Statement of the American Farm Bureau Federation

TO THE UNITED STATES SENATE
COMMITTEE ON AGRICULTURE

PRIORITIES FOR THE 2018 FARM BILL

JULY 25, 2017

Presented By:

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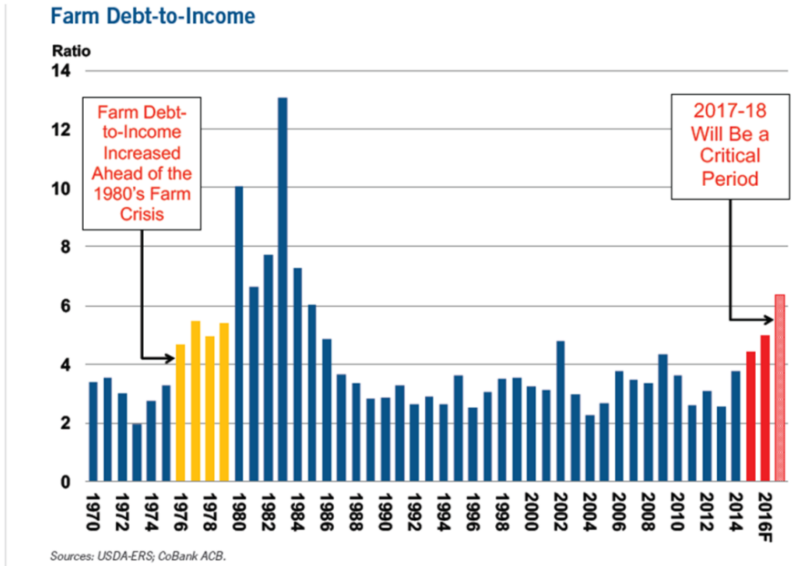
Thank you, Chairman Roberts, Ranking Member Stabenow and members of the committee, for the opportunity to share the views of the American Farm Bureau Federation (AFBF) on the current state of the agricultural economy and on our recommendations for the upcoming farm bill.

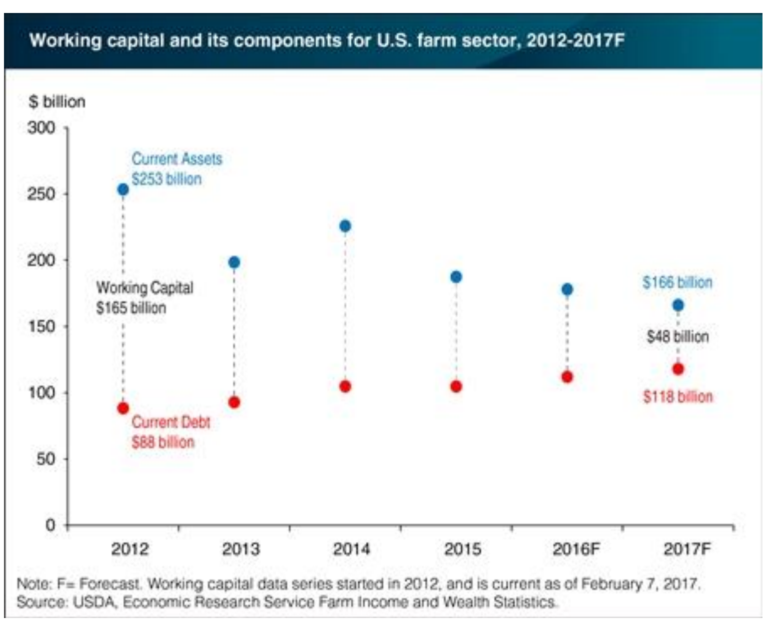
I am Mark Haney, and I represent a fifth generation on our family farm in Nancy, Kentucky where, along with my brother we produce apples and peaches as well as raise beef cattle. We also have a Farm Bureau Certified Roadside Farm Market where we sell produce from our farm as well as cider, jellies, baked goods and other products. I am privileged to serve as president of the Kentucky Farm Bureau and a member of the AFBF Board of Directors. AFBF is the nation's largest general farm organization, with nearly 6 million member families, and works on behalf of our members in every state in the nation and Puerto Rico. Our farmer and rancher members grow virtually every crop produced, in all sectors of the livestock, dairy, poultry and aquaculture industry, on farms and ranches of every size, using the full range of production systems from organic methods to the latest in high-tech and biotechnology tools. We also proudly include as members many of the men and women who are our neighbors in rural communities all across America.

Farm Bureau has been following the committee's work to gather information to assist you in the formation of the new farm bill, and it is with great interest that we have reviewed the testimony presented by other organizations representing the many agricultural commodity, animal agriculture and specialty crop sectors sharing their concerns about current market prices, farm income, and the economic outlook for the near future. I do not intend to reiterate all of those concerns other than to note I hear many of the same from Farm Bureau members.

I do, however, want to share one chart that I believe highlights the realities of the situation farmers and ranchers are facing in today's agricultural economy. The following chart showing debt-to-income ratios was developed from data provided by USDA's Economic Research Service (ERS) and CoBank. The verbiage accompanying this chart states: *"The farm sector debt-to-income ratio is a leading indicator of the health of the farm economy. Debt-to-income, which shows farmers' ability to pay down liabilities, is forecast by USDA-ERS to rise above six times in 2017. A ratio of 4-5 times is seen as a concerning level. Comparatively, the debt-to-income ratio in the 1970s reached worrisome levels for the four years leading into the 1980s farm crisis. Long-term, the severity of the farm financial situation will depend on how fast debt levels rise and how fast the Federal Reserve System raises interest rates. Higher interest rates ultimately will have the dual effect of depressing land values and stressing borrowers at a time of elevated debt levels."*



As indicated in the chart, 2017 and 2018 will be a critical period for farmers and ranchers. This chart also emphasizes the reason we need a strong safety net in the upcoming farm bill. For many of our major commodities, there is little domestic demand growth on the horizon. A strong dollar amplified by weaker economic growth in many countries and the production expansion by our major competitors in international markets gives us all pause regarding expectations for significant export demand growth. Add to this the uncertainty regarding the reactions among our key export markets relative to the new administration's position on trade agreements, and the concerns rise even higher. Farmers and ranchers are tightening their belts and paying very close attention to their individual financial situations. Simply put, they are in greater need of strong, secure safety net programs and risk management tools than has been the case for several years.



The ratio of debt to assets has increased for commercial farms since 2012. The chart above reinforces what we hear from farmers and lenders. Farmers have working capital challenges, but not a debt crisis, at least not yet. Their lenders report they have the assets to refinance short-term debt to longer-term loans with more manageable annual payments that allow them to continue to operate. But if commodity prices continue at present levels, most everyone agrees the financial conditions of farmers and ranchers will slowly and steadily deteriorate. If there is any comfort in the current situation, it is that most economists do not expect a crisis such as agriculture experienced in the 1980s.

This again highlights the importance of the safety net programs and risk management tools this committee has provided for agricultural producers. The last thing we need at this point is a reduction in the level of federal commitment, substantial or otherwise, and on behalf of Farm Bureau members, we appreciate your continued efforts to protect these important programs.

As was pointed out in the letter that 18 farm groups sent to Congress a few months ago, we are concerned about the financial pressures on farmers and ranchers as prices remain low and costs of production remain at high levels. We outlined the following reasons additional funding will be necessary to draft a farm bill that provides a robust safety net:

- Net farm income has dropped 50 percent from just four years ago, the largest four-year percentage decrease since the Great Depression.

- The aggregate debt-to-asset ratio remains low compared to the mid-1980s farm financial crisis, but it has risen from 12 percent to 14 percent in the last two years.

- Many farmers and ranchers are relying on capital reserves while many others, including beginning farmers, have already depleted reserves because they have not had the necessary good years to build them up.

- Based on averages, one in 10 farmers is either highly or extremely highly leveraged. For most major commodities, the figures are significantly higher – 19 percent for cotton farmers, 24 percent for wheat farmers, and 16 percent for corn farmers.

- The dollar remains strong, which makes exporting our products even more difficult.

- Our export markets may be stifled by U.S. trade policy. Farm Bureau estimated the completion of the Trans Pacific Partnership agreement would have increased farm income by $4.4 billion annually—income that has effectively been left on the table.

- Agricultural exports to Mexico and Canada have quadrupled since we entered the North American Free Trade Agreement (NAFTA), and Canada and Mexico are our second- and third-largest export markets. Loss of market share in Canada or Mexico due to less-favorable ag trade terms in a renegotiated NAFTA or due to less-friendly relations between our countries will depress prices further.

- Other countries heavily subsidize and protect their producers. The Organization for Economic Cooperation and Development provides a Total Producer Support Estimate

(PSE) each year for the 30 developed countries around the world. The average PSE is 18 percent, meaning 18 cents of each dollar a farmer receives comes from domestic support by the government. The U.S. is way below that average, with a PSE of only 8 percent.

- Developing countries are providing large sums of support to their producers. For 2015, China's rice, wheat, and corn subsidies are estimated to be $100 billion in excess of the levels to which it committed. That is more than the entire safety net for all of America's farmers and ranchers over the life of one farm bill and more than half of another. U.S. farmers are willing and able to compete with farmers in other countries on a level playing field, but they cannot compete with the treasuries of foreign governments. Until there is a level playing field, U.S. agriculture requires a strong safety net.

- The 2014 farm bill contributed $23 billion to deficit reduction over 10 years. It was the only reauthorization bill that voluntarily offered savings during the 113th Congress.

- Farm budgets are very tight this year and, with USDA predicting commodity prices to remain flat for the next several years, we need a strong, effective farm bill to help farmers and ranchers through this difficult, long-term period of depressed commodity and livestock prices.

The AFBF Board of Directors recently met to discuss our recommendations for the upcoming farm bill debate. Based on the outcome of this discussion I am providing the following recommendations, grounded in our grassroots policy, for your review and consideration as you work to develop the new farm bill.

These recommendations are not set in stone; rather, they are designed to provide the necessary flexibility to ensure that Farm Bureau is prepared to work with you in achieving the best possible farm bill that meets our key farm policy objectives while assisting you in meeting the challenges this important legislation will endure.

The following overarching goals serve as the basis for our recommendations:

- Protect current farm bill spending.
- Maintain a unified farm bill that includes nutrition programs and farm programs together.
- Ensure any changes to current farm legislation be an amendment to the Agricultural Adjustment Act of 1938 or the Agricultural Act of 1949.
- Prioritize our top funding priorities -- risk management tools, which include both federal crop insurance and Title I commodity programs.
- Ensure programs are compliant with the World Trade Organization agreements.

The Board recommends the following five provisions in particular for your consideration:

- Allow farmers to select the "higher of" the five-year Olympic Average yield for the Agriculture Risk Coverage County Program (ARC-CO) or a simple 10-year average yield.

- Increase the reference price used as the floor for the ARC-CO program by 5% for corn, soybeans, wheat, sorghum and other minor crops. Increasing the ARC-CO plug prices for corn, soybeans and wheat by 5% would mean ARC-CO floor prices of $3.90, $8.80 and $5.80 per bushel, respectively.

- Support a cotton lint program and/or designating cotton seed as an "other oilseed" to make cotton eligible for Title 1 commodity support programs.

- Improve the Dairy Margin Protection Program by supporting a package that contains the following: a) a two-tiered approach to providing a safety net for dairy by continuing to treat production of 4 million pounds of milk covered annually differently than more than 4 million pounds of production; b) increase the administrative fee from $100 to $300 for the catastrophic level of protection; c) reduce premium rates 25% from the current rate for the first 4 million pounds of production history covered and increase premium rates 25% from the current rate for coverage above 4 million pounds; d) lower the maximum coverage level from $8.00 to $7.00; e) raise the catastrophic level from $4.00 to $4.50; and f) increase the feed ration formula for all producers by 10 percent.

- Increase the $20 million annual cap on livestock insurance products to $75 million annually.

The AFBF Board also approved the following recommendations to address additional issues important to our farmers and ranchers.

Commodity Programs:

We support:

- Continuation of the Price Loss Coverage program and the ARC program. Farmers want a choice of which risk management programs work best for their operation.

- Changes to the ARC-CO program to make it more effective and fair to all farmers.

- The opportunity for all farmers to re-elect and/or re-enroll in Title 1 programs.

- Basing Title 1 payments on historic, rather than planted, acres.

- Altering the cascade used to determine county yields for the ARC program to make Risk Management Agency (RMA) data the primary option followed by contiguous county RMA data, National Agricultural Statistics Service data and discretion of the state Farm Service Agency director.

- Making ARC-CO payments using the ARC-CO payment rate for the county in which the land is physically located rather than the rate for the administrative county used by the farmer.

Conservation Programs:

We support:

- Requiring USDA to update rental rate data for the Conservation Reserve Program (CRP) every year rather than every other year.

- Capping the pollinator rental rate at the lower of $300 per acre or 90% of the average county cash rent for the type of land that is entered into the pollinator program.

- Allowing adequate flexibility in establishment practices and mid-contract maintenance for acres enrolled in the CRP to completely control any noxious weeds or problem species that may have been introduced in the pollinator plot.

We do not support:

- Increasing the cap on the CRP above the current 24 million acre cap.

- CRP "knock offs" that offer contracts similar to the current CRP program but only require short-term (3-5 year) contracts rather than 10-15 contracts.

- Allowing the same parcel of land to be re-enrolled in the general CRP after the conclusion of two contracts.

Dairy:
We support maintaining the current three-month sign-up gap and ending enrollment in September prior to the Margin Protection Program coverage year and retention of the Secretary of Agriculture's ability to delay the sign-up period on an ad hoc basis.

Whole Farm Revenue Protection Program (WFRP)
We support keeping the WFRP as a pilot program rather than making it a permanent federal crop insurance program.

Working Together:

Over the years, many members of the House and Senate Ag Committees and members of Congress in general have encouraged various groups to work together to come up with consensus positions for farm bills. AFBF President Zippy Duvall has stressed unity as one of his highest priorities for Farm Bureau and we have played a role in at least four initiatives to do just that in 2017:

- In February, Farm Bureau helped organize a coalition letter to Congress signed by 502 groups representing agriculture, nutrition, conservation, rural development, crop insurance, energy and other interests. The letter stated, "It is imperative that the committees not be hamstrung by further budget or appropriations cuts to any farm bill program. Instead, we strongly encourage you to recognize the substantial savings already achieved, which far exceed expectations, and to provide the committees the opportunity to complete their work through regular order, without arbitrary budget cuts or caps. With the agriculture and rural economy struggling, households across the country struggling to meet their basic needs for nutrition, and farm income down 46 percent from only three years ago, it would be perilous to hinder development and passage of the 2018 farm bill with further cuts."

- Earlier this year, Farm Bureau joined with a coalition to protect the crop insurance program. Ninety-four companies and trade associations representing crop insurance companies, agents, farm and commodity groups and lenders are participating and are circulating weekly messages on various aspects of the crop insurance program.

- In March, Farm Bureau helped organize a coalition letter to Congress signed by 18 farm and commodity groups which stated, "The factors outlined (in the letter) make the case for a strong safety net that will ensure that U.S. farmers and ranchers have the wherewithal to continue to farm and ranch until market conditions improve

- Also in March, Farm Bureau signed a document that addressed 13 issues on which each of the following eight farm and commodity groups have agreed for the upcoming farm bill. We will continue to work toward further agreement on other issues and with other farm and commodity groups. We also continue to seek guidance from the leadership of the House and Senate Ag Committees. That document is printed below.

FARM BILL ISSUES ON WHICH WE AGREE
March 24, 2017

On March 15, 2017, farm and commodity organizations sent a letter to the Senate Budget and Appropriations Committees pointing to the sharp fall in farm prices and income since 2013 and asking Congress to provide additional funding in order to develop an effective farm income safety net in the 2018 Farm Bill. A number of these organizations have met to discuss specific issues that need to be addressed in the next farm bill and will continue to work to develop consensus proposals to share with the Agriculture Committees on potential ways to resolve them. The following organizations are in agreement on the attached initial list of positions. To be clear, the beginning of this document covers only those issues where there is a consensus on every issue.

As our discussions continue and as guidance from the Committees is provided, we hope to expand this list to cover additional issues expected to be considered during negotiation of the new farm bill.

Overarching Issues:
Increase funding in the 2018 farm bill in order to address the significant reductions in farm prices and income incurred since 2013, and to meet other critical needs.

Federal crop insurance and commodity programs are our top funding priorities.

Commodity Programs:
Continue a counter-cyclical program like the Price Loss Coverage (PLC) program and a revenue program like the Agricultural Risk Coverage (ARC) program.

Change the ARC and PLC programs to make them more effective and fairer to all farmers.

If the ARC and PLC programs continue, farmers must be allowed to re-elect and re-enroll on a crop-by-crop basis.

Commodity program payments should be based on recent historical crop production rather than on current-year planting.

Crop Insurance Programs:
Oppose reducing premium discounts.

Conservation Programs:
Maintain strong funding for federal conservation programs which preserve environmental benefits, while continuing the prioritization of working lands conservation programs.

Maintain strong funding of the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP).

Examine the rental rates of the Conservation Reserve Program (CRP) and the Conservation Reserve Enhancement Program (CREP) annually at enrollment to ensure they mirror the rental rates of comparable land in the immediate area.

Improve State Technical Committees to make them more ag-friendly by encouraging producers' participation and input.

Other Programs:
Ensure adequate funding for agricultural research and education.

Continue work on simplifying procedures, reducing paperwork requirements and streamlining interactions between the Farm Service Agency (FSA), the Natural Resources Conservation Service (NRCS) and the Risk Management Agency (RMA) via the Acreage Crop Reporting Streamlining Initiative (ACRSI.
Continue and work to improve the Young and Beginning Farmer Programs implemented in the 2014 Farm Bill.

<u>Additional Farm Bureau Policy Objectives:</u>
While many of the issues facing farmers and ranchers are outside the jurisdiction of the House Ag Committee, they nonetheless are huge influences on our ability to be profitable. Nevertheless, these issues are important and impactful to the future of America's family farms and are worthy of your attention. Farm Bureau has five priorities on which we are focused in 2017 to help farmers and ranchers. They are (1) a robust 2018 Farm Bill; (2) a workable immigration program; (3) tax reform; (4) improvements in trade; and (5) regulatory reform.

Immigration Reform
U.S. agriculture faces a critical shortage of workers every year as citizens are largely unwilling to engage in these rigorous activities and guest worker programs are unable to respond to the marketplace. This situation makes our farms and ranches less competitive with foreign farmers and less reliable for the American consumer. Securing a reliable and competent workforce for our nation's farms and ranches is essential to agriculture and the U.S. economy.

Farmers and ranchers have long experienced difficulty in obtaining workers who are willing and able to work on farms and in fields. Jobs in agriculture are physically demanding, conducted in all seasons and are often transitory. To most U.S. residents seeking employment, these conditions are not attractive. A number of studies document this fact, and farm worker representatives also acknowledged this in recent congressional testimony. Yet, for many prospective workers from other countries, these jobs present real economic opportunities.

In times of labor shortages farmers have relied on these foreign workers, who are admitted under a government sponsored temporary worker program known as H-2A, and on workers who appear to have legal status to be working in the United States. The demand for foreign workers is heightened due to not only a lack of a domestic workforce, but also the reverse migration of workers from the U.S. to Mexico, historic levels of immigration enforcement and bipartisan congressional commitment to a credible work authorization system through mandatory E-Verify. Those factors, combined with an increasingly rigid and burdensome H-2A program, demonstrate the need for a new approach.

Reforms to the immigration system can ensure that American agriculture has a legal, stable supply of workers, both in the short- and long-term, for all types of agriculture. This requires a legislative solution that deals with the current unauthorized and experienced agricultural workforce and ensures that future needs are met through a program that will admit a sufficient number of willing and able workers in a timely manner.

Tax Reform

Farm Bureau supports replacing the current federal income tax with a fair and equitable tax system that encourages success, savings, investment and entrepreneurship. We believe that the new code should be simple, transparent, revenue-neutral and fair to farmers and ranchers.

Agriculture operates in a world of uncertainty. From unpredictable commodity and product markets to fluctuating input prices, from uncertain weather to insect or disease outbreaks, running a farm or ranch business is challenging under the best of circumstances. Farmers and ranchers need a tax code that recognizes the financial challenges faced by agricultural producers.

Tax reform should embrace the following overarching principles:

- Comprehensive: Tax reform should help all farm and ranch businesses, including sole-proprietors, partnerships and sub-S and C corporations.
- Effective Tax Rate: Tax reform should reduce combined income and self-employment tax rates low enough to account for any deductions/credits lost due to base broadening.
- Cost Recovery: Tax reform should allow businesses to deduct expenses when incurred, including business interest expense. Cash accounting should continue. Sect. 1031 like-kind exchanges should continue.
- Estate Taxes: Tax reform should repeal estate taxes. Stepped-up basis should continue.
- Capital Gains Taxes: Tax reform should lower taxes on capital investments. Capital gains taxes should not be levied on transfers at death.
- Simplification: Tax reform should simplify the tax code to reduce the tax compliance burden.

<u>Pass-through Businesses</u>: Any tax reform proposal considered by Congress must be comprehensive and include individual as well as corporate tax reform. More than 94 percent of farms are taxed under IRS provisions affecting individual taxpayers. Any tax reform proposal that fails to treat those taxed under the individual and corporate tax codes fairly will not help, and could even hurt, the bulk of agricultural producers who operate outside of the corporate tax code.

<u>Effective Rates</u>: Any tax reform plan that lowers rates by expanding the base should not increase the overall tax burden (combined income and self-employment taxes) of farm and ranch businesses. Because profit margins in farming and ranching are tight, farm and ranch businesses are more likely to fall into lower tax brackets. Tax reform plans that fail to factor in the impact of lost deductions for all rate brackets could result in a tax increase for agriculture.

<u>Cost Recovery</u>: Because production agriculture has high input costs, farmers and ranchers place a high value on immediate expensing of equipment, production supplies and preproduction costs. Also of critical importance is the deductibility of business interest expenses for interest paid on mortgages for land and buildings, operating loans, and vehicles and equipment purchases.

<u>Cash Accounting</u>: Cash accounting is the preferred method of accounting for farmers and ranchers because it provides the flexibility needed to optimize cash flow for business success, plan for business purchases and manage taxes.

<u>Like-Kind Exchanges:</u> Farm Bureau supports the continuation of Sect. 1031 Like-Kind Exchanges for real property such as land and buildings, for personal property including equipment and vehicles, and for breeding and production livestock.

<u>Estate Taxes</u>: Farm Bureau supports permanent repeal of federal estate taxes. Until permanent repeal is achieved, the exemption should be increased, be indexed for inflation and continue to provide for portability between spouses. Full unlimited stepped-up basis at death must be included in any estate tax reform. Farmland owners should have the option of unlimited current use valuation for estate tax purposes. Capital gains taxes should not be imposed on transfers at death.

Capital Gains Taxes: Farm Bureau supports eliminating the capital gains tax. Until this is possible, the tax rate should be reduced and assets should be indexed for inflation. In addition, there should be an exclusion for agricultural land that remains in production, for transfers of farm business assets between family members, for farmland preservation easements and development rights, and for land taken by eminent domain. Taxes should be deferred when the proceeds are deposited into a retirement account.

Other Provisions Important to Farmers and Ranchers: Farmers and ranchers support tax incentives for renewable fuel and energy, the Domestic Production Activities Deduction (Sect. 199), farm and ranch income averaging, installment land sales, elimination of the UNICAP Rules for plants, and the tax deduction for donated food and donated conservation easements.

Trade

The U.S. food and agriculture sector is heavily dependent on international markets and trade is vital to the continued prosperity of farmers and ranchers. Half of the U.S. wheat and rice crop is exported. Soybean exports accounts for more than 40% of U.S. production, while corn exports have declined in recent years to 12% of production. These numbers, however, understate the impacts of agricultural exports. Indirect exports of corn and soybeans (and other ag commodities) occur through meat and livestock exports. Domestically fed livestock that are exported are also an indirect export of corn, soybeans and wheat used as feed for those animals. This impact is substantial as exports account for 21% of pork production and 10% of beef production. The percentage is even higher for crops such as cotton and tree nuts. Over the past few years, foreign markets have also become increasingly important to supporting the dairy industry, with exports now accounting for one out of every seven days of U.S. milk production. Clearly, without those markets, commodity prices received by producers would suffer.

With over 96 percent of the world's population living outside of the United States, expanding access to international markets is essential for our future success. This includes maintaining and increasing access to markets through existing and future trade agreements, and leveraging export programs that serve as catalysts to increased market access.

Over 20 million jobs across the country are directly or indirectly dependent on agriculture and account for nearly $1 trillion or 13 percent of gross national product. If our agricultural sector can preserve its competitiveness in the global marketplace, we can grow this number and be a strong contributor to a growing economy.

Finally, demand growth will be critical to helping the agriculture sector get out of this revenue downturn. The Trans-Pacific Partnership had the potential to raise net farm income by $4.4 billion annually without the need to boost government spending. We are disappointed that our participation in the TPP was withdrawn, but we are working on ways to ensure a quick start to bilateral negotiations with a variety of countries.

Regulatory Reform

Federal regulations have a direct impact on farmers and ranchers. Over the years, the breadth and extent of that regulatory landscape have increased. Today, agricultural producers are faced with a flurry of requirements through the Clean Water Act (such as the “waters of the U.S.” rule, the “prior converted cropland” criteria, wetlands jurisdictional determinations or total maximum daily load limits); the Endangered Species Act (through designation of species, establishment of critical habitat and questionable use of science); the Federal Insecticide, Fungicide and Rodenticide Act; the Food Safety Modernization Act; immigration and labor regulations; and interpretation of the Federal Land Policy and Management Act, to name just a few.

Often, these requirements are the result of federal regulations. Sometimes they emanate from court decisions. But no matter how they are established, the result often can be controversial. Stakeholders disagree on the language in the statute and affected parties disagree on the science, the data or the models underpinning one or the other.

Americans, including farmers and ranchers, need a regulatory system that is fair, transparent, adheres to the will of Congress, takes economic impacts into account and respects our freedoms.

The Administrative Procedure Act is the principal federal statute that governs how regulations are promulgated. Enacted in 1946, the law has not substantially changed in the 70 years it has been on the books even though the federal government has expanded enormously.
Policies today are also increasingly determined as the result of litigation.

We must also ensure that our public policy does not hurt the economic viability of farm and ranch families across the country. These issues often come from corners of the federal government that may not understand production agriculture. Yet a broad range of regulatory actions have the potential to increase the costs and reduce the margins of farmers and ranchers.

Whether the regulations deal with the environment, immigration and labor, food safety or financial reform, they can create an uncertainty that threatens to hold back investment and growth across the agricultural sector. Congress and the administration must ensure that the marketplace, not the federal government, determines the cost of production for America’s farmers and ranchers. If our farms and ranches are weighed down with costs imposed by either regulatory actions or delays in the regulatory process, farm income will decrease and market share will be lost to our competitors.

Thank you again for holding this important hearing and for providing me the opportunity to share the concerns of Farm Bureau members from all across our great nation as you move forward on developing the next farm bill. We appreciate your leadership and are fully committed to working with you as you seek ways to ensure America’s farmers and ranchers are sustained through the economic challenges we face today.