National Association of Wheat Growers

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Testimony of Dave Milligan
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Before the Senate Committee on Agriculture, Nutrition, and Forestry
Growing Jobs and Economic Opportunity: Perspectives on the 2018 Farm Bill from Michigan
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Chairman Roberts, Ranking Member Stabenow, and Members of the Committee, thank you for the opportunity to submit written testimony today. I am Dave Milligan, the national secretary of the National Association of Wheat Growers. I grow wheat, corn, soybeans, and dry beans on my farm in Cass City, and I serve as the chairman of the Michigan Wheat Program as well as having been elected this past March to the executive officer team of NAWG. Thank you for holding this hearing in your efforts to seek producer input as part of the Farm Bill reauthorization process.

According to USDA's National Agricultural Statistics Service, the value of wheat production in Michigan alone exceeded $210 million with over 50.7 million bushels produced last year. Most of this wheat is milled locally and baked by companies right here at home. Nationwide, U.S. farmers produced over 2.3 billion bushels of wheat with a value of over $91 billion. Wheat is the principal food grain produced in the United States, and in the last decade it ranked third among U.S. field crops in both planted acreage and gross farm receipts, behind corn and soybeans.

Nationwide, there are six different classes of wheat, each of which is grown for different uses. Here in Michigan, where we have 8,000 wheat farmers growing wheat in more than 50 counties, we grow soft red winter and soft white winter wheat. Our producers understand the importance of maintaining a consistent supply of wheat and the importance of the crop to the Michigan economy. In 2011, our wheat farmers voted to establish a check-off program in order to make investments in research, education, communication, and developing new markets. Those check-off dollars are managed by the Michigan Wheat Program, a board for which I serve as chairman and have since the board's first meeting.

Wheat farmers here and across the country have experienced many different challenges the past few years, including weather and disease problems, unfair competition from countries like China that have support systems that distort trade, a high-value dollar that makes our wheat more expensive compared to other major wheat-producing countries, and a big crop last year. Wheat prices have taken a steep dive the past few years and are expected to remain at unreasonably low levels for the foreseeable future. The Agricultural Act of 2014 (the Farm Bill), and the crop insurance program in particular, have served as key tools to enable farmers to continue farming.

We've sincerely appreciated your oversight efforts during implementation of the Farm Bill. There have been some issues along the way, but despite those hiccups, the programs have been functioning as they were intended: as a safety net for producers. Through my testimony I'll provide some examples of where we've experienced some issues with the programs and some recommendations for which NAWG urges your consideration. I'll start by discussing the economic conditions in wheat country.

Economic Conditions in Wheat Country

The past couple of years have proven to be particularly challenging for wheat farmers across the country, including here in Michigan. Farmers of most commodities are experiencing lower than normal prices. Wheat in particular has dipped to levels we haven't experienced in a long time. This has had a particularly big impact on young and beginning farmers who didn't have the same ability to build up reserves when prices were high.

There have been a number of different factors that have contributed to the low prices, which I will discuss throughout my testimony. One additional contributing factor has been market competition from other large wheat-producing countries. Though this falls outside the scope of Title 1, I strongly believe that Congress needs to continue to aggressively pursue new markets. Nationwide, around half of our wheat crop leaves the U.S., indicating how critical our export markets are to farmers. NAWG was a strong supporter of the Trans-Pacific Partnership (TPP), which would've increased our access to TPP countries, including Japan. Additionally, Mexico was our number one market last year, which makes the prospect of withdrawl from NAFTA very concerning; we should also be careful about not losing ground in a renegotiation of NAFTA. We need to be continuing to not only maintain our markets, but we need to be aggressively pursuing and expanding new markets. Along those lines, NAWG supports reauthorizing and doubling funding for the Market Access Program (MAP) and Foreign Market Development (FMD) program as part of the next Farm Bill.

There have been some big swings over the past few years and more recently there have been significant drops in prices; the market year average price is determined by USDA and is used in setting farm program and crop insurance payments. The low prices have led to farmers needing to take on more debt in order to continue operating. As such, producers' debt to asset ratio's have grown rapidly recently. According to USDA's Economic Research Service, over 8 percent of wheat producers are considered to be "highly leveraged" and 16 percent are considered to be "extremely leveraged."

The economic conditions of the past few years have also contributed to a drop in planted wheat acreage, which is generally predicted to continue moving forward. According to USDA's March 31, 2017, Prospective Plantings report, wheat plantings for 2017 nationwide are estimated at 46.1 million acres, which is down 8 percent from 2016. If accurate, this would be the lowest level of plantings since records began in 1919. For Michigan specifically, the report estimates about 430,000 acres, which is just 70 percent of the 610,000 acres planted last year.

Importance of Wheat Research

Wheat is heavily reliant upon public research investments. Additionally, wheat tends to be susceptible to a number of disease and pest issues that affect end-use quality of our commodity. As such, we are strongly supportive of the Research Title of the Farm Bill, which authorizes not only the formula and competitive grant programs used by Land Grants across the country, but we also support specific programs addressing wheat disease problems, like the U.S. Wheat and Barley Scab Initiative (USWBSI). Scab is an ongoing threat and can affect all areas of the country. The emergence of scab is a serious problem that negatively impacts yields and results in high levels of the mycotoxin deoxynivalenol (DON, also known as vomitoxin) in grain which can ultimately be rejected by elevators. This hits farmers directly in the pocketbooks at a time when they're already experiencing historically low prices. The existence of scab also causes disruptions in the food and feed supply and increases costs for end users.

Unfortunately, this sort of disease can occur year after year, and a sustained and increased multi-faceted approach is required to continue to battle scab. The investments yield significant return to growers. A recent study from North Dakota State University estimated that every dollar invested by the USWBSI yields an economic return of approximately 71 dollars. The program is currently authorized in the Farm Bill at $10 million annually, and we strongly urge you to continue the authorization for this program at at least this level. We also strongly urge you to continue authorizing funding for Agriculture Research Service (ARS) genotyping laboratories across the country.

Much of the important work being done for wheat is being done by our Land Grant institutions. We strongly urge you to continue authorizing at least the current level of funding for the Hatch Act formula fund program and the Smith-Lever Extension program, which functions as the delivery system of the research work to the growers. The Agriculture and Food Research Initiative (AFRI) competitive grants program has also been a critically important resource for many agricultural challenges facing farmers across the country. We are disappointed that Congress hasn't yet fully funded this program through the annual appropriations process, but we urge you to continue the full authorization level in the next Farm Bill.

2014 Farm Bill Safety Net and Risk Management Programs
The last Farm Bill was estimated to have reduced spending by $23 billion over ten years at the time of passage, but has since that time been estimated by the Congressional Budget Office (CBO) to actually have reduced spending by $100 billion over ten years. These programs have worked well, but it also means you'll be facing a smaller baseline to write the next bill. Even so, I strongly urge you to proceed with the reauthorization process with the mindset of what growers will need. NAWG recently joined with a broad array of agriculture organizations in sending a letter to the Senate and House Budget and Appropriations Committees laying out the economic conditions in farm country and urging those Committees to provide more resources for writing the Farm Bill than is available under the most recent CBO baseline. We want the Agriculture Committees to have the resources necessary to write programs that meet producers' needs.

In looking at the new Title 1 programs from the 2014 Farm Bill, our producers were close to evenly split in how they enrolled their base acres. We feel that Congress should continue to allow for producers to have a choice in deciding between revenue protection and price protection. Additionally, I'll discuss below some thoughts on the programs.

Agriculture Risk Coverage (ARC) program
One of the higher profile issues we encountered during implementation was significant disparities in payment rates in the ARC-County program between neighboring counties in some areas of the country. ARC-County was, of course, designed in a way where there would be differences in payment rates as it's a county-based program. Payment rates will inherently vary

across the countryside depending on the growing conditions in particular counties. However, we have concern about the data that the Farm Service Agency uses to make yield determinations.

The FSA has administratively taken the approach of first utilizing data from the National Agricultural Statistics Service (NASS). This data is gathered through voluntary producer surveys, and if NASS is unable to obtain at least 30 responses from producers in a county then the agency won't publish a yield for that county. If NASS is unable to publish a yield, FSA will then utilize a cascade of other data sources, including Risk Management Agency (RMA) data, regional NASS data, or a determination made by the state FSA director. This could mean that the data used to establish a county's benchmark yields and the actual yield for the year in question could come from multiple sources; this is like comparing apples to oranges. To address this issue, our producers believe that using RMA data as the first data source where available would provide more assurances of the accuracy of the data that's being used, and subsequently the integrity of the payment rates established for ARC-County. We recognize that there will still be disparities in payment rates between counties, but utilizing more reliable data will help to instill more confidence in our producers that they are getting fair treatment from the program.

In addition to the data issues in Title 1, NAWG supports Congress looking into geographic areas smaller than a county for setting payment rates so that the program can be more reactive to a producer's actual experience. Furthermore, NAWG has concern about the delayed timing of payments under Title 1 programs, particularly given the current prices. Assistance through these programs is more important now than ever, and the delayed timing of payments just delays help to producers and it is difficult for a farmer to get their bank to incorporate anticipated payments when calculating cash flow for financing.

Price Loss Coverage

The Price Loss Coverage (PLC) program was more popular among wheat producers than some of the other major commodities, with about 43.5 percent of wheat base acres enrolled in PLC. NAWG strongly urges Congress to increase the wheat PLC reference price of $5.50 per bushel to a level that is more closely tied to cost of production. We feel this would be a fair way to set support levels and to provide relatively proportional levels of support.

Importance of Crop Insurance

The federal crop insurance program has been and continues to be farmers' most important risk management tool. The current structure of the program, which requires a farmer to pay a premium, the cost of which is shared with the federal government, and the producer has to suffer an indemnifiable loss before they get any sort of payment. Crop insurance is very popular with producers. For the 2015 crop year, there were 56.8 million acres of wheat grown in the United States (according to USDA's Economic Research Service (ERS)), of which 49.4 million acres (or 87 percent) were insured (according to USDA's Risk Management Agency Summary of Business document, as of March 20, 2017). This high participation rate is indicative of the effectiveness of the program.

The recent blizzard in the central Plains, which personally affected my fellow NAWG officer, David Schemm in western Kansas, and other terrible weather events throughout the country in recent years are prime examples of why we need to maintain an effective crop insurance system.

Without such an effective program in place that's affordable for farmers, many producers hit by storms might not be able to farm another year. Additionally, crop insurance has played an important role in helping producers get through the low prices of the last few years. NAWG strongly urges Congress to oppose any efforts to undermine the current strong structure of the program, and in particular Congress should maintain the current cost-share levels.

Wheat producers have experienced a few issues over the past couple of years that warrant discussion.

Quality Adjustments

Our wheat markets set strict standards for quality. And wheat tends to be more susceptible to quality problems than many other commodities. There are technologies in place to assist producers in producing the best quality of wheat anywhere in the world, but we are still dependent upon favorable growing conditions. Unfortunately, here in Michigan our producers had to deal with low Falling Numbers, which has implications for baking quality. Low Falling Numbers was also experienced this past year in the Pacific Northwest.

Many producers have suffered from widespread financial losses due to weather-induced problems resulting in poor end-use quality as measured by low Hagberg-Perten Falling Numbers. The Falling Number test detects starch degradation due to alpha-amylase enzyme activity and possibly other factors in wheat flour. This ultimately indicates that the flour has poorer quality for baked goods. Farmers experiencing low Falling Numbers will likely receive a discount at their elevator, often significant depending on the degree to which their load was affected. Additionally, with low Falling Numbers, though the quality has taken a hit, it isn't a yield issue. However, the way the statute is written, those quality discounts are applied to a producer's Actual Production History (APH); even though low Falling Numbers doesn't directly affect a producer's yield, RMA still requires that their yield be reduced to reflect that quality loss. This occurs even if the producer doesn't pursue an indemnity. From a fairness standpoint, it would be worth looking into whether such quality discounts could be applied to the price side of the equation rather than the yield side so that a producer's APH isn't affected for 10 years until that year's yield is cycled out.

Conclusion

Ultimately, wheat farmers and all of agriculture are suffering some of the toughest economic conditions we've had to deal with since the 1980s. The political and policy dynamics facing Congress this year are much different than the process to write the last Farm Bill. A strong safety net and risk management system is needed now more than ever. At the same time, it doesn't matter whether farmers are getting record prices or if they're bottoming out. The risks that farmers take every year in putting a crop in the ground requires there to be an effective risk management system and safety net in place to offset some of that risk in order to protect against the inevitable weather disaster or price drop. Crop insurance and the Title 1 programs have proven to be effective and good policy in general. Additionally, NAWG understands the importance of working collaboratively throughout this process. As such, we have been in close contact with other agriculture organizations in order to find common ground on as many issues possible, and we will continue this collaboration.

As you continue your series of hearings, I look forward to working with you to write the next Farm Bill. I also urge you to move quickly in this process to ensure a full reauthorization bill can be completed prior to the expiration of the current Farm Bill on September 30, 2018, so that producers have certainty about the structure of the safety net moving forward.

Thank you again for this opportunity.