Similarly, the current Loss Adjustment Manual (LAM), which specifies the loss adjustment procedures for the industry, is 526 pages. In 2001 the LAM was only 308 pages, a 70% increase. Data reporting requirements for the industry are provided in RMA's Appendix III of the SRA. In 2005, Appendix III contained 205 pages of data reporting requirements. In 2011, Appendix III totaled 826 pages—a fourfold increase.

We understand that given the government's role as regulator, which includes approving new products, setting underwriting and compliance standards, establishing premium rates and other functions, we will continually face many new and changing requirements. Our primary concerns are rules that are developed and issued with insufficient regard to industry input, lack transparency in process and development, have inadequate analysis of industry consequences, and are ill-timed and unnecessarily disruptive surprises. In light of the budget reductions that the crop insurance program has faced and the cuts that the Risk Management Agency (RMA) is facing now and in the future, we have a new opportunity to improve our partnership and become even more efficient together. The companies have invested heavily in the industry, and we have considerable assets that can be put to effective use. We have a deep knowledge of all aspects of programs, including underwriting, design, compliance and delivery. With RMA moving toward new procedures for such issues as data collection, reporting and maintenance, and contemplating changes in Actual Production History (APH) yields, we would like to see our expertise be involved from day one and throughout such processes. We also believe that RMA could look for ways to provide the industry and public with assessments of costs and benefits of their actions, simplify rules, look for ways to provide flexibility in implementation, and review the need for past regulatory actions—all objectives of the President's Executive Order 13563.

Senator John Thune

1. As Chairman of a crop insurance company that operates in 50 states, could you please tell me what how you think the Administration's proposal to cut $7.6 billion from crop insurance over the next 10 years would impact the level of service your company's agents could provide?

Answer: Although my company, Farmers Mutual Hail, writes in 15 states, as a witness at this hearing I represent all AIPs, some of whom operate in all 50 states.

The President's Budget proposal for 2013, if enacted, would likely cause very serious harm to the crop insurance delivery system. As noted earlier, the 2008 Farm Bill cuts and further reductions as part of the new Standard Reinsurance Agreement total $12 billion over 10 years. The 2008 farm bill cut was more than 10 percent of baseline crop insurance funding, while the SRA cut was an added cut of more than 7 percent of baseline funding—very large reductions in a short period of time. Further exacerbating the funding problem are the many losses experienced in 2011 and further program changes in 2012 that will reduce industry returns.

On top of all of these changes, the President's Budget proposes cutting program funding by another $7.7 billion over 10 years. In particular, the proposal would reduce the cap on Administrative and Operating expense payments (A&O) that was just imposed in the new SRA. The SRA cap has sharply reduced agent commissions in 2011, and the President's proposal would lower the cap by 27 percent from the 2012 level. This would be devastating for many agents and lead to far fewer agents and agencies over the next 5 years and that can only mean degradation in service, despite our best efforts to continue helping farmers. The A&O cuts would also set back the company efforts to invest in IT and other technologies to meet all the new data demands coming from RMA, including the data-intensive initiative to report by common land unit (CLU), and provide services to farmers.

The President also proposes to reduce the rate of return to the companies. This, too, would affect agents as companies would have less income available to pay them and equip them with tools and assistance. Unfortunately, the President's Budget and other recent statements by the Department of Agriculture regarding the rate of return have confused the issue greatly. There are serious questions about the numbers used to classify the industry's rate of return. The estimates appear to come from an outdated, controversial study and are based on gross revenue, not net returns. These figures do not accurately reflect company costs of delivering the crop insurance program and do not reflect changes to the crop insurance program since 2008 that have increased delivery costs and reduced company revenues.

The Administration confuses basic financial concepts used to calculate industry returns and fails to take into account that industry returns vary over time and differ among geographic regions. Furthermore, the Administration ignores the funding cuts that crop insurers have seen since 2008 and the catastrophic losses and record insurance payments made by private insurers over that period. Industry officials have met with the USDA to discuss these concerns and look forward to continued dialogue.

Among the specific concerns voiced about the Administration's estimates, which are as much as double the industry's estimates, are that they:

- Assume that government Administrative and Operating expense payments to companies on behalf of producers cover all program delivery costs, which they do not;

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- Ignore program changes and budget reductions in the 2008 Farm Bill and thereafter.

Finally, the President's Budget also proposes to reduce the premium subsidies for farmers. At a time when key farm income support programs appear likely to be facing large cuts and possible elimination, we are concerned that raising farmer-paid premiums would impose an unnecessary burden and discourage farmer participation.

Lower farmer-paid premiums have been instrumental in garnering participation in the program and creating the effective level of risk protection that farmers now have in place. It is this cost-shared protection from risk that benefits farmers, input suppliers, taxpayers, and food consumers by helping to ensure a more stable U.S. agriculture. As the 2012 Farm Bill continues down its path, it is hoped that everyone recognizes that the system is working exactly as Congress designed by reducing taxpayer risk and speeding relief to growers when they need it the most. That's why farmers and their bankers are such big supporters of the existing crop insurance structure and have asked that it not be weakened further. We are doing more with less and fear that additional reductions would undermine the successful public-private partnership that took more than three decades to build.

2. Based on your position as chairman of a large crop insurance company what is your greatest concern regarding the future of crop insurance?

Answer: My greatest concern regarding the future of crop insurance is the fear of excessive government intrusion in the industry. Of course, as long as the taxpayer is helping to stabilize the farm production sector, the government has a responsibility to ensure accountability on behalf of the taxpayer. My concern is that government goes beyond oversight and impedes what the private sector can do best—which is to efficiently sell and service farmer customers in a competitive marketplace. We have seen a number of proposals that would be provided at no cost and include coverage levels currently provided by crop insurance. In 2011, $3 billion in premium, or 25 percent of the total premium, was at the 80 percent and 85 percent levels (Source: RMA Summary of Business). Permitting producers to buy crop insurance at these high levels and retain the benefits of such purchases incentivizes the use of crop insurance and improves the overall protection producers would have in the event of natural disasters or low prices. Our message is that future proposals "do no harm" to crop insurance and that farmers and ranchers continue to benefit from the effective safety net that has been built over the past 30 years.

In the past year, we all have witnessed the constant pleas by farmers and farm groups to maintain and improve crop insurance as the key, essential component of U.S. farm policy. The program has proven itself to farmers, farm suppliers, and the public. The success of the program has reduced the need for costly ad hoc disaster assistance and pointed the way to a future where farmers manage their own risks with effective tools for which they pay part of the cost. My fear is that government programs, however well intended, may undermine the extraordinary success that has been achieved by Congress and producers in raising crop insurance participation and coverage levels and making more secure the production of food, feed, fiber and fuel to the benefit of the nation.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Travis Henry Satterfield

Senator Pat Roberts

1. What do you or other farmers in Mississippi typically grow in rotation in with rice?

Soybeans are the most common rotation with rice, but some fields are also suitable to grow cotton and corn in rotation. However, I would note that this is not true in many rice growing areas of the country, where producers have much less flexibility to plant other crops because of climate and agronomic conditions. For example, in many rice growing areas in Texas and Louisiana producers cannot profitably grow any other program crops. Rice is often rotated with pasture or laid fallow, but producers can seldom profitably produce other crops.

a. So growers have a choice year in and year out over what they grow. And how do producers currently decide what to plant?

Decisions on what to plant are based on rotational practices, market prices and marketing outlook for the various crops, input costs, and the ability to forward contract or lock in favorable market prices for the crop.

2. If a target price for rice was set at $13.98/hundredweight, how often would it be predicted to pay out over the next ten years? How many times would it have paid out over the previous ten years?

Based on current CBO price projections, a $13.98/cwt target price is projected to pay in each of the next 10 years, if you assume CBO price projections are accurate. Using these projections the payment amount per hundredweight in each year would range from a high of $1.16/cwt (only one year above .90/cwt) to a low of $.75/cwt.

Although exact figures regarding how often it would have paid out in the previous 10 years have not been calculated, it is expected that a $13.98/cwt target price would have triggered over the previous 10 years. However, we would note that input costs and market prices have changed significantly over this 10 year period, and are such that an analysis of this target price level for the previous ten years does not accurately reflect current conditions that the rice industry is facing.

a. In previous years when a $13.98/hundredweight target price would have paid out, were all of those years' ones where the average national revenue fell below the average national cost of production?

Depending on what figures are used this analysis will provide mixed results. We would reiterate that the previous ten years does not reflect our current situation in the rice industry and are extremely reluctant to base a future program on past conditions which have changed dramatically.

3. How did the industry decide on $13.98/hundredweight as a target price?

Our industry analyzed the value we have received from the direct payment program, and also the relationship between our current costs of production and the current $10.50/cwt target price for rice. Clearly, the current target price level is no longer relevant for rice, just as is the case for most other crops and the respective target prices. These levels are well below today's cost of production. We looked at both USDA ERS, and also the Texas A&M Agriculture and Food Policy Center (AFPC) cost of production data for rice. AFPC maintains 14 representative rice farms across the rice growing regions and we believe the data from these representative farms provide the most accurate estimate of production costs data.

For 2011, USDA/ERS cost of production for rice was $13.25/cwt and the AFPC average was $14.70/cwt. The average of these two is $13.98/cwt. And while some will claim it is inappropriate to set a target or reference price level at the cost of production, the fact is the effective level of support provided under a target price like program (at least as we understand the proposal developed last fall) is well below the actual cost of production since the target price is only applicable to a percentage of planted acres (i.e. 85%) and paid on historic counter cyclical payment yields, which for most rice farmers are 60-70% of current yields. So even with a $13.98/cwt target price, our effective level of price protection based on average Mississippi payment yields would be $7.37/cwt.

4. How much does the cost of production vary from, say, Texas to where you grow in Mississippi? And how much do those expenses vary from year to year?

Rice production costs in Texas will average about $1,200 to $1,400 per acre and in Mississippi my costs average about $900 to $1,000 per acre. And our expenses vary some from year to year, but we are basically seeing our costs trending upward. Spikes in energy and fertilizer costs can result in some significant increases some years, like we experienced in 2008.

Senator John Thune

1. In your testimony you provide that the rice industry has been working on a new generation of crop insurance product that would help with margins, but you said it would be available later than 2012. When do you anticipate that this product would be available?

Our hope is that if approved by FCIC this year, then RMA would be able to implement the policy as a pilot program for the 2013 crop year. It is possible this timeline could slip until 2014. In either case, RMA would plan to run the pilot for 4 years before determining whether to make it a permanent policy. The pilot program is intended to allow an opportunity for modifications and improvements to ensure the policy performs as intended. However we would note even as we hope, that we have been working on this for several years and that an effective insurance product is still not available.

2. How would this product work?

This product, as currently designed, would allow a rice producer to insure a percentage of the expected margin per acre for the crop. This is done by coupling with existing revenue crop insurance policies (that cover yield and price) a third component, input costs (primarily energy and fertilizer). These costs are estimated on a regional basis in advance of the crop being planted. The grower can elect a coverage level to protect against a percentage of the expected margin. At the end of the growing season if those input costs increase (and/or market prices decline) on a regional basis and the realized margin is less than the percentage guaranteed, then an indemnity is triggered. This product is designed to help insure against part of the increase in input costs that growers incur during the growing season. These can be substantial in rice production, particularly if dry weather results in additional irrigation pumping which increases a grower's energy cost to produce the crop.

3. If this product were available today as you envision it working, would rice still need a price guarantee program in the Commodity Title?

Yes, definitely. We believe rice, and all crops, need a price-based policy in the commodity title to protect against multi-year price declines. Current crop insurance policies, as well as the margin protection product under development, are not designed to provide deep price protection. Crop insurance only provides price protection within one individual growing season based on that year's futures market prices. If prices decline sharply, then the price protection within crop insurance declines with futures prices since these are the basis for the price levels set in most crop insurance policies.

4. How do you think crop insurance should be improved to provide more effective risk management for rice?

In addition to the development and implementation of the above margin protection product, our industry is also in the development phase of a downed rice endorsement that could be added to existing crop insurance policies for rice. This endorsement is intended to provide some assistance in circumstances where a weather event near harvest time flattens the rice crop, which results in significant increases in harvest expense and quality losses. This endorsement would provide some indemnity to help offset these losses and added expenses.

Also, we strongly believe the rice policies should be re-rated to better reflect the actual risk in rice production, which is largely price risk, and less yield risk. Currently, there seems to be an institutional misunderstanding of risks in the rice industry as opposed to those risks jointly experienced by other commodities. In addition, we think rice policies should be included in the trend-adjusted APH development to better reflect the recent increases in rice yields.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Michael Scuse

Chairwoman Debbie Stabenow

1) Our principles for this farm bill are risk and defensibility, and they are inter-related: programs that do not help farmers manage risk are not defensible, especially in this budget environment. Direct and counter-cyclical payments are currently made on base acres. How do payments made on base acres relate to the production risks the farmers actually face?

   Response: For the 2010 crop, base acres on 1,713,662 farms enrolled in DCP/ACRE totaled 260.4 million. These farms planted 243.0 million acres of covered commodities and peanuts. Thus, on average, producers planted 93.3 percent of their base acres to covered commodities or peanuts. Producers received direct payments on 83.3 percent of their base for the 2010 crop. Counter-cyclical payments were to be made on 85 percent of 2010 base acres.

2) We heard from a blueberry grower from Michigan about the need for affordable specialty crop insurance, but can you tell us what USDA is doing and how Congress can help to expand access to effective crop insurance products to the fruit and vegetable producers who want it?

   Response: Participation in the crop insurance program by specialty crop producers is increasing. We estimate about 47 percent of vegetable crop acreage is now covered by the program and about 78 percent of fruit crop acreage. In general, there are few specialty crops for which insurance coverage is not available, at least if the crop has significant market value and producers desire such coverage.

   The Risk Management Agency (RMA) currently offers an Actual Production History (APH) crop insurance program for blueberries for five counties in Michigan. Blueberry growers whose farms are not in these five counties may request a written agreement for insurance coverage. RMA calculates premium rates with the goal of covering anticipated indemnities, plus a reasonable reserve. The government subsidizes on average about 60 percent of the premium, with the farmer paying the remaining amount.

   RMA continually seeks to offer new programs for specialty crops. The Federal Crop Insurance Act in section 508(a)(1) gives authority to offer insurance where there are sufficient data to calculate actuarially appropriate premium rates, establish accurate transitional yields, and determine adequate prices. Unfortunately, for specialty crops, these data are frequently lacking or packers and processors are unwilling to provide it. Encouraging grower groups, packers, and processors to maintain and provide good historical records is important in creating new insurance programs for specialty crops. Section 508(h) of the Federal Crop Insurance Act also provides a mechanism for any individual or group to develop an insurance program for their particular commodity and submit it for approval to the Federal Crop Insurance Board of Directors. Over the past several years, many new programs for specialty crops have been approved using this procedure.

3) We are writing this farm bill with an eye toward increasing the defensibility of programs for taxpayers and expanding risk management tools for farmers. One of the programs under the most scrutiny is the Direct Payment program because it pays out on historic base acres rather than planted acres. Can you tell me how many farms currently receive Direct Payments but don't currently grow a covered commodity?

Response: For the 2010 crop year, 270,481 farms (15.8 percent) with 15.1 million base acres (6.2 percent of enrolled base) did not plant any covered commodity or peanuts on their farms. It does not include any base associated with CRP; when CRP contracts expire and are not re-enrolled, the 15.1 million acre number will increase.

Senator Pat Roberts

1) USDA launched an initiative in 2010 called MIDAS. The purpose of this initiative is to modernize technology and streamline the delivery of services to producers. This initiative is well underway. Can you talk a little about how a new Farm Bill and a slate of new farm programs could impact that project and its timeline?

Response: A key business driver of the MIDAS initiative is to create a flexible core platform for the future, providing the ability to efficiently add new programs or modify / delete existing ones. For that reason, the Farm Service Agency is leveraging configurable package software and a flexible business rules engine as the basis for MIDAS. Once fully established, the new system will considerably enhance the Agency's overall ability to be responsive to legislative or other changes.

The current MIDAS timeline is based on a phased-deployment plan, starting with the establishment of the core processes, followed by iterative releases that will enable one or more Farm Programs. The order in which Programs are to be released is based on criteria including program commonality, annual application deadlines, and payment cycles. Once the details of the new Farm Bill are known, any new Programs contained therein will be analyzed against similar criteria and incorporated into the release schedule. The complexity of any new program will of course be a factor in determining how quickly it can be incorporated into MIDAS.

The Agency is excited about the future agility and ability to efficiently respond to Farm Bill changes that the new system is designed to provide to the field.

2) The President's budget refers to "return on investment" for the crop insurance companies, but financial analysis of the industry focuses on "return on equity," and during the last SRA, the financial matrix used was the "return on retained premium." These are not the same things.

When the President's budget states that the Administration wants a return on investment for AIPs of 12%, how are you defining return on investment? Does the Administration really mean return on retained premium, which is the terminology used in the SRA? If so, does the Administration intend to use net or gross return on retained premium in making this calculation?

Response: For purposes of SRA negotiations, the financial metric used is the rate of return on retained premium. This metric is the ratio of underwriting gains earned by Approved Insurance Providers (AIPs) to the premium retained by AIPs. This rate of return is not net of any expense deficit or surplus as AIPs are provided separate compensation for the administrative and operating costs (A&O) incurred for program delivery. The latest SRA is structured to provide approximately a 14 percent rate of return on retained premium to AIPs.

The Administration has proposed that the rate of return be reduced to about 12 percent, which we believe will still provide adequate profit opportunities for the industry. While this was characterized as a return on investment in the President's budget, the scoring of the proposal was consistent with a 12 percent rate of return on retained premium.

As noted in the President's budget, RMA contracted for a study of the reasonable rate of return for AIPs: "Rate of Return Update – 2008: Reasonable Rate of Return" published June 23, 2009. A copy of this study can be obtained from RMA's website:
http://www.rma.usda.gov/pubs/2009/millimanreasonablerate.pdf

This study used return on equity as the financial metric to allow the direct comparison of multi-peril crop insurance against other Property & Casualty lines of business as well as other businesses that report to the Securities and Exchange Commission. The measure is used by the state insurance departments when evaluating rate filings submitted by insurance companies. As defined by the National Association of Insurance Commissioners, return on investment is the same as return on equity, as described in the above study.
http://www.rma.usda.gov/pubs/2009/millimanhistoricalrate.pdf

3) Is this definition of return on investment the one that the Administration intends to use during the next SRA negotiation? And more importantly, what would the Administration intend to do with the savings gained through this kind of action in an SRA?

Response: The financial metric used to measure the AIP rate of return in SRA negotiations has historically been the return on retained premium. We anticipate using this metric in the next SRA negotiation. Calculating the return on retained premium does not require one to make assumptions about interest rates, allocation of policyholder surplus, etc. as required for various other measures, such as the return on investment/equity. As a result, using a metric based on the return to retained premium should be less subject to controversy.

In regards to the use of any savings, the President has proposed a series of measures to stimulate economic growth and employment, and to reduce future budget deficits. The anticipated savings from reducing the target rate of return to AIPs from 14 percent to 12 percent under the current SRA would be used for these purposes. For the next SRA negotiation, it is too soon to speculate what changes may be proposed. The next SRA negotiation is scheduled to be effective for the 2016 reinsurance year, which means that negotiations should be completed no later than June 30, 2015. Based on past practice, we would not expect negotiations to begin in earnest until late in calendar year 2014.

4) When looking at the financial status of the crop insurance industry, does USDA consider re-insurance expenses? If not, why not? If so, how are these expenses accounted for?

Response: RMA does not consider reinsurance expenses as the Federal Government is the primary reinsurer for the Federal Crop Insurance Program. AIPs are under no obligation to obtain private reinsurance, though such is a good business practice and many companies do obtain private reinsurance for their portion of the risk Further, an AIP's private reinsurance is used to determine the maximum crop insurance premium the AIP is authorized to write. Due to the differences in the financial capacity/risk management needs of individual AIPs and the large variety of available reinsurance agreements, each AIP would have a different reinsurance structure and attendant cost of reinsurance. In addition many reinsurance agreements provide that the reinsurer will pay a ceding commission (and possibly 'profit share') to the primary insurer (e.g., AIP) for placement of the business, as discussed below. As with reinsurance expenses, these reinsurance payments received by AIPs are also not considered.

A quota share reinsurance agreement allows the AIP to cede up to 100% of the premium and risk they retain after cessions to FCIC. The AIP would normally receive a ceding commission (a percent of the premium ceded to the reinsurer), and also may be eligible to receive a share of the reinsurers underwriting gain. The reinsurer is similar to a business partner in that they have a percentage share in the AIP's program results, thus there is no reinsurance expense.

Stop-loss reinsurance secured by an AIP is designed to limit their net losses on retained premium after FCIC reinsurance. Each year the AIP pays the stop-loss reinsurance premium (a percent of retained premium), and in a loss year the company losses are reduced by the losses paid by the stop-loss reinsurers.

Under statutory accounting principles used by insurance companies, gross premium and loss is reduced by the premium and loss ceded to reinsurers. Analyzing the effect of reinsurance would require a determination of the long-term cost and benefit of reinsurance which will vary by AIP.

5) RMA has been evaluating a limited-irrigation crop insurance policy for several months now. As we heard during the hearing, this type of policy would be very beneficial to drought-stricken farmers in Kansas and other states. Can you please provide a status update on this product? Are there problems or concerns with moving forward with this product, and if so, what are they? When do you believe it will be available to farmers?

Response: RMA has been actively evaluating crop insurance alternatives for producers who are facing reductions in their historical irrigation water use, including drought-stricken producers. One of these alternatives is called "limited irrigation" whereby a producer's fully irrigated production guarantee is reduced by an estimated decrease in yield corresponding to a lesser amount of applied irrigation water. The yield reduction estimation is based on a methodology developed by a cooperative agreement between RMA and the University of Nebraska – Lincoln for decreased application of irrigation water to corn and soybeans for select counties in Colorado, Kansas, and Nebraska.

There are concerns with limited irrigation and its methodology. These concerns include how the methodology will work with existing crop insurance policies and procedures, actuarial soundness/rating, RMA system impacts, and the potential disparate treatment to neighboring states and other regions; as well as other crops. As a result, RMA is in the process of soliciting a contract to evaluate limited irrigation. The evaluation will provide RMA with an assessment of the following: 1) if a limited irrigation practice is actuarially feasible 2) if the methodology for yield reduction estimates is sustainable and maintainable 3) if limited irrigation is applicable regionally or nationally 4) if there are other alternatives that are more administratively feasible to accomplish the same objectives. If the evaluation determines limited irrigation is feasible and necessary, then the contractor will complete the development of a crop insurance product to address the risk management needs of producers facing a reduction in their supply of irrigation water. RMA is presently in the process of expeditiously drafting the contract specifications. Based on normal contracted timetables of tasks for contract solicitation/award and development, the earliest year for implementation would be the 2014 crop year.

Senator Kirsten Gillibrand

1) Mr. Scuse, USDA is proposed some large and some small savings to crop insurance in the President's budget. How much funding would it take to get LGM Dairy expanded or made into a permanent program?

   Response: Livestock Gross Margin for Dairy (LGM-Dairy) is owned and maintained by Iowa Agricultural Insurance Innovations. The Federal Crop Insurance Act (Act) authorizes $20 million annually to support the sale of livestock insurance. If every dairy farmer were to use the LGM-Dairy product, RMA estimates it would need approximately $715 million per year to support this program, based on recent market conditions and purchasing patterns of dairy producers.

Senator John Thune

1) Mr. Secretary, since the 2008 Farm Bill, USDA's Farm Service Agency or FSA has administered the ACRE program.

   On November 5, 2010 USDA issued a press release announcing the very first ACRE payments for 2009 crop wheat, corn, soybeans, peanuts, upland cotton, and other crops – more than a year after most of these crops were harvested.

   As a farmer yourself, would you agree that a revenue assistance type of program of the future should be structured to provide assistance at least within the crop year for which a loss is determined?

   Response: As a farmer, it's always nice to get a payment sooner rather than later. Programs like ACRE and SURE use the NASS season average price for the crop, as specified in the 2008 farm bill, in calculating benefits, which is available generally about a year after the crop is harvested. This is the most accurate price information that we have, but it comes at a cost—a payment later than most farmers would like. The timeliness of payments versus use of the best possible information on which to determine a producer's loss and provide a payment reflective of that loss is a difficult trade-off.

2) The ACRE program required that producers bring in 5 years of production records as part of determining ACRE eligibility and also utilized marketing year averages to calculate prices.

   If a revenue protection program would be created in the next Farm Bill to replace ACRE, SURE and direct and counter-cyclical payments that is not restricted by fruit and vegetable plantings, that is not capped by base acres on a farm, and which utilizes existing records already available at USDA including:

- Actual production history (APH) records from RMA (Risk Management Agency)
- Crop reporting district yields from NASS (National Agricultural Statistics Service)
- RMA Harvest Prices or an average of the first five months of the marketing year for a crop if Harvest Prices are not available...

Would you agree that a program developed using these parameters would be easier for FSA to administer than ACRE and SURE and more likely to provide timely payments?

Response: In general, the fewer the data sources that we have to pull together from multiple agencies in implementing a program, the easier it is for us to administer. One of the most time-consuming activities currently involves developing accurate yields for individual producers. Activities such as maintaining base acres and addressing payment reductions due to fruit and vegetable planting restrictions also take a fair amount of time and effort. However, payments based on base acres would be easier to verify and estimate than those on actual planted acreage. Regardless of the type of programs that Congress implements, we will work to ensure that we deliver benefits to producers as quickly as possible.

3) In your opinion is there a danger in having too much dependency on crop insurance as a safety net for production agriculture? For example with certain Farm Bill proposals that would add additional layers of crop insurance on existing coverage, will that make crop insurance an even greater target by increasing subsidy costs and potential indemnities further beyond the $10 billion plus record set for 2011 so far? If you do not believe there could be too much dependency on crop insurance, please explain why not.

Response: As evidenced by the President's budget, the Administration believes that reductions should be made to Federal crop insurance subsidies. While we believe that crop insurance is a foundation of our farm safety net, the program costs taxpayers almost $10 billion a year to run: about $3 billion per year for the private insurance companies to administer and underwrite the program and about $7 billion per year in premium subsidies to the farmers. A USDA commissioned study found that when compared to other private companies, crop insurance companies' rate of return should be around 12 percent, but that it is currently expected to be 14 percent. The Administration is proposing to lower the crop insurance companies' rate of return to meet the 12 percent target, saving $1.6 billion over 10 years. In addition, the current cap on administrative expenses is based on the 2010 premiums, which were among the highest ever. A more appropriate level for the cap would be based on 2006 premiums, neutralizing the spike in commodity prices over the last four years, but not harming the delivery system. The Administration, therefore, proposes setting the cap at $0.9 billion adjusted annually for inflation, which would save $3.2 billion over 10 years. Finally, the Administration proposes to price more accurately the premium for catastrophic (CAT) coverage policies, which will slightly lower the reimbursement to crop insurance companies. The premium for CAT coverage is fully subsidized for the farmer, so the farmer is not impacted by the change. This change will save $.3 billion over 10 years.

In addition, the Administration is proposing to reduce producers' premium subsidy by 2 basis points for all but catastrophic crop insurance, where the subsidy is greater than 50 percent. Most producers pay 40 percent of the cost of their crop insurance premium on average, with the Government paying for the remainder. This cost share arrangement was implemented in 2000, when very few producers participated in the program and "ad-hoc" agricultural disaster assistance bills were passed regularly. Congress increased the subsidy for buy-up coverage by over 50 percent at the time to encourage greater participation. This proposal is expected to save $3.4 billion over 10 years.

In conclusion, the crop insurance program is, and will continue to be the backbone of the safety net. Improvements such as those mentioned above will improve the defensibility of the crop insurance program providing farmers the stability they need.

4) Your testimony addressed the risks that are associated with farming. We all want a strong and vibrant agriculture sector long into the future and the only way we will have one is if the next generation of farmers and ranchers can be provided opportunities to overcome increasingly challenging economic hurdles.

   How has the safety net worked for beginning farmers and ranchers and also the special provisions we included in the 2008 Farm Bill for beginning and socially disadvantaged farmers and ranchers?

   Are there areas we should consider improving in the next farm bill?

   Response: Ensuring the next Farm Bill addresses the unique needs of beginning farmers and ranchers is a top priority of Secretary Vilsack and this Administration. USDA recognizes the large financial hurdles new and beginning farmers face as they enter the production agriculture arena. For example, we know that established farmers have nearly twice the capacity to repay their debts as young farmers. Differences like this further underscore the need to ensure our safety net meets the diverse needs of today's agriculture producers.

   Our Farm Credit programs continue to be of major importance for beginning farmers and ranchers, as the cost of getting into agriculture can be prohibitive. In addition, the Secretary has asked the Risk Management Agency (RMA) to review the crop insurance program to see if there are additional ways to help beginning farmers purchase coverage. New and beginning farmers tend to have low levels of cash reserves and USDA believes new initiatives should be considered for the upcoming Farm Bill to assist new and beginning farmers including looking at premium rates and reducing administrative fees .

   The 2008 Farm Bill required a study to determine if reporting requirements for the two Adjusted Gross Revenue insurance products could be reduced for new and beginning farmers. RMA contracted for a study to explore this possibility, but unfortunately, the fundamental nature of the Adjusted Gross Revenue insurance products is such that the contractors recommended that reduced reporting requirements were not feasible.

   RMA has had provisions in place for several years to allow new and beginning producers more latitude in setting up their Actual Production History, including allowing new producers to utilize 100 percent of the T-yield in their Actual Production History database.

   USDA will continue working to recognize the needs of new and beginning farmers in the Federal crop insurance program and in our farm programs, and we would welcome the opportunity to further work with the Committee on potential new initiatives.

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Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the Record
Mr. Bob Stallman

<u>Senator Pat Roberts</u>

1. We heard a lot of farmers talk during the hearing about how important the current crop insurance system is to their operations. Do you hear similar stories when you travel the countryside?

   a. We've also heard folks talk today about how to improve on the crop insurance system we have today – from separating irrigated and non-irrigated acres, to allowing area policies to be stacked on top of individual policies, to finding ways to cover even more crops than we cover today.

   What perceived problem with crop insurance do you think your deep loss program addresses? Would there be a simpler way to address this/these problem(s)?

   <u>Answer</u>: We certainly have heard from our farmers about the importance of crop insurance to their risk management strategies. In fact, the critical role crop insurance plays in virtually every farmer's safety net is the driver behind our proposal, which is not directed at correcting a particular problem with crop insurance. Rather, it aims at bringing about an integration of crop insurance and commodity programs in a way that is effective and makes more sensible use of increasingly limited taxpayer dollars. Both crop insurance products and commodity programs are now largely revenue based and, to a large degree, cover essentially the same risks. Farm Bureau's proposal would concentrate commodity program spending on covering systemic risks – the risk of widespread, deep losses. These are the kinds of losses that pose the greatest threat to the viability of individual farm operations. These are also the kinds of losses that the public, from a food security and price stability standpoint, has the greatest interest in helping to mitigate. Covering the risk of these losses with current commodity program dollars would help to reduce premium rates for higher levels of individual insurance, making it easier and more affordable for each producer to tailor their individual farm risk management on their own. Lower premiums would also help encourage producers who are skeptical of the value of individual crop insurance, particularly at buy-up levels of coverage, to participate more actively in the crop insurance program.

2. You've mentioned that one of the biggest benefits of the Systemic Risk Reduction Program (SRRP) would be reduced premiums for farmers for their individual crop insurance policies. The Congressional Budget Office's (CBO) recent scoring of SRRP shows a 4.3 percent reduction on premiums. Do you think CBO's estimates are close to accurate?

   Answer: We have not received any details on CBO's score of our proposal, so we have very little basis for assessing their work. We did inquire of Chairman Lucas' staff if CBO estimated any premium reductions and were told none of the specifics were included in the documentation they received from CBO, which provided estimates at a 70 percent free coverage level. We analyzed a 70 percent core program with a 75 percent individual revenue policy. Under our analysis, a premium reduction estimate of 4.3 percent is correct for corn, but is low for the other program crops. Our work suggests the following premiums reductions: soybeans, 6.2 percent; wheat, 10.7 percent; cotton, 7.8 percent; grain sorghum, 6.2 percent; and rice, 18.3 percent. Premium reductions can vary considerably by crop since the risk profile for each crop is different, as well as different for each region of the country. We have not estimated premiums adjustments for peanuts or for the five fruits and vegetables proposed for coverage under SRRP. If the score by CBO and budget considerations allow, we would support moving coverage under the core program up to a higher level, which would contribute to additional premium reductions over and above those shown here.

Senator Kirsten Gillibrand

1. Last year, the catastrophic floods of Irene and Lee highlighted in New York how critical crop insurance is for fruit and vegetable growers. These tragic events meant that many New York specialty crop farmers lost entire crops just before harvest, often meaning losses in the half a million dollar range. Non-Insured Crop Disaster Assistance Program (NAP) insurance did not come close to covering their losses. Insurance for specialty crops in our country is inadequate and needs to be fixed. Mr. Stallman, what are you and the American Farm Bureau doing to improve specialty crop insurance for our farmers?

   Answer: As a general farm organization, we place high priority on ensuring the farm legislation benefits all agricultural commodity sectors in a balanced, coordinated manner. While some interested parties can push Congress to allocate more funding for programs that benefit only their producers without worrying about the impact of that funding shift on other commodities, Farm Bureau seeks balance among all producers' interests. We have proposed a catastrophic revenue loss program for all program crops, as well as five fruits and vegetables – potatoes, tomatoes, grapes, sweet corn and apples. These deep loss events are typically beyond any producer's control, would endanger the financial survivability of the farm and, in the past, have prompted enactment of ad hoc disaster programs. Our plan focuses on protecting farmers from these situations and brings program benefits into play only when they are needed, rather than being considered a supplemental source of annual income.

Under the Farm Bureau plan, each producer would be provided a coverage level equal to 75 percent of the last five years' Olympic average revenue. This would be provided for the same fee charged for catastrophic crop insurance: $300 per commodity per county. Farmers can then supplement that coverage with one of the current crop insurance programs based on their own assessment of their farm's risk management needs.

While we would have liked to have the coverage available to all fruits and vegetables, we believed it more prudent to try to learn to "walk before we run" and therefore prioritized only five fruits and vegetables for the area-wide insurance coverage based on catastrophic losses. We firmly believe this catastrophic loss revenue program would be extremely helpful in serving just the kinds of losses you described in 2011.

2. Over the past two years, I have traveled all across New York State, meeting with agriculture producers about the importance of the next farm bill and listening to their problems and ideas for reform. The Environmental Quality Incentives Program (EQIP) is by far the most popular conservation program. Nearly 500 farms a year enroll in the program, resulting in farmers having the resources they need to conserve New York's critical agricultural working lands. Thanks to EQIP, nearly 70,000 acres of New York farmland is currently farmed using sustainable practices. While this is a very successful program that New York farmers rely on, use and trust – we could be supporting even more farmers in their role as environmental stewards if EQIP funding were bolstered. Mr. Stallman, does American Farm Bureau support increased funding of EQIP? And if so, which other conservation programs would you suggest we cut to pay for the increase?

   Answer: We do not support increasing funding for any program – be it conservation, commodities or nutrition programs. We know that addressing the budget deficit will cause Congress to reduce funding in virtually every program area. Many of our producers, however, tell us that the EQIP program is the most important conservation program in existence. While we support all conservation programs, our voting delegates have been clear the last few years that if the budget requires reductions in conservation spending, they prefer those cuts come from retirement land programs rather than working land programs.

3. Various commodity crop proposals for revenue protection under Title 1 of the farm bill have been made by my Senate colleagues. I understand that these proposals include "shallow loss" revenue protection for crop producers. Would this type of coverage be free for commodity producers? What about catastrophic coverage?

   Answer: With respect to the various shallow loss programs that have been proposed, a number of different alternatives are on the table. In general, all of the proposals we are aware of that involve private crop insurance delivery include some level, even if fairly minimal, of producer-paid premium. Proposals based on Farm Service Agency (FSA) delivery generally do not include a producer premium.

Farm Bureau's deep loss proposal is based on delivery through the crop insurance system. Under our proposal, producers would pay the same amount for the core program that they currently pay for catastrophic (CAT) coverage under crop insurance: an administrative fee of $300 per crop per county.

4. Mr. Stallman, I also wanted to ask you about the nutrition title of the farm bill. The Emergency Food Assistance Program (TEFAP) and the Supplemental Nutrition Assistance Program (SNAP) give critical support to American families most in need, but they are also designed to support our American growers. The Secretary of Agriculture is given purchasing authority to buy commodities when prices are depressed and provide this invaluable food to our nation's soup kitchens and food pantries. In what ways does American Farm Bureau support the nutrition title of the farm bill and its positive impact on our growers?

   Answer: In general, we are not very active with regards to the nutrition title of the farm bill. While we have limited policy on those programs, we have abundant policy and interest in the commodity, crop insurance, conservation, rural development, research, etc. titles, so we expend most of our efforts on those areas and leave the nutrition title to those individuals and groups more closely aligned with those issues. We are very supportive of the programs providing free fruit and vegetables to our school children and also Section 32 purchases of fruits and vegetables.

Senator John Thune

1. What modifications do you recommend making to the marketing loan program?

   Answer: We believe the upcoming farm bill commodity title should be comprised of the current marketing loan program, a catastrophic revenue loss program and a strong crop insurance program. We do not recommend any changes in the current marketing loan program.

2. Do you seen any danger in creating additional crop insurance layers for crops as part of the Commodity Title that would increase the current record crop insurance outlays even further than current record levels?

   Answer: The future path of crop insurance outlays will depend much more on market prices and production losses than on changes to Commodity Title programs. Each of those factors is notoriously difficult to forecast. I think it is safe to say that last year's record outlays reflected both the relatively high price guarantees on policies and the historic production losses experienced in much of the country. Thus, it is likely that crop insurance outlays will decline moving forward, regardless of what is done in the Commodity Title. The more difficult question is whether additional crop insurance layers will make crop insurance outlays higher in any given year than they otherwise would have been. Certainly, additional insurance-based shallow loss layers that offer coverage of up to 90 percent or better of expected revenue would increase liability in the crop insurance system. If these programs are free (or heavily subsidized), it should be expected that net indemnities paid would go up. Farm Bureau's deep loss program would not produce this effect. It would very likely *increase crop insurance liability to some degree, but only because more affordable premiums would encourage more producer buy-up to higher coverage levels. But producers would still be paying their share (based on the existing premium subsidy schedule) of an actuarially fair premium to obtain that coverage.*

3. Would you consider a shallow loss program that is projected to have paid 2 out of the last 10 years as a program that would have taken too much risk out of farming?

   Answer: That is a tough question to answer without knowing something about the underlying risk. If a farm experienced no significant losses over the past ten years but received payments in two years, then the program has probably insulated the farm too much from prudent risk management. On the other hand, if the farm experienced half a dozen significant losses over the past ten years and received payments in only two years, then the program has probably done too little. Risk will vary by location and by crop. For any specific situation, the goal of policy should be to help manage against major loss events while making it easier for farmers to deal with the remaining losses on their own.

4. Do you have any analysis that would show how many years out of the past 10 Farm Bureau's Deep Loss program would have paid?

   Answer: It can be misleading to consider any policy alternative using the experience of past years. Existing policies in place in past years have affected market outcomes in ways that may not be relevant moving forward. Also, from a practical standpoint, the Farm Bureau proposal would provide a county-level, crop-specific revenue guarantee, meaning that each county and crop combination within a specific county resulting in literally thousands of possible combinations over the last 10 years that would be difficult to examine in a meaningful, useful way. But the analysis we have done gives us confidence in saying that, looking ahead, a deep loss program – which would clearly make less frequent but generally larger payments than shallow loss alternatives – makes sense in a potentially volatile future.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Steve Wellman

Senator Pat Roberts

1. Soybeans are grown in almost every corner of the country these days. What are some of the regional differences you see in terms of Farm Bill priorities for your soybean growers? What similarities exist?

Answer: Far more similarities exist among soybean farmers and farmers of all other crops than do differences. Regional differences play a role in ASA's policy-setting discussions, as do differences in the other crops they grow, whether they own or rent their land, raise livestock, and whether they are just starting out or have been farming for many years, to name just a few. ASA members are united in our strong support for planting flexibility in farm programs and in recognition that budget constraints are likely to require elimination of Direct Payments in the 2012 Farm Bill. Accordingly, we will support alternative programs that maintain planting flexibility without restructuring crop insurance, which is the core safety net program for soybean farmers. ASA members are also united in our strong support for conservation programs on working lands, on the critical importance of maintaining and strengthening agricultural research programs, and on the importance of export promotion programs maintaining their funding in the 2012 Farm Bill.

2. There seems to be this urban myth floating around that if we eliminate direct payments, conservation compliance just mysteriously disappears. In reality, we know that conservation compliance can be attached to any Title I farm program, and it's also attached to disaster programs and conservation programs like EQIP. Do you think conservation compliance is working, and do you believe we need to add conservation compliance to even more programs such as crop insurance?

Answer: Soybean farmers support and have long complied with conservation programs that decrease soil erosion improve soil and water quality. We expect that conservation compliance will continue in the 2012 Farm Bill; we also expect that participation in the next Farm Bill will continue to approach 100%. We know – many of us from our individual farming operations – that USDA conservation programs make sense both economically and environmentally. ASA does not support adding conservation compliance to crop insurance. The barriers of requiring private insurance companies to enforce it are too great. Further, complaints about the complexity of crop insurance are legitimate. Trying to add another paperwork requirement to the already over-complicated crop insurance program may well have the effect of driving farmers away from crop insurance, leaving them in a precarious situation and the environment no better off.

3. Would you please describe your specific concerns with farm programs driving planting decisions? Could you provide some specific examples of crops that are grown in rotation with soybeans and other oilseeds and those specific situations where government programs could influence planting decisions?

Answer: Past experience has shown that arbitrarily set support prices – in this instance, target prices – will influence planting decisions if prices fall to levels below the support levels. This is especially so for producers who are able to grow several program crops. And historically, support prices have never been set strictly by formula - political considerations have always influenced the values.

Effects of such planting distortions will vary from region to region. Where soybeans are grown in rotation with rice, that crop's favorable target price (in the November language prepared for the BCA) compared to soybean's (with respect to historical price levels) would reduce soybean plantings in times of low prices. The relationships between corn, soybean, and wheat target prices could also influence planting decisions. For minor oilseeds, the wheat target price would affect canola and sunflower plantings in the Great Plains; while in the Northern Plains, the soybean and corn target price could very well draw acres from those crops. Finally, analysis we have received shows that the level of income protection and support available to producers of cotton under the STAX program as compared to levels of revenue protection available to other program crops also could distort planting decision and acreage.

ASA firmly believes that current market prices should be the major driver for planting decisions. Unless target prices are decoupled from planting decisions, the target prices will undoubtedly drive planting decisions if commodity prices were to fall. Support provided to farm program commodities under any alternatives to common revenue-based program should be as decoupled as possible, similar to the current counter-cyclical program.

Senator John Thune

1. Would your choice of a revenue-based program cap payments at a farm's base acres or the farm's planted acres?

Answer: ASA's position for a revenue-based program would cap payments at the farm's planted acres in order to more accurately reflect actual revenue. However, we recognize that providing payments on more than total base acres on a farm would increase the cost of the program at a time when agriculture is being asked to shoulder its fair share in efforts to reduce federal deficits.

Soybeans have about 50 million base acres under the last base update in the 2002 Farm Bill, compared to total planted acres, which have averaged about 75 million acres in recent years. As long as producers have the flexibility to continue to plant according to market signals, and provided alternative program options do not make government payments, rather than the market, a driving factor in planting decisions, ASA believes a revenue program limited to total base acres, or an average of acres planted in recent years, can provide an adequate income safety net.

2. Could you please tell us whether you think a revenue-based program with only a single farm-level trigger, and no county, crop reporting district or state level trigger that would pay in addition to crop insurance would encourage farmers to modify planting intentions to farm for the program if payments for one crop were substantially better than for others? If not, why not?

Answer: A farm level trigger ensures that producers who experience a revenue loss for any of the crops they grow would be partially compensated for that loss, rather than requiring compensation be also tied to losses based on an area trigger. Many farms are in counties or CRDs where the extent of losses may not be sufficient to trigger payments, even though a farm would otherwise qualify for payments. ASA supports requiring individual farms to document actual losses in order to be compensated.

We do not believe using a single farm level trigger would result in greater planting distortions than using both a farm and an area trigger. Under both approaches, the revenue benchmark would be set using an Olympic average of national prices in the previous five years, and a loss would be determined using the national average price for each commodity during the first four months of the marketing year. In addition, as previously stated, producers would be required to document an actual revenue loss for the commodity under the farm level program. Finally, the revenue program would only provide payment on a portion of the revenue loss below the loss threshold. So we do not see how using only a farm level trigger would increase the potential for modifying planting decisions.

Senate Committee on Agriculture, Nutrition & Forestry
Risk Management and Commodities in the 2012 Farm Bill
March 15, 2012
Questions for the record
Mr. Erik Younggren

Senator Pat Roberts

1. You mentioned in your testimony that crop insurance is the top priority of the National Association of Wheat Growers, but even great programs can be made better. Are there things we could do during this Farm Bill to improve the program for wheat growers?

NAWG's goals for crop insurance improvement include lowering the cost to enroll, increasing participation rates, and increasing available coverage. These improvements directly affect wheat as the crop that is grown on some of the riskiest areas of production in our country.

By lowering the cost to enroll in crop insurance the production and revenue risks experience in agriculture are spread across more farmers in the country. Wheat would like to see increased participation in the program as that broadens the base for which risk is spread out in the insurance product as well as increases the number of supporters of the program. By increasing the available coverage to growers you provide a more complete safety net for the nation's food production system. We would like to see an additional 10% of the risk currently covered so most of our wheat acres are covered by policies that cover 70 or 75 percent of the risk and we'd like to see that coverage move to 80 to 85 percent.

In the long term, farmers need to have some certainty in the amount of protection that is available for a certain price. Right now, insurance coverage is based off of a 10-year average of production or revenue. If you have a few bad years in a row, the coverage shrinks even though the risk remains the same or increases. The purpose of any insurance is to help mitigate risk; right now crop insurance doesn't accomplish that simple goal for the long term.

Also, crop insurance looks back at the previous 10 years of growing a given crop on a given piece of land but does not forecast what risks will be in the future. We are working on allowing the contract to allow for advancements in increased yields in recent years through trend yield adjustments. This will be a definite improvement.

Senator John Thune

1. In your testimony you shared with us the importance of crop insurance to your farming operation. Do you think crop insurance could be improved or modified to the point that no other federal safety net program would be needed?

In my region of the world, with my crop mix, yes, crop insurance is the most important part of the federal safety net. However, even as the most important component, I have experience decreases in protection with multiple years of loss. My APH went down and our protection followed it down even though our risk increased. We still see this problem across wheat production areas that are experiencing multiple disaster years.

Additionally, in my national role with NAWG I've been able to meet farmers in other areas of the country who grow different crops and the program does not offer them the safety net that I have.

While local rents and other localized input prices may reflect the downturn on local farms, input prices like fertilizer and fuel are determined on a world market and may not decrease. Because we are squeezed on both the input price risk side and reduced protection from crop insurance in multiples of loss, it makes the ability to produce a crop that much more uncertain every year. Until farmers are able to maintain insurance protection from year to year through multiple years of loss, I don't see crop insurance being the sole safety net. That being said, we greatly appreciate continual improvements such as personal T yield as ways to bridge the multiple disaster years problem.

2. Your testimony provides that NAWG generally supports a revenue based program with only an on-farm trigger. Are you concerned that a program such as this coupled with crop insurance would encourage farmers to modify planting decisions? If not, why not?

Yes, my testimony did request an on-farm trigger in a revenue based program. It also called for changes to existing programs or newly-created programs that would not affect planting decisions and allow producers planting flexibility, which has been a central tenet to the farm programs in title one of the last three farm bills.

Coverage at the farm level provides a safety net with fewer holes for farms with losses than coverage at the state, crop reporting district or county levels. For the most part, disasters don't happen to a county, crop reporting district or a state, they happen to a farm. Putting the trigger at the farm level helps those farmers directly affected by disaster when their government-drawn area may not have been affected enough to trigger the program payment.

Crop insurance contracts have been widely successful in delivering protection on the farm level. Crop insurance products are based on the market price and allow the market signals to reach the farmer and similarly if a title one revenue product is tied to the market price, those signals will be retained. As long as the revenue program is based off of the market price I don't see it affecting planting decisions.

We base our decisions based off of agronomic crop rotation needs, weather, and market prices. We always look at what a given piece of land has grown in the previous years to decide what to grow on it in the next 1 to 3 years. Then we look at what the springtime weather brings us and adjust those plans based on that reality. Nearly every year we put sugarbeets on a piece of land that was scheduled for wheat or soybeans. And wheat or soybeans goes on the land that was supposed to have sugarbeets; we have to be flexible. At times, we have some acres that can be planted to any crop. In that case we look to the market to determine what could give us the best return on that piece of land. My point being, in my part of the world there are many factors that go into planting decisions. I see the influence of a Title 1 revenue program being far down the list of factors.

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