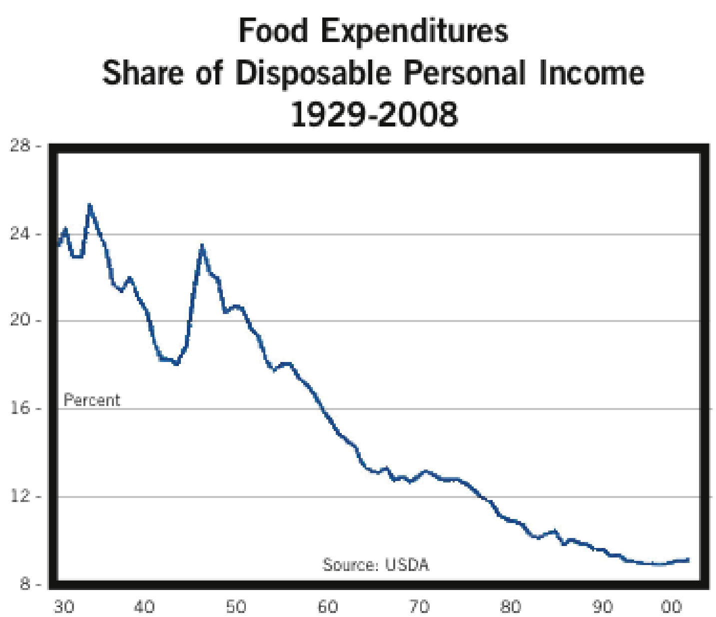
Farm Policy Testimony
Senate Agriculture Committee
Presented by Mark Watne
June 30, 2010

Thank you, Chairperson Blanche Lincoln and members of the Senate Agriculture Committee, for this opportunity to testify representing farmers in North Dakota.

My name is Mark Watne and I farm 1500 acres of cropland in north central North Dakota. We are a family farm operation and would be consider at about average in size in the state of North Dakota. We primarily raise wheat, barley and canola. We occasionally plant oats, sunflowers, peas and soybeans if market conditions appear to be attractive. Typically, our crop planting decisions are based on profit potential, rotation and the window of time the weather allows for crop production in North Dakota. In 2009 North Dakota led the nation in the production of 12 commodities so we have a number of commodities we can consider.

The first consideration for development of a farm bill is to identify the reason for its existence. I believe the reason we have a farm bill is to provide a functioning food production and security system for our nation. When we look at the abundance of top quality, inexpensive food currently in our nation, we can only assume that the current farm bill is achieving that goal. This is apparent as shown by the chart from the USDA, which I have provided in this testimony that has been distributed to you, showing Americans spend only about 10% of their disposable income on food.

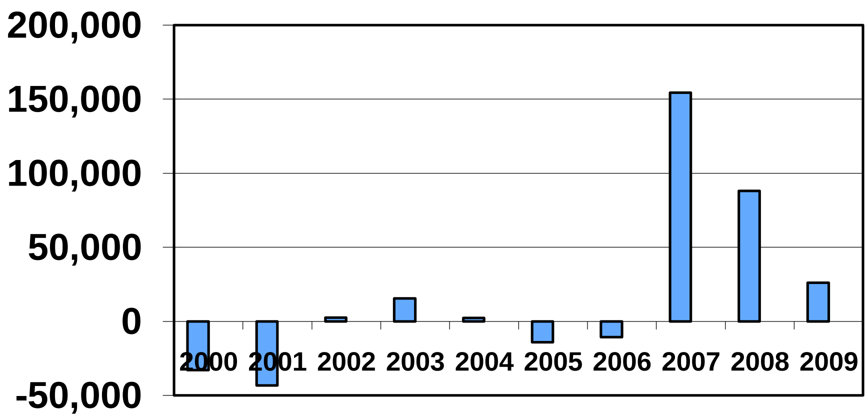


The fact that we have an abundant food supply and excess commodities, which keep food prices low for consumers, is a burden to the market and the prices farmers receive. Commodity prices reflect the small amount of over supply beyond demand that is produced each year. This unique supply and demand scenario creates the need for a farm program that addresses overproduction, which leads to lower commodity prices hurting, farmers. The demand for food does not necessarily increase when there is an excess supply. For example, a family does not add an extra meal just because food costs less. If individual farmers and ranchers, or even small sections of the country, attempted to shift supply to match demand trying to increase commodity market prices, the impact would be entirely ineffective due to our ability to over produce.

The nation and consumers would be negatively impacted if we had the food system that was based on just–in–time inventory, which would hold no surplus to meet needs in case of natural disasters. Commodity price fluctuations could cause food prices to rise rapidly and not level off in time to keep our current inexpensive food system, which American consumers enjoy. Few places in the world can offer consumers the diversity and amount of food at such incredibly affordable prices that the farm bill is able to provide. If we compare our farm program to our current energy program, we can see the wide market variations on pricing when we rely on outside sources for our energy supply. If food costs were to fluctuate the way gasoline prices do, our economy would suffer due to the increased expenditures on food the same way consumers suffer when energy costs rise. The small portion we spend on the U.S. agriculture budget may be one of the best investments we make for the benefit of our nation.

The second consideration is how the farm bill is able to provide a safety net for farmers and ranchers when the market prices or environmental conditions do not allow for adequate return to cover the operational costs. Our land grant university in Fargo tracks 537 producers and has shown (see chart below) if farm program payments and crop insurance coverage were removed from farm income these producers would have lost money or not had significant income from their operations 7 out of 10 years.

Net Farm Income Excluding Government & Insurance Pmts.
ND Farm Business Management, Excluding RRV



The current Food Conservation, and Energy Act of 2008 and the previous farm bill have been relatively successful and generally accepted by farmers and ranchers. The main concern from farmers regarding previous bills is that there has not been an adjustment to counter–cyclical payments and loan rates to reflect the higher costs of production that we, as farmers and ranchers, are currently facing.

To continue this success, farm policy must be based on the following:

1. Our nation's agricultural policy must not conform to the present course of industrialization and consolidation, but rather be directed toward an economic system that provides citizens the opportunity to own, control and work their own land and remain contributing members to their communities and country.

2. National farm policy must ensure that control of agriculture is vested with the family farm and reverse the decline in the number of family farms. It should foster a fair and competitive environment that allows farmers and ranchers to increase their net farm income, improve the quality of rural life and continue to provide a safe, reliable supply of food and fiber to this country and the world.

Farm policy should also provide price and production protection, be targeted toward family farmers, contain stock control mechanisms that do not push stocks onto the market at the point when prices are the lowest and ensure competition in the marketplace. The following objectives should be included in farm policy to ensure that family farmers and ranchers can secure net farm income equivalent to families in other sectors of our national economy:

- A safety net that is counter–cyclical and indexed to current production costs.

- Directed program benefits or targeting support to the production levels of family farmers. Targeting would reduce government costs, further the sustainability of family farms and rural communities and limit further consolidation.

- Realistic and meaningful payment limits need to be implemented. It's clear that payment limits, as they are currently formulated, are ineffective. This situation undermines public support for farm programs, so realistic and meaningful payment limits need to be implemented.

- The removal of marketing loan caps and the upward equalization of commodity marketing loan rates, based on the historic price relationship between commodities and equal to USDA's cost of production.

- Maintain planting flexibility. Farmers should be given the right to update acreage bases and proven yields on all crops for each farm. Beginning farmers and farmers raising new crops on which they have no production history should have special consideration if disaster assistance is based on crop insurance losses because they have to use T-yields until they establish proven yields.

- The SURE (Supplemental Revenue Assistance Payments program), LIP (Livestock Indemnity program), LFP (Livestock Forage Disaster program) and ELAP (Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish program) programs in the farm bill should be continued and fully implemented in a timely manner.

- Establish a revolving, two-year, farmer-owned reserve of commodities to provide an adequate supply of raw materials for use as emergency food or renewable energy. Also, the establishment of international food reserves, which means both importing and exporting nations share the costs of maintaining these reserves and making necessary production adjustments in times of surplus.

- In order to adequately cover a farmer's expenses, we need the continuation and improvement of all crop insurance and coverage on all North Dakota crops.

- Farm bill should encourage the development of renewable energy, primarily ethanol and biofuels, as these can be tools to enhance income and lower agricultural budget costs.

To conclude, if we are to make major changes to the farm bill, we should strengthen the crop insurance coverage to include lower premiums for greater coverage or other revenue and production concepts to more directly represent the cost of production and inflation. The permanent disaster program SURE and the livestock disaster programs LIP, LFP and ELAP are excellent tools for farmers and ranchers. In the last few years, we have had an incredible amount of extreme weather from ice storms to rain storms that would be considered an abnormal pattern. We have had and continue to have large amounts of prevented plant and drowned out crop. Farmers are paying taxes and other maintenance costs on land that has been out of production for years. It is essential to have these permanent disaster programs that allow for some recovery to these uncontrollable disasters to help defray costs without having to visit D.C. for emergency spending on a regular basis.

If change is necessary I would suggest that we consider supporting a shift of direct or decoupled payments to a new or better program that reflects cost of production plus inflationary safety nets. The Average Crop Revenue (ACRE) program was an attempt to begin this process, but was complicated from a farmer's perspective. Farmers were also concerned that it took two levels of payment triggers to be met before it would make payments. It also involved a commitment from all landlords and a commitment for the life of the program that may not match the land rent agreement. A program like ACRE may work if the state payment trigger could be moved to a much smaller region or even to just an individual farm payment trigger.

Counter–cyclical program payments that only pay when prices fall are much more accepted by taxpayers than direct payments. I would like to see any new farm program maintain the current agriculture budget baseline and would it have to meet a number of the above stated criteria to truly meet the needs of American consumers and American agriculture.

Thank you for you allowing me to testify.