National Association of Wheat Growers

415 Second St. NE, Suite 200 • Washington, D.C. 20002 • (202) 547-7800 • www.wheatworld.org

Written Testimony of the
National Association of Wheat Growers
Gordon Stoner, President

Before the Senate Agriculture Committee
The U.S. Department of Agriculture and the Current State of the Farm Economy
September 21, 2016

Chairman Roberts, Ranking Member Stabenow, thank you for holding this hearing to review the "Current State of the Farm Economy." Following several years of widespread drought in many areas as well as overly wet conditions in others, wheat farmers in many areas of the country have finally started to experience more favorable growing conditions (though, of course, dry conditions continue in some of our western states, particularly California). This has resulted in record wheat yields in many areas, including in the Chairman's home state of Kansas. This significant increase, combined with large crop production in other major wheat-producing countries, has created a surplus of global supply. Without room to store all the current wheat, there are wheat piles on the ground and wheat being bagged on field, a sight more commonly seen in corn country.

Like most of the other commodities, the decrease in the price of wheat does not cover the cost of production. As of yesterday, the Chicago Mercantile Exchange (CME) Group's December wheat futures price began the day at $4.06. Local cash prices are even worse, with basis levels that haven't been seen in years. Yesterday at one western Kansas elevator, the cash price was $2.74 a bushel. In fact, the price has gotten so low that it's dipped below loan rates, triggering the Marketing Assistance Loans (MALs) and Loan Deficiency Payments (LDPs) programs which provide short-term cash flow assistance. The availability of MALs and LDPs is a rare occurrence, with loan rates only having been triggered a few times since the 1990s.

These prices are already hitting wheat farmers' bottom lines. According to a recent report[1] from USDA's Economic Research Service (ERS), net cash farm income is projected to decline by 13.3 percent to $94.1 billion in 2016. ERS also projects that net farm income will fall by 11.5 percent to $71.5 billion. These declines follow even bigger drops in 2015.

For many decades, there has been a farm support system in place designed to provide a safety net to help a farmer's business survive financially in years when bad weather strikes or when prices drop to unsustainable levels. Those programs have evolved over time, and are market-based and compliant with our international trade commitments. However, U.S. farmers aren't competing on a level playing field. Several other large wheat-producing countries are subsidizing their farmers significantly beyond their World Trade Organization (WTO) commitments, which has

[1] http://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/2016-farm-sector-income-forecast.aspx

driven prices down even further than what might have been otherwise. Specifically, China has far exceeded its trade commitments as was found in a study conducted earlier this year conducted by Iowa State University. The study found that U.S. farmers are being deprived of $650 million in potential revenue in just one year directly attributed to China's subsidy-induced over-production, which has driven down global wheat prices. However, the U.S. farm support programs have long fallen within our WTO limits. Last week's announcement by the Administration that the U.S. Trade Representative would be pursuing an enforcement action against China at the WTO is welcomed news to U.S. wheat growers. While such an action won't provide immediate relief from the current low wheat prices, we see this as positive news for the wheat market.

Agriculture is a unique industry. We face systemic risk that can affect a wide geographical area or the entire commodity market. Drought or flood can wipeout farmers' entire crops. No matter how much one diversifies their operations such risk can be difficult to mitigate. As such, crop insurance programs provide effective tools for farmers to protect against such disasters. Through the federal crop insurance program, the farmer pays a premium for their coverage, the cost of which is shared with the Risk Management Agency (RMA). The program is administered by private companies, and premium rates are actuarially sound. The improper payment rates for the program are half the average of all federal programs.

The availability of a workable and cost effective crop insurance program is essential to enable farmers to access credit. Most lending institutions will require farmers to utilize risk management tools in order to protect against production losses. During the current economic downturn in farm country, access to credit is absolutely critical.

Contrary to claims made by detractors, Farm Bill programs are not intended to guarantee that farms will flourish. They are intended to provide a safety net when circumstances outside of the farmer's control negatively affect their operation. The current state of the farm economy shows that farmers aren't flourishing, and in fact, the high demand for loan programs through the Farm Service Agency (FSA) is an indicator of how tight financing has become.

In addition to crop insurance, Farm Bill detractors will also claim that the Agriculture Risk Coverage (ARC) program is an "income guarantee" program and not a safety net program. ARC only covers a narrow band of revenue support, and it's based entirely on a rolling average of past years' revenue levels and on market conditions. And it should be noted that for all commodities, ARC payments are likely to wind down by the time the current Farm Bill expires, as farm revenue has been regularly declining year to year.

NAWG has been seeking input from our growers to learn how the new farm programs positively and negatively impact their wheat acres. One issue that has arisen has been with respect to how yields are established in the ARC-County program. USDA requires that county yields be established based on survey data, rather than actual production data. As farmers aren't required to respond to surveys there are instances where there aren't sufficient responses in particular counties which then requires FSA to use data from different and potentially inconsistent sources. As a result, we have been actively encouraging our growers to respond to NASS production surveys in order to ensure the maximum extent possible that accurate data will be available to determine farm program payments.

In the more immediate term, with Congress working this week on a Continuing Resolution to fund government operations until early December, we urge you to include sufficient funding in an omnibus appropriations bill at that time to fully cover applications through the FSA's direct and guaranteed loan programs. With tightening credit availability from traditional lenders, there has been a spike in demand for FSA's loan programs, which has been evidenced by the current backlog in FY 2016. The Department needs sufficient funding to catch up with the backlog and to be prepared for the growing demand if commodity prices don't turn around.

During development of the 2014 Farm Bill, the agricultural economy was certainly much different than what farmers are experiencing today. Even though commodity prices were much higher in 2013 and 2014 than they are today, input costs and land values were abnormally high. Additionally, Congress still had the recognition that commodity prices won't always remain high and that a safety net needs to be in place for when circumstances turn. They've turned, and predictions are that low wheat prices will perpetuate for an unforeseeable future. It is times like these when federal farm programs are most needed.

Ultimately, the current state of the farm economy exemplifies the need for an effective farm safety net. There have been some bumps along the way with implementation of the new Title 1 programs. NAWG is in the process of seeking input from our growers through our Farm Bill survey in order to guide our efforts in developing our recommendations for the next Farm Bill. We anticipate suggesting tweaks to certain programs to make them more responsive to economic conditions like what our farmers are currently experiencing. As work begins in the next Congress to write the next Farm Bill, we will oppose any efforts that would undermine the current structure of the crop insurance program or that would cut funding for Title 1 programs. When you head back to your states following the current work period, I hope that you will talk to farmers and learn about how difficult the economic situation is in rural America, and thus how important our federal farm safety net is to help farmers try to get through this period of extended low prices.

Thank you again for holding this hearing. Wheat farmers across the country appreciate your attention to the circumstances they are facing.