National Association of Wheat Growers
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Written Testimony of Ben Scholz
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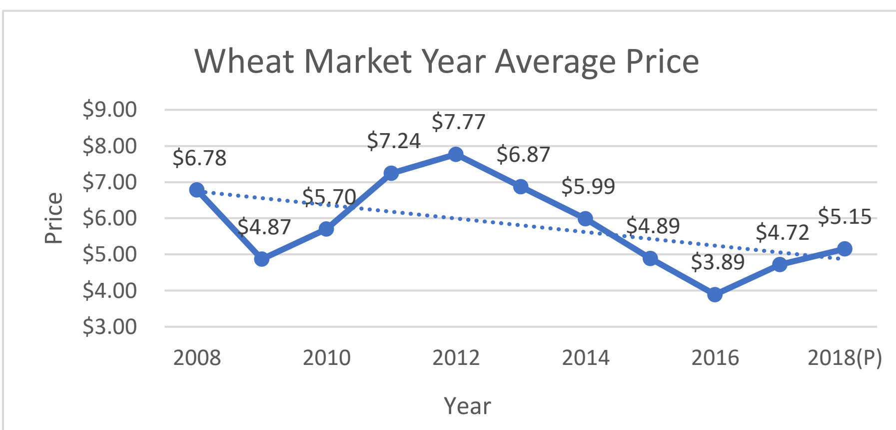
Before The House Agriculture General Farm Commodities and Risk Management Subcommittee
How Farm Policy Helps Farmers in Adverse Conditions
June 20th, 2019

Chairman Vela, Ranking Member Thompson and Committee members, I am Ben Scholz, a wheat farmer from Lavon, Texas and President of the National Association of Wheat Growers (NAWG). NAWG represents wheat growers across the nation and works with a team of 21 state wheat grower organizations to advocate for the wheat industry. Thank you for the opportunity to submit testimony on how farm policy can help farmers in adverse conditions. Programs authorized in the 2018 Farm Bill, like crop insurance and title one commodity programs, make it possible for farmers to manage risk through challenging economic times.

First, let me start by sharing the tough conditions facing wheat growers across the country and explain why these programs are needed. Wheat farmers have seen several years of continuous low commodity prices. The drop-in commodity prices have been much faster than the change in cost of production. The expectation of continued low prices has contributed to some of the lowest wheat acreage in U.S. history, with only 39.61 million acres of harvested wheat expected in the 2018/2019 marketing year, a drop from 47.32 million acres just four years prior during the 2015/2016 marketing year[1]. Additionally, with a wet fall last year impacting winter wheat seedings and difficult weather conditions impacting spring wheat seedings this year, we anticipate there could be further reductions in production. The market year average price for wheat continues to trend downward, having fallen to a low price of just $3.89 per bushel in 2016. While the price has come up to $5.15 per bushel in the 2018 marketing year, the average price over a ten-year period is still trending down significantly.



https://quickstats.nass.usda.gov/, *(P)= projected value by USDA

[1] Source: USDA, National Agricultural Statistics Service, Crop Production, Agricultural Prices, and unpublished data; and USDA, World Agricultural Outlook Board, World Agricultural Supply and Demand Estimates.

In addition to low commodity prices, U.S. wheat export markets are in turmoil due to uncertainty and unfair trading practices. Countries like China have support systems for their farmers that distort trade, and uncertainty in current and new trade agreements especially with the top two destinations for U.S. wheat, Mexico and Japan, have caused strain on an already low-price wheat environment. U.S. farmers aren't competing on a level playing field, with major wheat producing countries like China violating WTO trade commitments in how they support their farmers and not fulfilling their tariff-rate quota (TRQ) commitments. We recently secured two big victories at the WTO on these issues, and continued engagement will be necessary to ensure China complies with the rulings. In addition, since last March there have been almost zero sales of U.S. wheat to China due to the retaliatory 25% tariffs on wheat and wheat products.

More so, we have instability in two top markets for U.S. wheat as trade agreements linger. The United States-Mexico-Canada Agreement (USMCA) would enhance our already strong trading relationship with Mexico and Canada while also maintaining duty-free access for U.S. wheat that began with NAFTA. Uncertainty over the future of NAFTA and now Congressional action on USMCA has meant that Mexico has looked to other sources for wheat. The United States also faces uncertainty in the Japanese market, another top export destination for U.S wheat. With the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) moving forward without the U.S., top competitors like Australia and Canada have a growing price advantage in the Japanese market. We are pleased that the Administration has indicated that negotiations with Japan is a priority; however, we absolutely need an agreement as soon as possible that at least provides equal treatment for U.S. wheat in Japan as our competitors in order to remain competitive. A stable and predictable international marketplace is critical to helping grow demand for U.S. wheat, especially given that 50% of wheat grown in the U.S. is exported. While the U.S. remains focused on renegotiating current trade agreements and maintaining current market access, the world, including our competitors, moves on with new agreements creating new market access. The continued years of low prices have placed significant stress on wheat farmers. Programs authorized in the 2018 Farm Bill have and will continue to play a critical role in helping farmers make it through the low-price environments.

Of those tools authorized in the 2018 Farm Bill, none are more important than the Federal Crop Insurance Program. Crop insurance is purchased by farmers to protect against yield and revenue losses and farmers actually receive a bill for their crop insurance policy. It is true that farmers may pay into the crop insurance program for years without ever receiving an indemnity payment. Currently the price for wheat has risen dramatically because of the unusual wet weather pattern being experienced this year, but that only helps those with production. I wish to remind all of you; low yield or no yield, even in times of higher price, still leave a farmer without profit. In those tough years where there are large losses from revenue declines or crop disasters, crop insurance is a critical tool to helping farmers.

Crop insurance is also a tremendous example of how public-private partnerships can work. When there are losses, the losses are shared by farmers, private sector companies, and the government. Crop insurance premium rates are set by the USDA's Risk Management Agency and private sector companies delivering the policies cannot refuse farmers a policy if it is offered in that farmer's location. Unlike disaster payments, the private sector delivery of crop insurance allows for farmers to receive indemnity payments quickly after they have met their deductible on a loss. More so, by statute, crop insurance is actuarially sound.

The reliability and efficiency of the crop insurance program is one of the reasons that many lenders require a farmer to have it in order to qualify for loans, especially younger and beginning farmers who often have less collateral and equity. Farmers having access to affordable crop insurance allows farmers access to valuable loans and credit which in turn helps not just a farmer but the entire rural economy. In the case of an operating loan, a farmer uses the loan to purchase seed and other inputs to grow their crop. In turn, the entire rural economy benefits with farmers being able to pay for inputs and farm equipment after a loss.

For the reasons above, wheat growers strongly support crop insurance and oppose any efforts to undermine the crop insurance system. Due to the program being actuarially sound, any policy proposals that would increase the cost of crop insurance or kick farmers out of the program could have negative impacts on all other farmers in the program. Bringing on more cuts to the private sector delivery of crop insurance risks impacting the efficient delivery that is one of the greatest benefits of the program. NAWG would encourage the committee members and all members of Congress to keep this in mind.

Beyond crop insurance, title one commodity programs also serve as a useful safety net for farmers. For wheat growers, the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs have helped farmers through these low-price environments. Reauthorized in the 2018 Farm Bill, farmers are able to elect into the program that best fits the needs of their operation and their risk management strategies. The ARC program protects farmers against declines in revenue while the PLC program protects farmers against price losses. These programs play an integral role in helping farmers to manage their risk through prolonged periods of low prices or production problems.

NAWG was pleased to see Congress strongly support both the federal crop insurance program as well as title one commodity programs in the 2018 Farm Bill. Farming is a risky business and farm policy like what was reaffirmed in the 2018 Farm Bill helps farmers to manage that risk and continue operating through a depressed farm economy and weather challenges. Crop insurance and title one commodity programs are key tools to helping U.S. farmers have some predictability and stability in a very uncertain profession as well as helps are farmers to compete on a level playing field in the global marketplace.

Wheat growers look forward to continuing to work with Congress to ensure a strong farm safety net is maintained.

Sincerely,

Ben Scholz
President
NAWG