NAWG | NATIONAL ASSOCIATION OF WHEAT GROWERS

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Written Testimony of Brent Cheyne

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Before the Senate Agriculture Committee Subcommittee on Commodities, Risk Management, and Trade

Commodity Programs, Credit, and Crop Insurance – Producer Perspectives on the Farm Safety Net

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Chairwoman Smith, Ranking Member Hyde-Smith, and Members of the Subcommittee, thank you for the opportunity to testify before this Commodities, Risk Management, and Trade Subcommittee. My name is Brent Cheyne, a farmer from Klamath Falls, Oregon where I operate a certified Century Farm with my son who will carry on the family tradition of working hard and producing a quality product. Thank you for holding this hearing today to discuss the 2018 Farm Bill and the changes we would like to see in the 2023 Farm Bill.

NAWG is a federation of 20 state wheat grower associations and industry partners that work to represent the needs and interests of wheat producers before Congress and federal agencies. Based in Washington, D.C., NAWG is grower-governed and works in areas as diverse as federal farm policy, environmental regulation, the future commercialization of emerging technologies in wheat, and uniting the wheat industry around common goals. Our members feel it is important to provide testimony before this subcommittee today as we look forward to the reauthorization of the Farm Bill this year. This hearing is particularly timely as many of us here were at Commodity Classic last month discussing the needs for the upcoming Farm Bill.

Wheat Overview

Nationwide, there are six different classes of wheat, each of which is grown for different uses in different geographic regions and climates, using a variety of agronomic practices, and facing different challenges. These varieties of challenges, uses, and growers make creating a one-size-fits-all program for wheat particularly difficult. In my home state of Oregon, there are just over 36,000 farmers operating over 15 million acres. My state grows Soft White wheat on over 700,000 acres making it the largest row crop grown in Oregon. Soft White wheat is used primarily in Asian-style bakery products as well as cakes and pastries.

According to the April 11 crop production report from the USDA National Agricultural Statistics Service (NASS), all wheat planted areas increased by over 4 million acres. However, this information was coupled with an April 2 report from USDA NASS that noted that “more than one-third of the winter wheat was rated in very poor to poor conditions” in Kansas, Texas, Oklahoma, and Nebraska. In other words, the largest area of winter wheat production is in bad shape. The report also noted that only 28 percent of the nation’s winter wheat was rated good to excellent condition, the lowest figure since 1996.

According to the United States Department of Agriculture's (USDA) World Agriculture Supply and Demand Estimates from April 11, the United States (U.S.) exported over an estimated 21.7 million metric tons (MMT) (797 million bushels) of wheat in 2021/22 and projects the U.S. to export 21.1 MMT (775 million bushels) in 2022/23, representing 48 percent and 47 percent of total U.S. wheat production respectively. With such a large percentage of our production exported, U.S. wheat growers' profitability is intricately connected to our export markets. The U.S. is the largest donor of food assistance worldwide, with over 1.3 MMT in food aid tenders in marketing year 2022/23 so far, making up around six percent of commercial sales, plus additional U.S. commodity donations, and substantial cash and non-U.S. purchased food. Wheat is one of the principal food grains produced in the United States and consumed around the world, constituting roughly one in five calories consumed worldwide. Food aid donations have made significant impacts in markets like Ethiopia and Yemen that are facing food shortages.

With nearly 50 percent of U.S. wheat heading to overseas markets, trade is a major priority for wheat farmers. The United States is the world's fourth largest exporter of wheat, behind Russia, Australia, and Canada, while being the largest contributor to food aid, providing around half of the world's food aid. On average, Mexico, the Philippines, Japan, South Korea, and Nigeria make up the top five destinations for U.S. wheat. Following the United States's success at the World Trade Organization (WTO) and through efforts to negotiate the China Phase 1 deal, China went from being the world's 16th largest importer to the 4th largest in a single year. In addition, top recipients of food aid most recently include Yemen and Ethiopia.

The world wheat market is an ever-changing one that provides unique opportunities for U.S. wheat farmers. But wheat is also the world's most widely planted and traded commodity. That means global competition among exporters is fierce. It highlights the continuous need for new market access to keep U.S. growers on a level playing field with other countries – especially as our primary competitors in quality wheat markets – Canada and Australia continue to sign and pursue new free trade agreements around the world. Two free trade agreements that are currently being evaluated by the administrations are with the United Kingdom and Kenya. Both would be prime examples where U.S. wheat faces tariff and non-tariff barriers that we would hope to resolve through trade negotiations. In addition, the Asia Pacific is a region ripe for U.S. attention on trade, given several competitor agreements in place and the continuing growth in their wheat consumption. Whatever form those future discussions take, agricultural market access must be a priority.

This hearing is of utmost importance as we keep those figures in mind. Under the current safety net, with those types of weather challenges impacting a significant portion of wheat farmers, many farmers will fall through the net. When falling from these heights, farmers will get injured. This testimony outlines the changes made in the previous Farm Bills, NAWG's requests for the 2023 Farm Bill, and lays out the economic conditions that make improving the safety net necessary.

Changes and Decreases to the 2014 and 2018 Farm Bill

The 2014 Farm Bill made cuts to the overall spending of the Farm Bill, especially in the Commodity Title. When accounting for sequestration cuts, the 2014 the Farm Bill eliminated a total of $26.8 billion in spending, including $12.7 billion in the commodity title.

These cuts widened the holes in the safety net that have allowed farmers to fall through over the last decade, leading to widespread calls for ad hoc disaster programs. Since the introduction of the Market Facilitation Program in 2018-19, disaster programs have spent far more than the original cuts to the 2014 Farm Bill, out of necessity, thanks to the shortcomings of the current safety net. Between the Coronavirus Food Assistance Programs (CFAP) and Emergency Relief Program (ERP) alone, wheat farmers received over $2.5 billion for an average of $850 million per year. These were needed programs that helped wheat farmers overcome a bad agricultural economy, low yields, and low prices.

While these programs were extremely helpful and necessary, they did not come without challenges. Unlike Title I programs and crop insurance, ad hoc disaster programs cannot be counted on given their nature. They are often funded a year or two after the disaster, and it can take many months for USDA to roll out the program. This drag in payment timelines often threatens to put farmers experiencing disasters out of business. Further, the complicated nature of forcing the USDA to create a new program to address disasters makes the program itself complicated. Staff at the local Farm Service Agency (FSA) offices are often given a crash course in a complicated program and then have to explain it to the farmer. This uncertainty and inconsistency can cause headaches and confusion and impact a farmer's relationship with their FSA office.

It is time that Congress lessened its reliance on ad hoc disaster programs and firms up the safety net to give farmers the confidence to produce the safest, most secure, and cheapest food system the world has ever seen.

The 2018 Farm Bill continued prioritizing Title III and its role in international food aid while making key changes to provide maximum flexibility in how agencies and NGO's implement these important programs. The new Farm Bill eliminated the 15 percent monetization requirement in Food for Peace, which allowed additional flexibility in program implementation. It also permitted 10 percent of McGovern-Dole program funds to be used for local and regional procurement, established a pilot agreement allowing supplemental appropriated Food for Progress funds to be used for direct development activities, and made technical changes to several fellowship programs.

The 2018 Farm Bill continued promoting trade by consolidating several programs into the Agricultural Trade Promotion and Facilitation section, which maintains the unique functions of each program while establishing permanent, mandatory funding for export promotion activities. It also created a Priority Trade Fund that allows the Secretary of Agriculture to allocate additional funds to any export promotion program. Market Access Program (MAP) and Foreign Market Development (FMD) program funding was also made available for activities in Cuba.

The 2018 Farm Bill provides $255 million in annual mandatory funding for export programs from the Commodity Credit Corporation, while GSM-102 was given over $3.5 billion for allocation in the fiscal year 2022.

NAWG Policy Priorities for the Next Farm Bill

Since the fall of 2021, our membership has reviewed the 2028 Farm Bill programs and subsequent ad-hoc programs through our internal committee structure and solicited individual grower feedback through a survey. These efforts culminated in our Board of Directors making 2023 Farm Bill recommendations in the summer of 2022 and expanding upon those priorities at Commodity Classic early last month. This testimony will provide a reiteration of our major asks in the Commodity and Crop Insurance Titles and will justify these asks.

NAWG's number one priority is protecting the crop insurance title. The economic challenges outlined below and the ad hoc programs over the last half decade demonstrate the short-sighted nature of cutting crop insurance as a budget saving tool. Further cuts will jeopardize the partnership between the federal government and the private insurance industry that delivers an essential risk management tool. We encourage this subcommittee to avoid further cuts and even look at ways to enhance the program through better affordability.

My farm is a great demonstration of the challenges that farmers face when it comes to crop insurance affordability. My son and I utilize a yield protection policy on our farm with coverage of 80 percent. This means that in a qualified loss, we are only covered up to 80 percent of our average production history (APH). In a year of total loss, only being covered up to 80 percent only goes so far in protecting our farm. While my son and I would like to elect a higher coverage, moving up to an 85 percent coverage level nearly doubles the premiums that we pay. This is unaffordable for us and many similar farmers. Paying for maximum coverage levels is usually far too expensive for most farmers. Congress should take a hard look at this issue and make efforts to increase the affordability of higher coverage levels.

It's also important to understand that the crop insurance program is not just valued by farmers but the entire rural community. Many banks refuse to extend lines of credit without farmers enrolling in crop insurance. This is done as a form of protection for banks themselves. Crop insurance allows farmers to pay their bills to input dealers, seed suppliers, cooperatives, and buy groceries and local grocery stores, even in years where production or prices fall. Crop insurance is not just important to farmers, it's essential to the survival of rural America.

One specific improvement NAWG is proposing is the separation of Enterprise Units (EU) by continuous and fallow cropping systems. Currently, farmers must combine fallow and continuous wheat acres. As a result, you can have a fallow APH and a continuous APH that are reported separately but must have a blended unit in an EU. This dynamic ends up hurting farmers in arid areas when crop insurance needs to be a safety tool for their protection. Our solution would use precedent language in previous Farm Bills that make changes to EUs to allow insuring wheat EUs by fallow and continuous while still offering a combined option. This legislation would benefit farmers and help them be better able to insure their wheat and their livelihood.

In the commodity title, NAWG recommends a meaningful increase to the statutory reference price for Price Loss Coverage (PLC) and changing the parameters on the effective reference price calculation. These recommendations would allow for a stronger Title I program that can more effectively protect farmers, and better adjust to market conditions. This is especially important with the substantial increases in the cost of production. Using USDA's Commodity Costs and Returns data from October 3, 2022 (the most recent available), after factoring in overhead costs like labor, cost of living, and opportunity costs, wheat farmers lost $64.47 per acre. Meanwhile, wheat farmers didn't see a PLC payment because the Marketing Year Average (MYA) price was already inflating. Data for 2022 comes out next week and will likely show that wheat farmers lost even more money in 2022 despite the increasing commodity prices due to increases in inflation and input costs, which the testimony will delineate. With the MYA price projected at $8.90 per bushel, the $5.50 reference price means that wheat farmers would have to see a 38 percent decrease in prices before seeing a government payment.

That's a precipitous drop. The effectiveness of the safety net is largely dependent on how big the fall will be. The statutory reference price established in the 2014 Farm Bill is outdated and doesn't work for this economy.

Another area of focus in improving the Title I program would be to modify and strengthen the parameters of the effective reference price in tandem with updating the statutory wheat reference price. The effective reference price and its adjustment mechanism could be improved to provide a better safety net for wheat farmers that can be responsive to market conditions. The current effective reference price is capped at 115 percent of the statutory reference price, with a maximum level of $6.33 per bushel for wheat. Additionally, the 85 percent factor on the moving average should be reexamined and increased to 90 or 95 percent. Overall, having an adjustment that takes years to occur is too slow with the current volatility of commodity markets and the ever-increasing cost of production and the Committees should consider making this mechanism more responsive to market conditions. For wheat, the escalator can be more meaningful if the statutory reference price is adjusted to more accurately account for increased input costs and value of production, which has increased significantly since the 2018 Farm Bill.

We do not propose increasing the reference price to guarantee a profit for wheat farmers. It would simply mitigate some of the substantial risks involved in the industry and help protect from the serious increases in unavoidable costs that farmers face.

While the cost of this Farm Bill will come under intense scrutiny, it is impossible to separate the cost of the ad hoc programs and the Farm Bill. The cuts made in previous Farm Bills created the need for these additional programs, at tremendous cost. As mentioned previously in my testimony, the CFAP and ERP programs alone provided an average of $850 million per year over three years, with CFAP providing almost $1.5 billion in one year and ERP providing just over $1 billion over two years. If made permanent, these programs would cost over $8.5 billion on average over their 10-year lifespan. This does not even include the spending made in Market Facilitation Program (MFP) or the iterations of the Wildfire and Hurricane Indemnity Program (WHIP and WHIP+). Meanwhile, raising the reference price – for example – by one dollar would cost $14.6 billion over that same 10-year timeframe according to some estimates. As we consider reauthorization, it is important we work to strengthen our Farm Bill safety net that provides timely, effective, and dependent protection.

Title III of the Farm Bill consists of two major elements that play a crucial role in agricultural trade: international food aid and agricultural trade promotion. The international food aid programs have been successful in stabilizing economies and populations hurt by climate change, famine, and war and have helped promote peace by reducing terrorism and food emigration. Trade promotion programs have helped U.S. agricultural products remain competitive on world markets and opened access to new markets, which has boosted the agriculture economy and kept farmers in business. While making up less than one percent of total Farm Bill funding, Title III plays a crucial role in the farm safety net.

As MAP and FMD haven't seen a funding increase since 2002 and 2006, respectively, NAWG is thankful to Senator Smith and Ernst for being original cosponsors of the bipartisan Expanding Agricultural Export Act (S. 176). S. 176 would double the authorized funding levels for MAP and FMD to $400 million and $69 million, respectively. The funds are used to reimburse agricultural organizations for a portion of the cost of carrying out overseas marketing and promotional activities, such as consumer promotions. These programs generate a net return of $24.50 for every dollar invested and support 225,800 full- and part-time jobs nationwide. NAWG is fully supportive of this bill and encourages the Senate Agriculture Committee include it in the 2023 Farm Bill.

Each year, our nation's international food aid programs help feed millions of vulnerable people around the world. These programs have enjoyed significant bipartisan support for more than 65 years, and the need for food assistance has never been greater, emphasizing the need for the farm bill to continue supporting U.S. commodities as part of these vital programs.

The use of American grown commodities as food aid has been a cornerstone of U.S. foreign assistance programs for decades. U.S. commodities have been integral in allowing the U.S. to expedite hunger relief, increase resilience, and save countless lives. However, over time, these proven programs have shifted away from their bedrock of commodities to alternatives lacking in accountability, such as physical cash handouts in some of the most unstable regions of the world and using American taxpayer dollars to purchase commodities from foreign agricultural competitors. It is time to put the food back in food aid by increasing the amount of pure in-kind commodity donation in the food aid programs.

NAWG recognizes several of these priorities would require securing additional budget authority to craft the next Farm Bill. To this end, NAWG joined over 400 agricultural organizations requesting additional resources so that this committee can write a Farm Bill that provides an adequate farm safety net for rural America. NAWG appreciates the desire of Congress to be fiscally conservative with our tax dollars. However, the farming safety net makes up only two-tenths of one percent of federal spending. In a world faced with increasing global hunger, massive increases in input costs, unprecedented market volatility, and large government expenditures, now is the time to invest in the Farm Bill, not limit agricultural spending.

The Farm Bill also includes important programs related to conservation financial and technical assistance and research. We look forward to continuing to engage with all the Members of the Senate Agriculture Committee on the Conservation and Research Title and additional provisions in the bill.

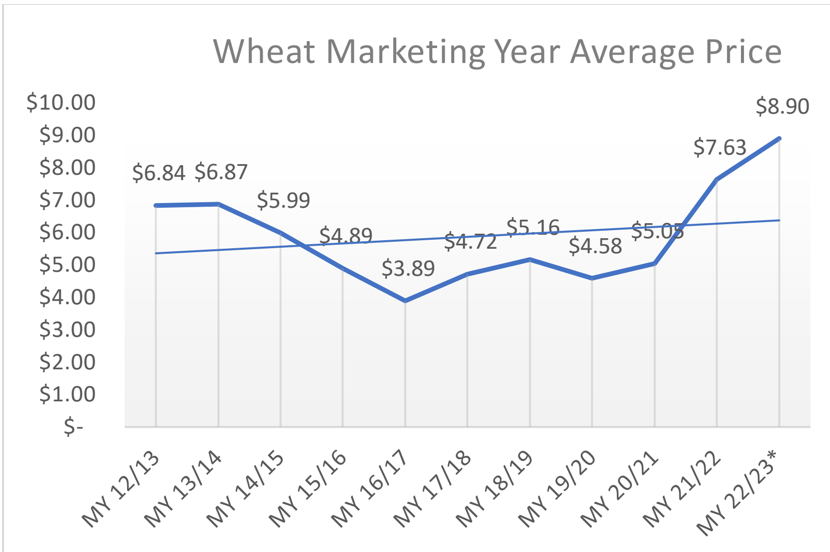
Economics in Wheat Country

Wheat farmers are currently enjoying a strong farm economy, although it has its challenges. Higher prices have bolstered cash and farm income in recent years, putting farmers in a decent position to weather economic storms. However, challenges in the form of inflation, interest rates, and weather are already impacting our growers as farm income is projected to decrease in 2023.

Prices

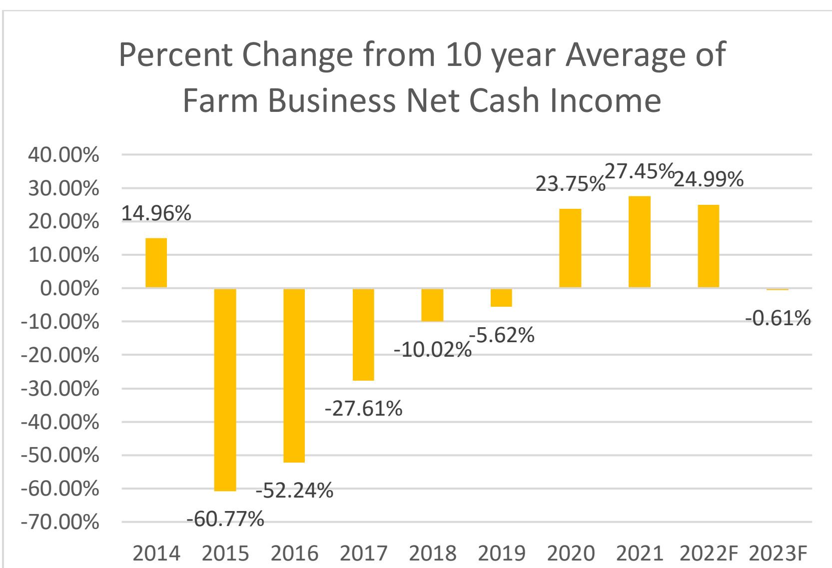
Wheat farmers have been through a lot economically over the last decade, experiencing near record highs and lows in net farm income and prices, while dealing with trade and market disruptions thanks to COVID-19, trade wars, and the Russian invasion of Ukraine. The volatility has been coupled with multiple years of natural disasters in the form of drought, causing historically low production in spring wheat in 2021, followed by historically low production in winter wheat in 2022. Forecasts predict another year of historically low winter wheat production once again in 2023. The USDA is projecting the lowest yields in winter wheat since the 1960's. Currently, the agricultural economy is strong but is facing significant headwinds that have led to economists forecasting decreases in 2023.

The past two marketing years have given wheat farmers much needed relief as prices have risen significantly. After seeing six straight years of low prices, low enough to trigger the already-too-low Title I Reference Prices, wheat prices have recovered to a point where wheat farmers can actually be profitable. This year, the MYA price is projected at a record $9.00, up from the 2021-22 MYA price of $7.60. These prices have given wheat farmers an opportunity to make valuable investments in their businesses. However, significant headwinds in the form of inflation, interest, input prices, and weather conditions threaten to, at least partially, negate these record prices.

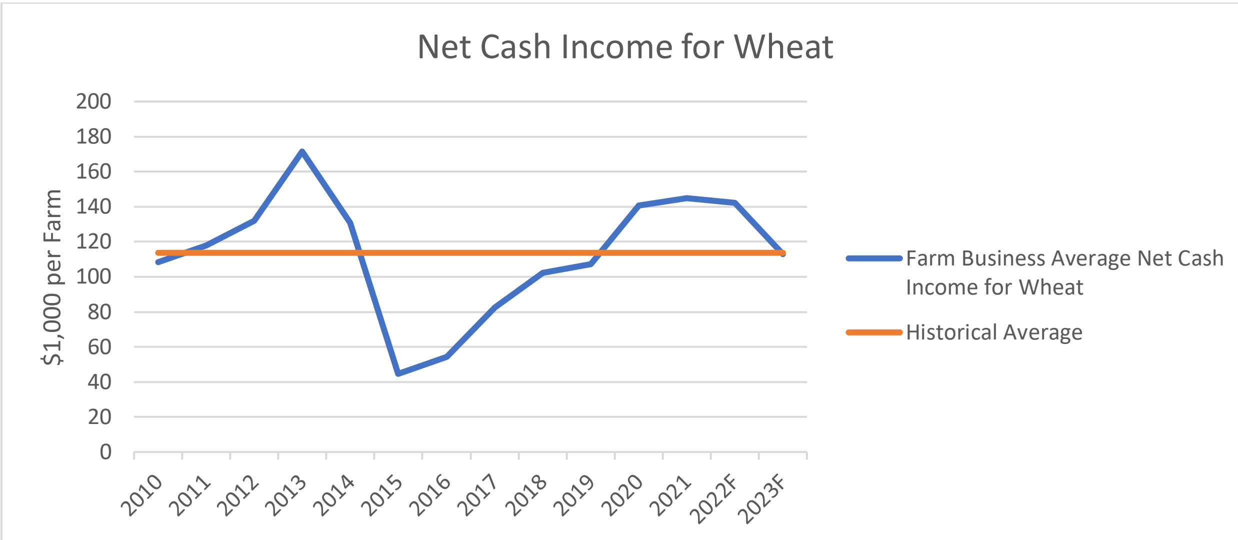


Net Income

These increases in prices are reflected positively in net cash income for farm businesses. Net cash income is the cash available to farmers to draw down debt, pay taxes, cover family living expenses, and invest. Thanks to these high prices, farmers have seen historically higher than normal net cash income.

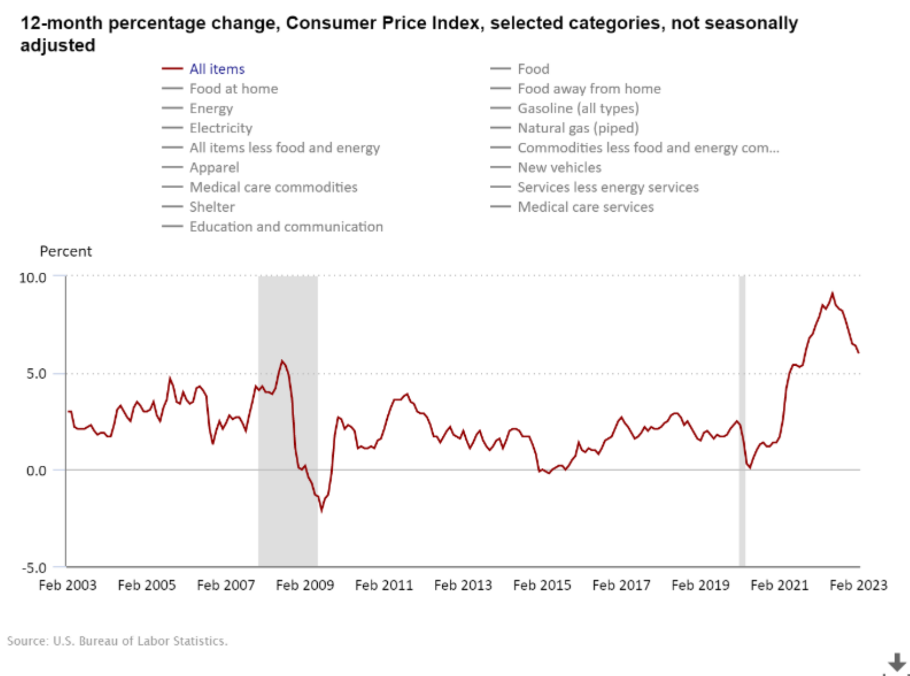


From historically low cash income in 2015 to historically high income in 2021, increased prices, high yields, and disaster payments have helped wheat farmers survive those bleak years. However, as the charts below show, Net Cash Income is forecasted to not only decrease from historical highs in 2023 but come down to historical averages. This is due to the turbulence I have described in the agricultural economy. This volatility makes it difficult for wheat growers to plan into the future and have consistency in budgeting for and marketing their wheat crop.



Inflation and Interest Rates

Like the rest of the economy, farmers have felt the belt-tightening pressures of increasing inflation and interest rates. Inflation, caused by increased government spending, supply chain pressures, monetary policy, and the war in Ukraine, hit the highest rate that young farmers have seen in their lifetime, the highest since the 1980's. The chart below from the Bureau of Labor Statistics shows the heights the

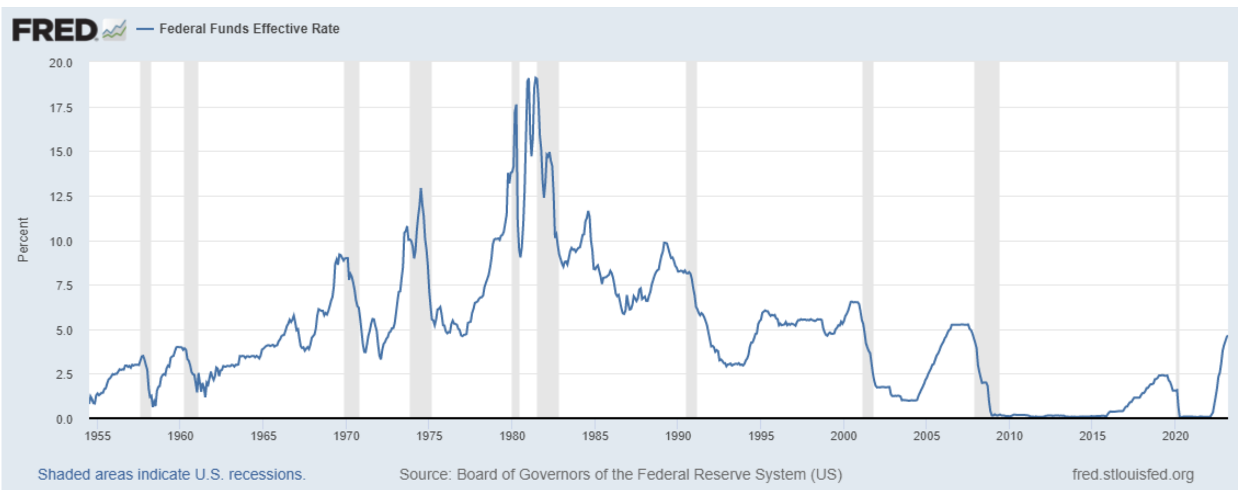


inflation rate hit in late 2022. While inflation has eased somewhat, the economy still suffers from the highest inflation rate of the 21st Century.

These inflation rates have shown themselves in numerous ways for farmers, but most notably in the additional costs of farm inputs. For example, one analysis that a wheat farmer in Southwest Kansas made on his own 308 acres of no-till fallowed wheat showed that the price per acre of crop protection tools more than tripled between 2021 and 2022.

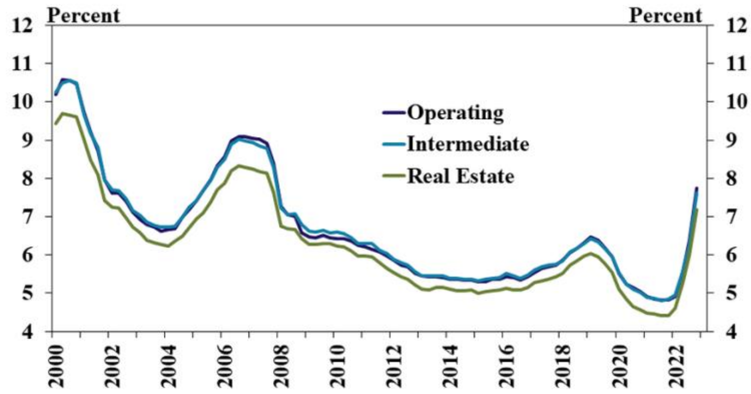
When multiplied across the entire 308 acres, this was an increase of $27,981.80. This is only one part of the story as fertilizer, labor, and equipment parts and repairs are not included in that estimate. These increased costs for crop protection tools are only a small fraction of the entire set of bills that wheat farmers are now paying.

The increased inflation is coupled with increasing interest rates as the Federal Reserve has attempted to reduce inflation. The chart below from the Federal Reserve Bank of St. Louis demonstrates the abnormally elevated federal funds rate at levels unseen since the 2008 financial crisis. The federal funds rate is the suggested interest at which banks lend money to each other set by the central bank.



The important difference between the recent increases in inflation rates and the previous highs in the 1980s and 2008 is the recent trend of near zero interest rates. Near zero interest rates make money more available and decrease the cost of obtaining loans. Farming is a business that often relies on operating loans. Meanwhile, the risky nature of agriculture means their annual operating notes may run at higher interest rates than the rate at which banks lend to each other. This is demonstrated in the chart below from the Federal Reserve Bank of Kansas City.

Chart 1: Average Fixed and Variable Interest Rates on Agricultural Loans*



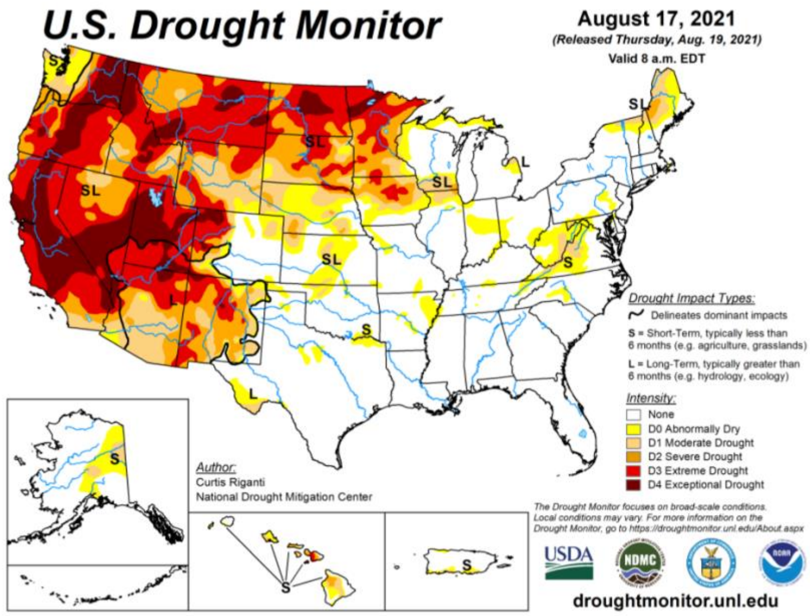
*Average interest rate across all Districts with applicable data. Includes Chicago, Dallas, Kansas City, Minneapolis, St. Louis Districts.
Note: St. Louis survey began Q2 2012. Chicago District survey includes only fixed operating and real estate loans.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

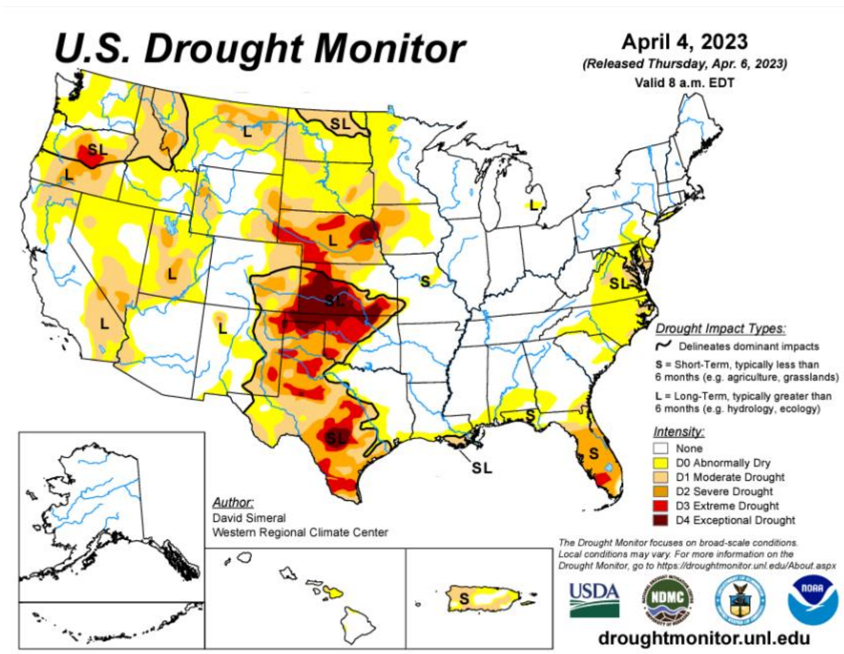
According to the Kansas City Fed, in the fourth quarter, "Interest rates on farm loans jumped to decade highs as benchmark rates rose further. The average rate charged on agricultural loans at banks in reporting Federal Reserve Districts increased nearly 150 basis points from the previous quarter and were about 300 basis points higher than the same time a year ago. Rates rose to the highest level since 2008 and pushed up financing costs considerably." On my farm, we were just quoted for our operating note at 8 percent but were told that next year's rate would be over 10 percent, something we have anecdotally heard across the country. Farmers that have enjoyed near zero interest rates now have to deal with the additional costs of capital and the increased prices thanks to inflation.

Many farmers depend on these operating loans to continue to farm. Farming is not only risky, but also very expensive, with a new combine harvester costing almost $1 million. After years of near-zero interest rates on operating notes, these increased interest rates make it more expensive for farmers to use the capital they need to implement conservation practices, invest in new equipment, and stay in business.

Weather Conditions

Agriculture is uniquely dependent on the weather. While other industries can continue to thrive through excess drought or rain, farmers' crops are completely dependent on the weather. The last five years have put intense production pressure on both spring and winter wheat for farmers throughout the United States. The 2021-22 crop year saw the lowest all wheat production since 2003 and marked only the second time in fifty years that all wheat production failed to reach 1.7 billion bushels. Meanwhile, 2022-23 is projected to be the smallest winter wheat crop since 1963 because of the significant drought conditions. The charts below show the drought monitors for August 2021 and April 2023, respectively, demonstrating the intensity of droughts throughout various regions of the wheat growing area and its impact on both spring and winter wheat.





Conclusion

As the Senate Agriculture Committee continues to have these hearings and begins drafting the 2023 Farm Bill, I look forward to working with the members of this subcommittee, their staff, and the other witnesses here today to help craft a Farm Bill that works for wheat growers and all of American agriculture. Farmers play a key role in helping sustain our rural communities and feeding the world. As the Farm Bill process continues, I would urge judicious and expeditious review of authorized programs and work to ensure a full reauthorization of Farm Bill programs prior to the expiration of the current

Farm Bill on September 30, 2023, so that producers have certainty about the structure of the safety net moving forward.

We look forward to continuing to work with you to ensure a strong U.S. farm economy. Thank you again for this opportunity.