Testimony

Of

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Chairman Roberts, Ranking Member Stabenow and members of the Senate Agriculture Committee, on behalf the National Corn Growers Association (NCGA), I appreciate this opportunity to share with you our views on the risk management tools available to family farms as well as market trends that underscore the importance of the farm bill to corn growers. My name is Bruce Rohwer. I farm near Paulina, Iowa with my wife, our son, daughter and their families. We raise corn and soybeans and are partnered with a neighbor in a sow farrowing to finish operation. I currently serve on the National Corn Growers Association Board of Directors and as Board Liaison to our Risk Management Action Team. The National Corn Growers Association represents more than 37,000 corn farmers from 48 states. NCGA also represents more than 300,000 corn growers who contribute to checkoff programs and 27 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers.

Before sharing our perspectives on today's risk management tools, I would like to first provide you an overview of how the corn industry is performing during this extended period of low commodity prices. In 2016, we harvested 86.7 million acres that produced 15.1 billion bushels of corn, a record many thought unattainable just ten years ago. To go from an average yield of 127.1 bushels/acre in 1996 to an average yield of 174.6 bushels this past year is a remarkable achievement made possible by advances in seed technologies along with innovations in production and conservation practices. This increase in productivity, though, does come with a significant challenge. With the U.S. Department of Agriculture (USDA) estimating 2016 crop year ending stocks at more than 2.4 billion bushels, it is more important than ever to strengthen our position in current markets and develop new uses to increase demand for our crop. A robust livestock industry, expanding exports, and a growing renewable fuels industry are central to corn farmers achieving more profitable and resilient farm operations.

As the members of this Committee know well, corn farmers are having to adapt to a steep decline in price from a national marketing year average of $6.22 per bushel for the 2011 crop to an estimated $3.40/bushel for the 2016 crop. When the annual crop value of corn falls from nearly $77 billion in 2011 to just over an estimated $51 billion five years later, the sharp drop in farm income increases the financial stress experienced by the family farm as well as employees laid off by agriculture equipment manufacturers.

According to USDA, corn prices averaged $4.70 per bushel between 2006 through 2013, a period of positive net farm incomes for most grain farms in the United States. Since 2013, corn prices have averaged below $4.00 per bushel. In fact, the average U.S. market year corn price fell to $3.70 per bushel in 2014, then slid further to $3.61 in 2015. For the 2016 crop market year that continues through September 1, 2017, the average monthly prices have ranged from a low of $3.21 per bushel to a high of $3.49 in April. Despite an estimated decline of 3.1 million planted acres for the 2017 crop year, USDA's July WASDE report has lowered its season average price to the midpoint for a range $2.90 to 3.70. According to the Agriculture and Food Policy Center (AFPC) at Texas A&M University, corn's total cost of production on AFPC representative farms averages $4.50/bushel across 41 enterprises in 16 states. The lowest costs of production of $4.15/bushel are found in the U.S. Midwest and on irrigated enterprises. Earlier this year, there were regions of the U.S. such as the Mid-South, Southeast and Southwest, where the cost of production for dryland corn exceeded current prices by more than $1.00/bu.

As a result of these price declines, revenue from selling a crop, hereafter referred to as crop revenue, has significantly decreased. USDA has reported that crop revenue from corn in the United States averaged $837 per acre in 2011 and $801 per acre in 2012. Gross revenues have decreased considerably since that time. Crop revenue was $719 per acre in 2013, $602 per acre in 2014, and $611 per acre in 2015. Projections for 2016 place corn revenue at $593 per acre (174.6 national corn yields x $3.40 price).

Adding to the financial stress on farm operations is an extended lag in input expenses declining to the same extent that crop revenues have decreased. While the reduced cost of fertilizer has been a welcome relief to producers, the fact is growers have yet to experience in measurable decline in critically important crop protection products. One key factor is the costs associated with registering crop protection products has increased substantially - costs that are ultimately borne by farmers. This increase can likely be attributed to a rise in environmental safety data required by regulatory bodies. This is particularly concerning given the importance of crop protection to profitability and risk management. Without access to new and innovative products to address the weed and pest pressures in corn fields, a farmer's yield would be significantly impacted, potentially resulting in more indemnity payments.

According to USDA, costs for corn production reached a high of $690 per acre in 2014 before falling to $675 per acre in 2015, a decrease of only $15 per acre. When we compare this small decrease to a sharp revenue decline of $190 per acre between 2012 and 2015, we can begin to better understand the difficult transition and drain on equity that many corn farmers are experiencing.

With crop revenue decreasing, net incomes on grain farms are, of course, falling. As one example, Illinois Farm Business Farm Management (FBFM), a record-keeping service with about 25 percent of the acres farmed in Illinois enrolled in its services, estimates that net farm income declined to an average of $500 in 2015. The $500 per farm average in 2015 was the lowest farm income since FBFM began keeping records. Not surprisingly, cash reserves on farms are eroding due to successive years of declining income. While reported incomes for 2016 have yet to be released, they are expected to be slightly higher than in 2015 due to above-average yields and sizable payments from the Agriculture Risk Coverage program.

Overall, NCGA believes the commodity program reforms authorized in the 2014 Farm Bill program have performed as they were designed. These more market-oriented policy changes are delivering assistance to producers when the need for financial relief is clearly present. I must emphasize that commodity title programs provide protection against revenue or price decreases across years, a set of risks very different from those addressed by federal crop insurance. If not for the payments from the ARC-CO program, the revenue declines sustained by corn growers would have been far more severe the past two years. For the 2014 Farm Bill, 94 percent of the corn base acres are enrolled in ARC-CO with most of the remaining 6 percent of base acres being enrolled in Price Loss Coverage (PLC).

The ARC-County program has proven to be a very effective risk management tool offsetting sharp revenue declines in 2014 and 2015, and will likely deliver substantial assistance for the 2016 crop year. For the 2014 crop, ARC-CO payments were $3.479 billion on corn base acres,

for an average payment of $39 per base acre. In 2015, ARC-CO made $4.02 billion in payments, or $45 per base acre. Clearly, ARC-CO payments have helped to reduce the net income declines sustained during 2014 and 2015. On Illinois farms, for example, net income was $500 per farm in 2015. Without support from commodity programs, 2015 incomes would have been more than $30,000 lower, resulting in an average net income that was negative.

Reflecting corn farmers' low producer enrollment, and the relationship between the market year price and corn's reference price of $3.70 per bushel, the Price Loss Coverage Program did not make large payments on corn base acres for the 2014 or 2015 crop years. PLC payments averaged $0 per base acre in 2014 and $8.07 per base acre in 2015. For most corn farmers, PLC did not significantly reduce their exposure to lower incomes in 2014 and 2015. However, the Congressional Budget Office recent baseline projects PLC payments for corn to jump from $54 million in 2017 to $251 million in 2018.

Overall, ARC-CO has worked as designed to provide producers sufficient protection against the risks of falling prices and significant crop losses. Looking forward, there are several issues regarding the implementation of this program option and changes in commodity markets we hope the Committee will consider as you proceed with advancing a new farm bill.

- In some counties, the Farm Service Agency has found it necessary to switch from yield data provided by the National Agricultural Statistical Service (NASS) to aggregated data from the Risk Management Agency (RMA) when an insufficient number of voluntary producer surveys are submitted for NASS to publish a yield. In some cases, the switching of data sources leads to concerns of inconsistency, underpayments, and overpayments due to differences in yields.

- In other situations, low or zero payments have occurred in one county while surrounding counties receive large payments. While producers should fully expect differences in payments between counties, concerns regarding equity have been raised, particularly with farms close to county lines. NCGA appreciates the efforts of the Farm Service Agency to use the most accurate yield data available as well as offering producers an option for adjustments in payments to address disparities that occurred with the use of yields from a farm's FSA Administrative County rather than the county where the farm is actually located. However, NCGA believes there should be clear statutory language requiring financial assistance be determined by physical location of the farm.

- The 86 percent coverage level and 10 percent payment zone for the ARC-County option were established during a price environment far different from what is forecast for the period of years to be covered by a new farm bill. Simply put, ARC-CO parameters in a lower price environment will be quite different than those moving from a high to a low price environment. For your consideration, NCGA is currently evaluating various modifications to strengthen this key risk management tool's effectiveness without undermining its market-orientation.

As essential as commodity programs are to farmers' risk management plans, federal crop insurance is consistently ranked by corn farmers as their most important risk management tool.

In an NCGA-commissioned national survey of members and non-members completed in January 2016, the participating farmers' top concerns, by a large margin, were potential cuts to insurance premium discounts, reduced coverage levels, and the price component in revenue policies. Not surprisingly, the same survey identified the top two factors influencing crop insurance decisions are the cost of coverage and cash flow concerns. Surveys conducted by our affiliated state associations also found that the highest priority for the next farm bill is protecting an affordable and effective federal crop insurance program. Increases in crop insurance premiums resulting from reduced USDA support for discounts are likely to result in purchases of lower coverage levels, just as decreases in farmer-paid premiums resulted in higher use in the past.

Today, U.S. corn farmers' crop insurance policies account for more than 40 percent of the premiums paid into this private-public partnership program. Comparison of Risk Management Agency (RMA) insured acre data to NASS planted acre data indicate that 87 percent of the acres planted in 2016 were insured with RMA crop insurance products. For the 2016 crop year, policies purchased by corn growers provided more than $39.5 billion in liability protection. Of this amount, Revenue Protection (RP) policies account for almost $36 billion. This type of policy uses farm yields to set guarantees and includes a provision that increases the revenue guarantee if the harvest price is above the projected price (HPO). In 2016, the RP was purchased on 90 percent of insured acres. The criticism that this option eliminates all risk from farming and is unnecessary ignores the fact that farmers must still meet a deductible and pay a premium for coverage.

Corn farmers typically insure at higher coverage levels. For RP insurance, 14 percent of the acres are insured at the 70 percent coverage level, 39 percent at the 75 percent coverage level, 28 percent at the 80 percent coverage level, and 23 percent at the 85 percent coverage level. These four highest coverage levels account for 95 percent of the use. In the heart of the Corn Belt (southern Minnesota, Iowa, northern and central Illinois, northern and central Indiana, many western Ohio counties), more than 90 percent of the acres are insured with 80 and 85 percent coverage level polices. Coverage levels tend to decrease from the heart of the Corn Belt as yield risk increases. For example, in Texas, average coverage levels are well below those purchased in Iowa. Generally speaking, with higher premiums, farmers are purchasing an average coverage level of 65 percent on smaller optional units.

The Harvest Price Option (HPO) embedded in Revenue Protection (RP) policy coverage, in effect, provides farmers the replacement value for their crop loss for the scenario when the price at harvest is higher than the projected price prior to planting. Although farmers must pay more in premium for HPO, only about 30 percent of producers who purchase Revenue Protection elect the harvest price exclusion option. HPO, in fact, is critically important for farmers who use forward contracting as another tool to mitigate their risk. These contracts typically pay the farmer for the crop they deliver after harvest based on harvest prices. If the farmer loses the crop, he is still under the obligation to deliver under the forward contract. HPO, in this case, enables the farmer to settle the forward contract rather than being saddled with a lesser indemnity payment tied to the lower projected price. As Dr. Art Barnaby of Kansas State University noted in a recent article, critics of this provision fail to understand that when futures prices increase, RP turns into a yield guarantee and is no longer a revenue guarantee. This feature requires most farmers to lose more than 20 percent of their production to receive an indemnity.

Corn farmers seem very satisfied with the overall performance of federal crop insurance. However, concerns have been raised over the following provisions:

- Price discounts are sometimes difficult to account for in insurance. For example, crop damage due to aflatoxins can result in difficulties in determining indemnity payments. More advanced and consistent testing procedures in some states have helped to mitigate this problem.
- Prevented planting payments and related provisions seem to cause concerns in some areas, particularly in areas where flooding is common.
- Producers in areas that are frequently struck by very low yields have expressed concerns with the approved yield-setting mechanism. The yield exclusion provision and higher t-yields implemented in past farm bills may have eliminated some of these concerns.

As previously stated, the marked increases in the corn industry's productivity have been achieved in large part by farmers' investments in new technologies and more modern production practices. NCGA believes that for the corn farmer who faces a high level of financial and production risks every year, these investments were made possible by sound risk management tools.

Federal crop insurance provides within-year risk protection against low yields or within-year price declines. The importance of this insurance was illustrated in 2012, when a major drought hit the Midwest and crop insurance provided payments for yield decreases occurring in that year. Moreover, crop insurance has effectively replaced costly and inefficient ad hoc disaster assistance programs. In 2012, a disaster assistance program was not passed, unlike in previous years when crop insurance was not as strong or widely-used. According to a recent study conducted by IFAR for NCGA, during the modern era of federal crop insurance, low levels of default on agriculture loans have predominated. Moreover, real expenditures have been down except for the year following the 2012 drought when the loss ratio for corn was 2.74. The same study further notes that despite corn's extremely low loss ratio of .27 for the 2016 crop year, federal crop insurance demonstrated its flexibility and superior targeting of losses as it issued indemnity payments in most counties for qualifying losses.

As farm income has declined for several years now, the financial positon of farms has deteriorated. However, few farms have faced the need to restructure by liquidating assets or have faced bankruptcy, although the incidence of farm bankruptcy has increased in recent years. Much of this can be attributed to crop insurance payments, particularly those occurring in 2012, and recent ARC-CO payments. Without these payments, the financial positon of many corn farmers would be more seriously challenged.

In light of our worsening farm economy, it is particularly important for growers to have access to credit. We are very pleased that Congress approved an increase of about $1.4 billion for the Farm Service Agency's direct and guaranteed farm operating and farm ownership loans. With grain prices not likely to improve for the 2017, we urge the Committee to ensure that the next farm bill authorize the level of funding to help avoid backlog issues that have been experienced over the past year. It is almost certain that with another year of prices well below the cost of production, more farmers will find it increasingly difficult to secure loans for their farm operations prior to next year's planting season.

In conclusion, the risk management benefits offered by crop insurance and commodity title programs are particularly important to family farms who receive the majority of their incomes from farming. In these cases, off-farm income may be limited, and any changes to the family's financial position is much more directly impacted by farm level performance. Without crop insurance and commodity title payments, the financial wherewithal of these farms would likely face serious erosion in the current environment.

NCGA acknowledges the difficult task ahead for this Committee to advancing a new farm bill, especially at a time of continuing budget challenges and the expectation of increasing financial stress confronting U.S. farmers and ranchers. We appreciate your consideration of our views regarding the impacts of the 2014 Farm Bill and the pressing need for corn farmers to have continued access to effective risk management tools.