# CLOUDS LOOMING:

## State of the Farm Economy Will Cast a Long Shadow on Next Farm Bill

I By **Patrick Delaney**

It is the fall of 2011. As farmers begin the harvest season, their representative farm groups in Washington are in the earliest stages of conversations with members of Congress on the shape of the next farm bill. As is the case every five years, each group brings to the bargaining table a list of demands informed by the current economic climate for its member farmers. Lawmakers then weigh those concerns and specific "asks" from each group and produce the twelve titles of the nation's farm legislation, authorizing everything from agricultural export market expansion to plant-based energy research to rural economic development.

The opening title of the farm bill, Title I, focuses on the structure and operation of the risk management framework for commodity grains, oilseeds and cotton. It is arguably the most important single chapter of legislative language for farmers of these crops among any piece of legislation, and it is intimately affected and undeniably shaped by the landscape of the farm economy. While the farm bill is, as one long-time Washington agriculture correspondent described, a way to mark the time in D.C., each version of the legislation is also an economic time capsule—a snapshot of the farm economy in which it is written.

In 2011, times are good—very good. At the outset of farm bill field hearings in the early fall, the U.S. Department of Agriculture's (USDA) Agricultural Research Service forecasts net farm income for the year at a record $103.6 billion, up more than 30 percent over 2010. The year would go on to exceed expectations, with soybean prices hovering between $13 and $14 per bushel and net farm income at an eye-popping $113.5 billion.

Jump to early spring 2017, and the contrast between economic conditions could not be starker. As farmers prepare to plant—and similarly as farm organizations prepare to negotiate reauthorization of the farm bill—they do so in an economic environment that is merely a shell of its 2011 self. While per-bushel soybean prices have averaged only slightly under $10 for most of the spring, overall 2017 net farm income is projected to decline almost nine percent, to $62.3 billion dollars, representing almost a 48 percent decrease from 2011 and its lowest point in 15 years.

As a result, organizations like the American Soybean Association (ASA), the National Cattlemen's Beef

Association, the National Cotton Council, the American Farm Bureau Federation, the National Association of Wheat Growers and dozens of other groups prepare to march up Capitol Hill not with the economic winds at their back, but against a driving hail of financial uncertainty from farm country.

For soybean farmers, fixes to the language of Title I programs like the Agriculture Risk Coverage Individual and County Options (ARC-IC and ARC-CO, respectively) will be essential to their success in the next version. Specifically, ASA will look to replace the use of yield data from the National Agriculture Statistics Service (NASS) with data generated through the federal crop insurance program by USDA's Risk Management Agency (RMA). Additionally, ASA will look into the possibility of lengthening the number of season average prices used in the benchmark formula to include some of the higher price years prior to 2014.

"Tweaks and strategic fixes to Title I programs like the change in the source of yield data is a small element, but part of a larger priority that has become more important in light of the continuing downturn in the farm economy," said Bret Davis, chair of ASA's Farm Bill Task Force and a grower from Delaware, Ohio.

Davis also raises the significant issue of the impact of the lagging farm economy on farmers' ability to access credit, citing the extended delay before farmers receive payments under both ARC and the Price Loss Coverage (PLC) program.

"In some areas, farmers are having to wait most of two years to receive payments under these two programs, but need access to operating capital before planting a crop. With continued low prices expected in 2017 and beyond, this disconnect needs to be addressed," Davis said.

## Keeping market policy out of the farm bill

By contrast, while the market conditions for the nation's livestock industry are similarly mercurial, the approach to the farm bill by the National Cattlemen's Beef Association (NCBA) remains relatively unchanged headed into early negotiations. Colin Woodall, the group's vice president of government affairs says that the Cattlemen view the legislation as the incorrect vehicle to address the industry's most pressing major concerns.

"The cattle markets have been extremely volatile over the past two years," Woodall said. "As a result, NCBA has spent more time with the Commodity Futures Trading Commission (CFTC), CME Group, and our own members crafting ways to respond. Those include things such as a push for more cash trade, working on changes to mandatory price reporting, and proposing changes to the cattle futures contracts. In regards to our farm bill approach, however, we have not made any changes. We are working to keep market policy out of the farm bill. We don't believe the farm bill is the place for things such as Country of Origin Labeling (COOL), USDA's Grain Inspection Packers and Stockyards Administration (GIPSA) marketing rule, packer ban, and others."

Still, while Woodall points out that is one of NCBA's priorities to ensure that a specific livestock title is not included in the farm bill, he does note that the Cattlemen support many aspects within the bill that impact the larger agricultural economy and the farm industry as a whole, and that support is calcified considering the state of the farm economy.

"The current market situation underscores the needs for these programs," Woodall said. "For the cattle industry, supporting research, conservation programs, and the permanent disaster programs are important in giving us tools to help us be as efficient and successful as possible in both the good and bad times."


From where Bret Davis sits, crop insurance and Title I programs are the subject of significant misinformation.

*Photo Courtesy of Bret Davis*

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“Disasters like droughts and wildfire wreak havoc on livestock operations, and the farm bill is one avenue to help ranchers,” says NCBA’s Colin Woodall.

*Photo courtesy of National Cattlemen’s Beef Association*

## Facing a unique set of challenges

For cotton growers, the coming farm bill represents an opportunity to remedy an ongoing crisis throughout cotton country, and one that Reece Langley, vice president of Washington operations for the National Cotton Council (NCC) says is urgently needed.

“Passage of the 2014 Farm Bill, which included significant changes to cotton policy, also coincided with a steep, prolonged decline in global cotton prices,” Langley said. “As a result, U.S. cotton producers have been struggling with the economic consequences since late 2014.”

This decline in prices has led to a corresponding decline in acreage, which in turn has led to a problem unique to the cotton industry. While standard grain elevators can accommodate a range of crops like soybeans, wheat and others, the ginning infrastructure in place for harvested cotton is not so versatile. Gins are also expensive, with some estimates at $10 million to build and bring a new gin online. Thus when acreage declines significantly in a producing area, and the local gin closes as a result, that infrastructure is not so easily replaced. The lack of a geographically-convenient gin then leads to further decline in plantings and production.

To remedy this, Langley points to NCC efforts to provide a backstop for his farmers by ensuring cotton and/or cottonseed is brought back into the Title I commodity policies in the next farm bill, if not earlier. Part of this strategy is to include cottonseed as a covered commodity eligible for ARC and PLC, a request supported by ASA and other groups. If successful, says Langley, the change would provide severely needed economic support to cotton producers; put cotton on par with other major crops in terms of eligibility for safety net programs; and maintain critical budget baseline funding needed for developing an effective and comprehensive commodity policy in the coming farm bill.

“Due to the prolonged, depressed market conditions, the industry is focused on ensuring cotton producers again have access to the full complement of risk management tools in the next farm bill, including price and revenue protection programs like ARC and PLC,” Langley said.

Cotton growers are also concerned, Langley says, with attempts to further reduce payment limitation levels or tighten program eligibility requirements, citing USDA’s rule on actively engaged farmers as an example.

“The current definition of family member used for actively engaged determinations is excessively restrictive, and should be broadened to include extended family members so that these individuals are not denied access to the safety net due to family changes in the ownership of the farm,” Langley said.

## Balancing individual needs

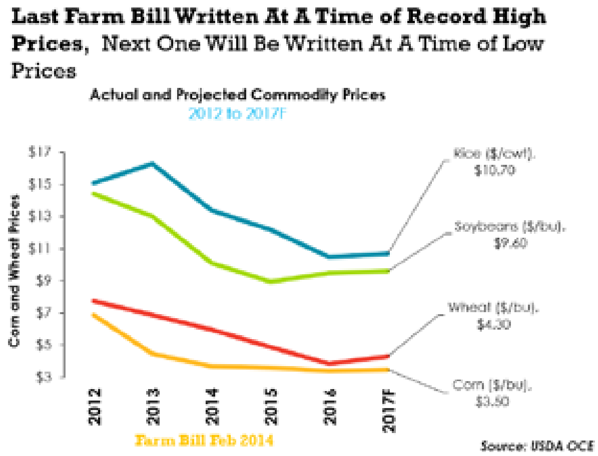
Another group faced with a unique challenge in the farm bill is the American Farm Bureau Federation (AFBF). Because the Farm Bureau represents such a broad membership, Senior Director of Congressional Relations Mary Kay Thatcher notes that requests on behalf of specific crop groups or certain regions become more complicated.

“Certain wins in the upcoming farm bill are a difficult ask because, as a general farm organization, we represent all sectors of agriculture,” Thatcher said. “Unfortunately, all sectors are hurting right now. Some have a poor safety net where others have a pretty good one, but prices are low for virtually all commodities. Our biggest hurdle will be balancing all the individual needs.”

Thatcher points out, though, that with bleak news and challenging times comes a more energized and motivated membership, and says that will be key in connecting with all lawmakers to convey the seriousness of the challenge facing farm country.

“In order for all of us to be successful in writing a robust farm safety net, Congress, especially urban and suburban members, needs to understand the stress in farm country,” Thatcher said. “USDA recently released numbers showing a debt to income ratio—which indicates farmers’ ability to pay down liabilities and is a leading indicator of the health of the farm sector—of four to five times, which is concerning on its own, yet USDA predicts that ratio to rise above six times in 2017. By comparison, the debt-to-income ratio in the late 1970s reached similar levels prior to the 1980s farm crisis.”

"We don't have a crisis yet, but with poor yields or continued low prices, that crisis might not be far off," Thatcher added. "We must have a robust safety net to help farmers and ranchers in bad times."




FARM BUREAU

*Courtesy of Farm Bureau*

## 'A perfect storm'

Facing declines in both acreage and prices, the National Association of Wheat Growers (NAWG) has its sights set squarely on the coming farm bill as an avenue to allay what President David Schemm calls a "perfect storm" in the industry. Schemm, who farms near the Colorado border in Sharon Springs, Kan., points to the combination of historically low prices, including competition from countries like China that violate their trade commitments and from bigger-than-expected crops here in the U.S. and in other major wheat-producing countries. Following a drop in prices sufficient to trigger marketing assistance loans and loan deficiency payments for several months, primarily in the hard red winter wheat growing areas of Kansas, Oklahoma, Texas, Nebraska and Colorado, Schemm said NAWG has been framing the upcoming farm bill reauthorization process with these difficult economic conditions as important context for the need for farm support programs.

"Whether wheat is $10 a bushel or $2.50 a bushel, American farmers need a safety net and risk management system in place to help them through difficult times," Schemm said. "The last couple of years have presented firm evidence of that fact, and shows the need to continue to maintain a revenue and price support system, as well as an effective crop insurance program to enable farmers to manage their risk."

Schemm also points out that wheat farmers benefit from a choice in Title I programs, an important illustration headed into negotiations. As opposed to soybean and corn farmers who largely opted to enroll in the ARC-CO program—by 97 percent and 93 percent of base acres respectively—wheat farmers chose to split enrollment between the two programs at least somewhat more evenly, with 56 percent of acres opting for ARC-CO and 42 percent for PLC, with 2 percent enrolled in ARC-IC.

"Maintaining producer choice between revenue and price support is important because of different needs of different regions," Schemm said. "We also need to ensure that ARC data is accurate, that the wheat PLC reference price is tied to cost of production, and that the current strong structure of the crop insurance is maintained."

Schemm's attention to and concern over crop insurance is one that many organizations share. The program has long been targeted by both Democrats and Republicans on Capitol Hill as an area for cuts, but one that the industry contends the most basic functionality of which is misunderstood.

"Crop insurance is not a profit center for farmers," ASA's Davis said. "We don't get a check."

Instead, Davis points out that the federal crop insurance program exists as a lifeline for farmers affected by catastrophic weather events, much in the same way disaster assistance exists to keep Woodall's cattle ranchers afloat in the event of a similar catastrophe.

"If you've got to take a crop insurance or a disaster indemnity, it's because your operation is facing an existential threat—because you wouldn't be around to farm the next season without it," added Davis. "This talking point that the program helps the rich farmer get richer is completely false."

Davis also adds that the lifeline nature of both the crop insurance program and Title I programs are made more essential in the context of a struggling farm economy.

"You look across the country and farmers are hurting financially," Davis said. "Prices are down, revenue is low, income continues to lag, yet at the same time input costs are flat, land is expensive and credit is hard to come by. Add to that a flood or a drought or serious hail and we're done for. What's that do to food prices? What's that do to rural communities? The idea that these programs are here to help farmers milk the system is just plain incorrect." ◘