Statement by Steve Wellman, President
American Soybean Association

before the

Committee on Agriculture, Nutrition and Forestry
United States Senate

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Good afternoon, Madame Chairwoman and Members of the Committee. I am Steve Wellman, a soybean, corn and wheat farmer from Syracuse, Nebraska. I currently serve as President of the American Soybean Association. ASA represents soybean farmer members in 30 states on national and international issues of importance to our industry. It is a pleasure to appear before you today to discuss commodity programs and risk management for the 2012 Farm Bill.

Reasons for a Farm Program Safety Net

Before presenting ASA's position on commodity programs, I would like to explain why farmers believe an income safety net is essential for production agriculture. Critics of farm programs argue that agriculture is no different from other businesses, so why should the government support it? They also point to the historically high commodity prices we have enjoyed in recent years and say it's time to eliminate or phase out these programs.

To the first point, U.S. agriculture has always been and remains based on the family farm as the economic unit of production. My farm covers 1,800 acres of cropland, and I have 90 head of cattle. I have one full-time employee who works in my family operation. I am in competition not only with farmers in South America and other countries around the world, but with my neighbors and producers across the country.

Programs to ensure food production in the U.S. is stable and produced in large enough quantities to meet demand are important to our nation. We do not want to become dependent on imports for our food. We should support agricultural production in the U.S. to continue meeting our food needs and to increase our production of renewable fuels, such as ethanol and biodiesel. With one out of every 12 U.S. jobs tied to agriculture, a positive trade impact by farm products, renewable fuel production, plus the security of a large portion of our country's food supply grown domestically, it quickly becomes apparent that farming is an essential asset for our nation's economy and security. Numerous factors such as government policies that restrict trade, surplus global production, and unfavorable weather all negatively affect our farmers' ability to operate profitably. Government support for risk management and crop insurance programs is a necessary investment to protect our country's valuable asset.

Regarding current price levels, farmers all remember 1995 and 1996, when prices were relatively high and Congress decided to phase out the target price program to reduce costs. Three years later, prices for most commodities fell sharply due to global oversupply and reduced demand. By 2001, prices were down an average of 45 percent for major commodities, and Congress had to step in to provide emergency assistance.

I can tell you what would have happened on my farm without that assistance. For the six year period of 1998-2003, government support exceeded my net income from grain farming. Government support during these six years and crop insurance indemnities in 2002 were vital to keeping me in business. Many of my neighbors and producers around the country had the same experience. The reality in farming is that markets are cyclical. We need a safety net, not to pay us year-in and year-out, but to keep us in business when, through no fault of our own, we can't make ends meet.

Farmers want to make their living from the market, not from the government. We support policies that allow and encourage us to respond to market signals, and which provide assistance only when the economics of farming are so negative that we have no other recourse. We believe we perform a vital service in providing our country and a growing world with an abundant supply of high quality food, feed, fiber and fuel at reasonable prices. And we very much appreciate the recognition and ongoing support of this Committee and Congress for what we do.

Background on Past and Current Farm Programs

To underscore this statement, I would like to provide some background on how farm programs and policy have become increasingly market-oriented in recent years. When I started farming in 1981, the prevailing thinking was that, as the world's largest exporter of major commodities, the U.S. could support prices by idling productive farmland and diverting surpluses into farmer-owned reserves. In order to be eligible for payments under the old Target Price program, we were restricted to growing crops on acreage bases determined for each farm. Moreover, we had to grow those crops in order to receive these payments.

This policy resulted in planting distortions and overproduction of crops already in surplus, further depressing prices and shifting increasing quantities into reserve. It prevented farmers from responding to market signals that called for greater production of crops which did not have acreage bases, including soybeans. And it made the U.S. the supplier of last resort, as competitors in Europe and South America increased production and exports, knowing that our crops would be held off the market until prices rose above world price levels.

This policy remained in place until 1996, when Congress enacted the landmark "Freedom to Farm" legislation. Under "Freedom to Farm," the government safety net was decoupled from planting decisions, and producers were allowed to plant any program crop on their farm. The result has been a return to competitiveness and greater profitability for U.S. agriculture. In response to increased global demand, soybean plantings rose from 60 million acres in 1995 to

75 million acres in 2010. Most producers have wholeheartedly supported the planting flexibility provided under the last three farm bills. For soybeans, which have relatively modest supports under the Marketing Loan and Counter-Cyclical Payment Programs, maintaining planting flexibility is of paramount importance.

Position on Commodity Programs in the 2012 Farm Bill

Let me now turn to ASA's position on programs for the 2012 Farm Bill. We recognize that deficit reduction is a national priority, and that agriculture should do its fair share in helping to bring down federal spending. We supported the deficit reduction efforts of leaders in both the Senate and House Agriculture Committees last fall, when they committed to cut $23 billion from the cost of the next farm bill. We believe this level of cuts will still allow the Committees to write new farm legislation that continues to provide an adequate safety net to producers.

We also recognize that cuts in the commodities title will come from elimination of the Direct Payment program, and that existing programs will need to be restructured. While Direct Payments to soybean producers are not as significant, proportionate to crop value, as payments to producers of other crops, this program has been the cornerstone of planting flexibility for the past 15 years. However, since payments are made regardless of price levels, and prices have been historically high for several years, Direct Payments have become untenable in the current budget environment.

As ASA looked at program alternatives to help farmers manage risk, we concluded that the best complement to income protection under the existing crop insurance program would be a revenue-based program that partially offset losses that exceed a specified revenue threshold. This approach would make significant changes to but is similar to the current ACRE program, which has had limited participation due to its complexity, reductions in Direct Payments and Marketing Loan rates, and a state-level revenue-loss trigger. ASA supports a single farm-level trigger under which producers would be required to document losses on a commodity-specific basis, so payments would be made only when actual losses occur. This requirement would address criticism that payments under current programs are made regardless of commodity prices and yields. We also support a revenue loss requirement under this program of not less than 10 percent, and a coverage band not to exceed 15 percent.

While payments under this program would be tied to actual production in the current year, we do not believe it will distort planting decisions and production. Requiring farmers to document actual losses in order to receive revenue payments would be a significant deterrent to "planting for the program" rather than following market signals. Additionally, using moving Olympic average prices as part of the revenue threshold calculation would make the program responsive to market price movements over time. Finally, revenue payments would only be made on a specified percentage of actual revenue losses that exceed a threshold loss, thereby further limiting the possibility of planting distortions.

We acknowledge that a revenue-based program may not be appropriate for producers of certain commodities, or in areas where yield variability is relatively low. We support providing flexibility or alternative programs for these producers, provided they do not have the potential to affect planting decisions and reduce planting flexibility. The argument may be made that, with prices expected to remain at historically high levels, the chance that fixed support prices tied to actual production could distort producer cropping decisions is relatively small. However, as I stated earlier, we need go back no further than 1999 to 2001 to see how wrong such projections can be.

Opposition to Restructuring Crop Insurance

I would also like to state ASA's strong support for the existing crop insurance program as the foundation for risk management under the farm safety net. Soybean producers actively participate in crop insurance, and repeatedly express opposition to any restructuring of the program or reductions in its baseline for deficit reduction. We applaud the decision by the leaders of both the Senate and House Committees last fall to leave crop insurance untouched in developing a farm bill proposal that met your deficit reduction target.

I would add that ASA opposes making crop insurance premium subsidies subject to payment limitations, or subjecting crop insurance participation to conservation compliance requirements. These provisions are appropriately applied to eligibility for farm program benefits. Tying either to crop insurance would discourage participation in the most important risk management program for soybean producers.

Finally, Madame Chairwoman, I would like to reemphasize the importance of maintaining planting flexibility and avoiding the possibility of planting distortions under any alternative programs the Committee may consider in restructuring the farm safety net. Analysis and modeling by noted agricultural economists show the potential for planting distortions under some alternative farm program policy options, as well as the potential for the United States to exceed its WTO commitments as a result of these farm policy options under a low price scenario where prices fall 15 percent per year for three years from current levels. The avoidance of farm program-induced planting distortions and allowing producers to respond to markets while managing risk has been the most valuable policy provided under the current farm program and must be maintained.

Attached to my written statement is an annex that provides personal experiences from several members of the ASA Board of Directors on past and current farm programs.

Thank you again for the opportunity to testify today. I look forward to answering any questions.

Annex

"Under the target price farm bill of the 1980's and early 1990's, we were forced economically to plant crops that require more tillage, such as cotton and peanuts, and had little to no ability to rotate. Under subsequent farm bills that are decoupled from bases, we are now able to implement rotations that reduce erosion and make more efficient use of our resources because we can develop better farming practices according to market signals."

Wade Cowan
Brownfield, Texas

"In the late 1980's and until Freedom to farm legislation, we were required to plant all our corn base area in order to maintain our corn base and not lose government support. Our corn base was about 2/3 of our total area, and on some farms 100% -- so we were 'required' to plant more corn that our best crop rotation plan for soybeans/corn would allow. The requirement to maintain base area caused us to plant more corn than the market indicated we would. It was a great relief when the Freedom to Farm legislation passed and we could plant the right crop at the right time."

Ray Gaesser
Corning, Iowa

"In the 80's and early 90's, I planted cotton on all my allotment acres. Most of that time, cotton prices were fairly low, so we planted cotton hoping to break even on expenses and collect government payments for any profit we might have."

"Into the late 90's, I was still planting 75% cotton and 25% soybeans. Cotton yields were declining due to nematode infestations. It turned out that corn was the perfect rotation crop for this problem in cotton because the reniform nematodes could not grow on the corn roots. With decoupled payments, I was no longer tied to cotton production. I increased soybean and corn acres from 2001 to 2006, since they were more profitable. Beginning in 2007 and through 2010, I planted cotton again because market prices dictated that I needed to plant some."
"Through the 2000's, I chose the crops that were most profitable for me to plant based on market expectations, not due to government program payments as in the 80's and 90's."

Danny Murphy
Canton, Mississippi

"I remember in the 70's and 80's, when strict adherence to base limitations was important, staff from the old ASCS (pre-FSA) would have to come out and measure what was allowed. Because of my desire to maximize the allowed program crops to be planted, split fields often were needed. For example, I might be allowed to plant some odd number, such as 52 feet, in the last corn field. And at times planting was delayed until this measurement occurred. Soybeans took the balance."

“Later a tolerance factor was introduced, I think 5% was implemented, and most times we could make whole fields fit the allocation. What an improvement!”

“As we all know, the years of transition to planting flexibility have allowed farmers to focus on fields and crops as the priority, not arcane government bases which were established decades earlier.”

Rob Joslin
Sidney, Ohio

“When I started farming in the late 70’s, I felt I had to plant corn to be protected against market fluctuations. The only real safety net at the time was the deficiency payment program, which was not available to oilseeds. Also at the time, the conventional wisdom in the farm policy arena was that ‘corn was king.’ The meaning was clear that the national policy was screaming out the message to farmers that we needed more corn and coarse grains. I responded by planting all I was allowed and participating to the fullest extent of my eligibility.”

“The Freedom to Farm legislation in the mid-90’s allowed me to keep that valuable corn base as a hedge against the loss of deficiency payment protection while at the same time chase market signals instead of farm policy. My crop rotation has benefited as well and I’ve been able to adjust plantings without fear of losing valuable crop acreage base history.”

An Ohio farmer, forwarded by Rob Joslin