Testimony

of

Ken McCauley
President
National Corn Growers Association

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on
General Farm Commodities and Risk Management

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Mr. Chairman, Ranking Member Moran and members of the Subcommittee, on behalf of the National Corn Growers Association (NCGA), I appreciate this opportunity to present for your consideration our members' views and recommendations for the 2007 Farm Bill Commodity Title.

My name is Ken McCauley, President of NCGA. I am from White Cloud, Kansas and farm with my wife and son producing corn and soybeans.

The National Corn Growers Association represents more than 32,000 corn farmers from 48 states. NCGA also represents more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers. As we celebrate our 50th anniversary, our members are mindful of their predecessors' forward looking planning, their accomplishments and the value they placed on NCGA being a grassroots organization. That heritage as a grassroots organization remains very much alive and is reflected in the farm bill proposal that we bring forward today.

First, it is important to note that NCGA has recognized and supported the 2002 Farm Bill for the improvements it made to our nation's agricultural policy, particularly the strengthening of the farm safety net. The introduction of a new counter cyclical payment program with an option for producers to update their base yields marked a positive step toward delivering more targeted and timely assistance to producers during periods of low prices. Combined with the marketing assistance loan program, most producers have been in a much better position for long term planning, including investments in ethanol production and producer owned value added business opportunities. In short, the 2002 farm bill implemented the right policy for that time.

Looking forward, though, today's farm safety net is simply not designed to meet our producers' long term risk management needs given the dynamic changes underway in U.S. agriculture, and particularly in the corn industry. Following two years of study, cost analysis and considerable input from our state associations, NCGA's Public Policy Action Team developed a proposal to reform our commodity support programs; changes that would help ensure better protection against volatile commodity prices, significant crop losses, and would provide permanent disaster assistance. Earlier this month, our delegates voted in strong support of a "…county based revenue counter cyclical program integrated with federal crop insurance for corn, and potentially other commodities…" NCGA's proposal is designed to increase the market orientation of the Commodity Title, enhance the targeting of farm support so that payments arrive when farmers most need assistance and increase the efficiency with which taxpayer dollars are spent supporting agriculture.

Although projections of higher commodity prices, alone, present a strong case for a revenue based farm program, it is producers' experience with drought and other adverse weather conditions in isolated areas that have drawn our attention to what some economists have referred to as a hole in the current safety net. Under these circumstances, growers have been unable to fully benefit from higher market prices and cannot depend on counter cyclical payments at a fixed target price to reduce the adverse impact of lost income. For those farmers who have experienced large crop losses or repetitive years of less severe or shallow losses during the recent years of record harvests and low prices, the combined support of marketing loan deficiency payments and counter cyclical payments have provided insufficient income protection which has led to the need for recurring disaster assistance. Revenue protection from federal crop insurance protection can certainly soften the financial blow, but the premiums for these policies rise significantly at the higher levels of coverage.

Most producers would agree that the commodity support programs in the 2002 Farm Bill have served them well. Extending these programs, though, would do nothing to address the flaws NCGA has noted since the summer of 2002 or the potential solutions we have recommended. Again, too many farmers have learned the hard way that today's farm supports may be effective when the market price is low, but the income protection available when yields are low has proven to be less than adequate. A well designed revenue based program can deliver protection against low prices or low yields.

As you well know, the changes in the corn industry, driven largely by a growing ethanol industry have created many new opportunities for producers, our rural communities and the many businesses that are critical to our success. Projected market prices for corn and other major commodities from both the Congressional Budget Office (CBO) and the Food and Agricultural Policy Research Institute forecast that the current marketing loan assistance program and counter cyclical program will provide minimal, if any, meaningful support over the next five years. The CBO, in fact, has scored the level of spending for loan deficiency payments ranging from $7 million in 2008 to just $30 million in 2012. A very similar level of outlays is forecast for counter cyclical payments. These projections, along with the expansion of planted acres for corn, have reinforced the need for NCGA and affiliated state associations to investigate an alternative safety net that enables producers to better manage their risks.

NCGA's Commodity Title proposal reflects the view that the time has arrived to adopt fundamental changes in our programs that would strengthen our competitiveness and enhance the long term viability of U.S. farmers. The United States Congress has a unique opportunity to consider major reforms at a time when prices are strong for most crops and exports are expected to reach a record $77 billion in 2007. Equally impressive is that U.S. agriculture can celebrate the lowest debt-to-asset ratio in recorded history, approximately 11 percent for 2006. And thanks to continued support from the Congress, renewable energy from home grown crops are now playing a much larger role in enhancing the country's energy security.

To provide a better safety net for producers, NCGA proposes replacing the existing counter cyclical program, loan deficiency payments and the non-recourse marketing loan program with programs that would provide more comprehensive and cost effective risk management tools. Direct payments would continue to provide a foundation of support. Rather than target low prices, the new Revenue Counter Cyclical Program would make payments when a county's realized crop revenue is less than a crop's trigger revenue. When the actual per-acre revenue falls below the per-acre trigger revenue, producers would be compensated for the difference. I need to emphasize that a farm's total payment would equal the per-acre payment multiplied by planted acres rather than base acres as is the case with today's price triggered program. This county based program is very similar to Group Risk Income Protection (GRIP), a product currently offered through the federal crop insurance program. Similar to GRIP, the proposed RCCP trigger revenue for a county would equal the product of RCCP coverage level, the expected county yield and the projected price level. The harvest price and a crop's actual county yield reported by NASS (National Agricultural Statistic Service) would determine the actual county revenue. However, RCCP would not include a Harvest Revenue Option which can increase payments if the harvest price is greater than the projected price.

In most years, RCCP payments would be triggered by the same events that lead to the great majority of crop insurance indemnity payments: droughts, excessive or inadequate heat, excessive rain, or widespread disease related losses. Hail, wind damage or local flooding may also cause losses at the farm level, but not enough toward county losses to trigger RCCP payments. NCGA recognizes the potential for overlapping coverage with RCCP and crop insurance. Consequently, NCGA proposes to integrate RCCP payments with the federal crop insurance program to create a more effective and cost efficient farm safety net.

The integration of these core programs would provide a first line of revenue protection, reducing price risk and widespread production risk now borne by private insurance companies. By making sure the companies only pay for losses not covered by the RCCP, the indemnities that insurance providers pay farmers would be significantly reduced enabling them to provide individual revenue insurance at higher coverage levels. Analysis provided to NCGA indicates that the farmer paid premiums of buy-up revenue insurance policies would drop significantly through the re-rating of insurance products by the Risk Management Agency.

Integration of RCCP and crop insurance would establish a floor under farm revenue. In some years, though, farmers could receive RCCP payments when farm level crop losses are not severe enough to trigger insurance payments. In this situation, farm revenue would remain above the floor level. There could also be years farmers sustain farm level losses, yet would not receive any RCCP payments. Individual insurance would cover their losses and farm revenue would be brought up to the floor level. Participation in the crop insurance program would remain voluntary leaving the choice to producers to supplement the RCCP with insurance for farm level losses or accept the risk that the county level losses would not cover individual crop losses.

The NCGA proposal through RCCP adopts an alternative approach that offers the advantage of providing savings for farmers wanting to purchase crop insurance while reducing the financial risks of the private insurance industry. We believe this change offers the potential of further strengthening the private-public partnership by making sure that most private insurance companies survive even through the heavy loss years. Another advantage to this direct approach is that it would provide a standing disaster program for farmers who grow program crops. Unlike the uncertainty and protracted delays that are now the norm for agriculture disaster assistance, RCCP would automatically provide payments to all farmers in counties that suffer low revenue. This change, alone, would help to ensure a more equitable and sensible delivery of aid than the antiquated crop disaster assistance formula which does little to fill the gaps in today's farm safety net.

The final component of NCGA's proposal is to change the nonrecourse loan program to a recourse loan program, a reform that would significantly increase the market orientation of U.S. farm policy. A recourse loan would continue to give producers harvest time liquidity which increases their ability to market their crop at a more profitable time. Although the farmer's last resort option to sell a crop to USDA would no longer be available, a recourse loan program would create incentives for producers to actively market their crop into the private sector.

Recognizing the challenges before this committee to write a commodity title under the current fiscal constraints, I now want to turn to the subject of funding. As I stated earlier, NCGA believes the time is right for introducing these proposed reforms and we urge the Congress to provide the necessary resources to take advantage of this opportunity. Specific to the projected outlays, this integration of a county revenue counter cyclical program (RCCP) with federal crop insurance extracts cost efficiencies from lowering the costs of delivering individual revenue protection policies and as well as spending offsets from replacing the current non-recourse marketing loan program and the price triggered counter cyclical program. In addition, a county based RCCP modeled after the Group

Risk Income Protection insurance policy, provides producers permanent disaster assistance less costly than the ad hoc crop disaster aid programs that have averaged near $1.8 billion on an annual basis. Assuming a level of 75 percent buy up individual revenue insurance, a county revenue guarantee at a coverage level of 95 percent of projected price and a two year implementation delay of a five year farm bill, the annual cost of the NFSA is projected at approximately $500 million above baseline. To be prudent in the use of public funds, NCGA recommends implementation of a cap on projected prices used to determine trigger revenues. One option would be to base the cap on a multiplier of loan rates adjusted for basis and historical season average prices. To reduce the effects of market volatility on the program and to provide greater predictability to producers, NCGA proposes to establish projected crop prices as the average of the current year's revenue insurance price and the previous two year's prices. Given the improvements in the farm safety net that I have outlined and our confidence in the potential for long term savings, NCGA believes its proposal offers a viable policy alternative for your consideration.

Mr. Chairman, NCGA stands ready to work with you and your colleagues in the weeks and months ahead as you begin crafting a new farm bill. Our growers appreciate the difficult task before you and your continued support of our industry. I thank you again for this opportunity to appear before this subcommittee and discuss our goals and priorities.