

Testimony of Secretary Sonny Perdue
U.S. Department of Agriculture
before the
United States House Committee on Agriculture
The State of the Rural Economy
February 6, 2018

Good Morning Chairman Conaway, Ranking Member Peterson, and distinguished Members of the Committee. It is an honor to be with you today. I thank you for the opportunity to appear before you to provide an update on the status of our rural and agricultural economy. Not quite a year ago, I was provided the honor and privilege of taking the helm as Secretary of Agriculture. Since then, USDA has made breakthroughs in agricultural trade, moved to reduce burdensome regulations, produced the report from the Taskforce on Agriculture and Rural Prosperity, responded to an inordinate number of natural disasters, and battled through an extreme fire season, among other notable achievements. USDA employees have worked tirelessly to serve the American people during this time. As we look ahead, we will continue our efforts to be the most effective, efficient, and customer focused department in the entire federal government.

The State of the U.S. Rural Economy

In updating you on the state of the rural and agricultural economy today, I can report that farmers are continuing to adjust to low commodity prices using a number of strategies, such as by borrowing, which has increased overall debt-to-asset levels in the farm sector. However, while conditions are testing the resilience of the American farmer, the Trump Administration and USDA are focused on creating economic conditions where they can prosper. With the help of farm disaster programs and crop insurance, many producers are recovering from some difficult times following a series of disastrous droughts, wildfires, and hurricanes in many parts of the country.

The U.S. farm sector has faced declining prices and farm incomes following the near record levels reached in 2014, leaving some producers more vulnerable to the production disruptions posed by natural disasters. Net farm income has fallen nearly 50 percent from its peak in 2013, as most commodity prices have fallen over the past 4 years while global stock levels have rebounded with several years of record production. We project continuing low commodity prices and trade challenges in the face of large global supplies and a relatively strong dollar for the coming year. As a result, many farmers will continue to face tight bottom lines, even negative returns in some cases. In 2016, for example, almost half of wheat farmers had negative cash farm income and higher levels of debt relative to assets compared to other farm sectors. We are seeing the effects of those conditions across the agricultural economy, as farmers cut costs by spending less on inputs, services, and capital investments.

While crop receipts have fallen with lower commodity prices, returns to the livestock sector have been mixed with some sectors seeing higher margins in 2017 relative to 2016. Overall, the record levels of crop and livestock production we have seen over the past few years, while

contributing to continuing low prices, have helped to keep farm incomes from falling further. We saw the largest soybean crop ever in 2017, corn production was the second highest ever, and cotton yield hit a record high. However, some of our competitor countries have seen similarly high production numbers. We expect global production to continue to expand and that will keep stocks abundant and maintain the pressure on prices.

Producers have reduced spending on inputs and tapped a combination of savings, loans, and off-farm income and assets to remain in business in the face of continuing stresses in the farm economy. After four years, however, those resources are dwindling for many. Farm debt has also been rising more rapidly over the last four years, increasing by 22 percent since 2013--up from \$315 billion to \$385 billion according to USDA data--and reaching levels last seen in the 1980s. Demand for commercial farm operating loans continues to increase in most regions despite a steady, if slow, rise in interest rates on agricultural loans. The Farm Service Agency's (FSA) Farm Loan Program has seen a slight annual decline in lending following the record 2016/17 harvests, but loan demand still remains historically high. While delinquencies have been stable, FSA has seen a significant increase in restructuring of direct loans to assist producers during these difficult economic times.

Relatively firm land values have kept farmer debt-to-asset levels low by historical standards, and relatively low interest rates, despite their upward trend, continue to keep the cost of borrowing low. But those average values mask areas of greater vulnerability. The strength of land values varies geographically, with some regions seeing greater weakness even as others hold steady or see modest increases. Debt-to-asset ratios vary among farm businesses by commodity specialization, with some commodity specializations showing a much larger share of highly leveraged operations. About one-in-three poultry farms, one-in-four wheat farms, and one-in-five cotton farms are highly or very-highly leveraged, making them more vulnerable to low prices and impacting their ability to recover from natural disasters.

Commodity programs authorized under Farm Bill Commodity Title provisions have transitioned over the last three decades from coupled income and price support measures linked with supply management to decoupled income support measures focused on risk management and market-oriented planting flexibility. The primary goal of federal farm programs is to provide an effective financial safety net for farmers and ranchers to sustain viable production of food, fiber, and fuel in the face of changing market and production conditions without distorting markets.

The farm safety net created by the 2014 Farm Bill has provided significant support to producers as commodity prices and farm incomes have fallen steadily over the last four years. The Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs are a vital part of the farm safety net and assist producers struggling from low commodity prices and natural disasters. Payments under ARC and PLC programs have totaled \$20 billion for crop years 2014-2016, with \$6.9 billion for crop year 2016 alone provided to assist producers in fiscal year 2018.

Producers continue to find the farm safety net less effective for dairy and cotton than for other commodities. Cotton production in 2017 was high as a result of increased acres and high yields in some areas. However, not all producers have benefited, as disasters have affected some crops, and the increased production has kept pressure on prices for cotton lint and especially for cotton

seed, a co-product that can help producers meet costs. The 2014 Farm Bill removed cotton as a covered commodity, and therefore it is not eligible for payments under ARC or PLC. The cotton STAX program was the tradeoff, but due to lower cotton prices, it has provided lower revenue protection than producers expected at the time of the Bill's passage. Similarly, some dairy producers have faced milk prices near or below the cost of production, but because of the way in which margins are calculated, payments have been infrequent under the current Margin Protection Program (MPP). Premiums and fees paid by producers have been consistently higher than payments under the Program. Last fall, USDA provided producers participating in MPP the opportunity to opt-out of the Program in calendar year 2018, and we saw a roughly 75 percent drop in participation, showing producers were unhappy with the lack of support provided by the program.

In addition to low commodity prices, the vagaries of weather made last year a challenge for many of our agricultural producers. U.S. farmers faced a large number of natural disasters in 2017, including wildfires, hurricanes, tornadoes, droughts, and severe freezes. In those impacted areas, USDA responded with all the tools available to it, making timely payments for loss claims on crop insurance policies and through FSA's suite of disaster assistance programs for non-insured crops, livestock, trees, vines, and bushes. USDA also provided assistance to producers to install conservation practices on land damaged by severe weather, and continues to provide help to communities to restore and enhance damaged watersheds and floodplains.

Positioned for Success

Since I was named Secretary of Agriculture, my goal has been to better position USDA to support agricultural producers, while providing increased accountability to American taxpayers. Through the OneUSDA call to action, we are creating a new operating model for USDA to better serve its customers. Through OneUSDA, I am challenging every employee of the Department to help and listen to those who rely upon the Department and to be transparent, consistent, and objective in all decision making. As a result, we will modernize USDA operations and service delivery; reduce burdens on our stakeholders; serve customers; and ensure responsible use of the Department's resources. During the past year, we have initiated the realignment of a number of offices in the spirit of OneUSDA to improve customer service and maximize efficiency. These actions reshaped certain offices into more logical and commonsense organizational structures.

The newly established Farm Production and Conservation (FPAC) Mission Area has put a stronger focus on domestic agricultural issues and has provided the foundation for achieving a simplified one-stop shop for USDA's primary customers, the men and women farming, ranching, and foresting across America. Through this organization, USDA supported an effective safety net for the more than two million agricultural producers who provide food and fiber to over 300 million Americans, and millions more around the globe. This was never more critical than during the response to the destructive hurricanes in 2017. In response to Hurricanes Harvey, Irma and Maria, thousands of FPAC staff were deployed across hurricane-stricken regions to provide timely assistance through various emergency conservation, clean-up, and indemnity programs while authorizing additional time flexibility for reporting losses and completing requests for assistance. In the aftermath of these disasters, FPAC employees successfully

coordinated the handling of over 7,500 requests for assistance or claims, providing the billions of dollars in much needed assistance mentioned earlier. In addition, our employees assisted Puerto Rico with a one-of-a-kind program that provided feed for dairy cattle to prevent herd losses, following virtually complete destruction of feed sources across the island.

While creating the FPAC mission area, it became apparent that there were redundancies and inefficiencies in FPAC mission support activities and that improvements in program delivery could be realized. To reduce these redundancies and improve operations, we have created a Farm Production and Conservation Business Center. Through the FPAC Business Center we have begun to centralize administrative and information technology operations of the three agencies, which will ultimately strengthen customer service and capitalize on efficiencies across FSA, NRCS, and the Risk Management Agency (RMA). An immediate success was the consolidation of assets that allowed us to dispose of more than 1,000 under-utilized vehicles, generating a \$3 million annual reduction in operating costs. In addition, we are making it easier for producers to interact with FPAC employees by modernizing IT systems, creating agency-specific portals for customers to learn about, leverage, and enroll in our programs. More specifically, we are in the process of building an online portal for our tech-savvy customers to access their crop insurance records and their FSA and NRCS contracts, maps, and more. Just last week we unveiled the new home for that portal, Farmers.gov, which we are continuing to build upon. America's foresters, farmers and ranchers have overcome significant barriers to ensure a reliable food supply, support job growth, and promote economic development. We will continue to improve our systems to make us more responsive to their needs so we can optimize the time we spend with producers in our county offices.

The goal of the creation of the Under Secretary for Trade and Foreign Agricultural Affairs is to ensure that American producers are well equipped to sell their products and feed the world. International trade continues to be an engine for economic growth in rural America, with U.S. farm and food exports reaching \$140.5 billion for the 2017 fiscal year, the third-highest total on record. Agricultural exports generate 20 percent of U.S. farm income, stimulate rural economic activity and support more than a million American jobs. USDA has worked tirelessly to find, open, and expand markets for the high-quality food, fuel, and fiber that our farmers and ranchers produce. USDA scored significant trade victories, including the reentry of U.S. beef to China after a 13-year hiatus; signing of a phytosanitary import protocol for U.S. rice to enter China; easing of regulations on U.S. citrus into the European Union; gaining approval for new biotech varieties in China; resumption of U.S. distillers dried grains into Vietnam and China; reentry of U.S. chipping potatoes into Japan; and lifting of South Korea's ban on imports of U.S. poultry.

The creation of the Assistant to the Secretary for Rural Development (RD) recognizes that the economic health of small towns across America is crucial to the future of the agricultural economy. Rural America possesses inherent strengths that can be used for enhancing the prosperity of its people and its contribution to the economic well-being of the nation. It is our responsibility to use our resources and expertise to work with these communities to achieve a higher quality of life for the 46 million rural Americans. In 2017, USDA made significant investments in rural infrastructure, including telecommunications, e-connectivity, water and sewer systems, and critical community facilities that have improved educational, health, and

economic opportunities for rural residents. These vital services are part of the foundation of a high quality of life and enable communities to overcome the effects of remoteness and low population density by connecting them to the rest of the world through high-speed internet. In addition, USDA—along with a wide range of federal departments and agencies—is focused on crafting an effective response to the opioid epidemic, including supporting rural communities in designing and building solutions based on their own specific needs and strengths.

Through these and other actions, USDA has improved customer service across all the mission areas of the Department. In the area of food and nutrition services, we responded to the concerns of local school nutrition workers and students by restoring flexibility to serve wholesome, nutritious, and tasty meals in schools across the nation. We successfully eradicated New World screwworm after the first detection in the U.S. in 35 years, quickly eradicated outbreaks of Low Pathogenic Avian Influenza and High Pathogenic Avian Influenza, made significant progress toward the elimination of two cotton pests, reduced the destruction caused by feral swine, and reduced sanitary and phytosanitary barriers to trade. In, 2017, these efforts helped preserve trade valued at \$7.5 billion through resolution of foreign market access issues related to U.S. export detainment, technical barriers to trade, and other impediments to trade. We have proposed regulations to modernize the inspection of swine slaughter and egg products. These changes will improve the effectiveness of the inspection process and allow for more rapid adoption of food safety technologies. Our cutting-edge research program has led to improved productivity and competitiveness, while improving crop quality, nutritional value, and food safety. As we look ahead to 2018, USDA will continue our efforts to be the most effective, efficient, and customer-focused department in the entire federal government.

In addition, the Forest Service responded to an extreme fire season, deploying over 28,000 personnel and spending \$2.4 billion fighting fires across the nation. To ensure we can continue to meet our responsibility for fighting fires and preserving the health of National Forests, we need to find a legislative solution to address the way the Forest Service funds wildland firefighting. We need a new arrangement to end the practice that requires the agency to routinely transfer money from prevention programs to combat ongoing wildfires. For example, in 2017, Forest Service wildfire suppression spending necessitated transfers of \$527 million from other programs. Historically, these transfers have been repaid in subsequent appropriations, however, “fire borrowing” impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems that are vital to our rural communities. We are close to a legislative solution to our forest management and fire funding challenges, and it is important to bring it across the finish line.

We have a strong plan in place to ensure we continue to improve our service to rural America. On my first day in office, President Trump signed an Executive Order, directing me to lead the Interagency Task Force on Agriculture and Rural Prosperity. We were charged with identifying legislative, regulatory, and policy changes to promote agriculture, economic development, job growth, infrastructure improvements, technological innovation, energy security, and quality of life in rural America. On January 8, 2017, we released the findings of the task force. The report is the result of an intensive six-month effort made by 22 federal agencies in partnership with state, local, and tribal leaders. The recommendations centered on five areas: E-Connectivity, Quality of Life, Rural Workforce, Technology, and Economic Development. To

ensure that the findings of this report have a meaningful impact on rural America, we are moving forward to implement the initial recommendations and to expand stakeholder participation. While we have many actions we can take at USDA, we realize it will take the entire federal family to make a difference. We are working closely with the White House so that we can move forward together in making a lasting impact in rural America.

While the Task Force worked tirelessly to identify solutions to the problems plaguing our rural communities, there is more work ahead. No doubt, rural America has struggled under burdensome regulations, but this Administration is taking aggressive action to reduce confusing, burdensome regulations that impair productivity, and USDA is not an exception. As we visit with producers and rural residents in the coming year, we will continue to listen intently and communicate to our federal partners if there are regulations that are unfair or overly burdensome. Whether it is duplicative paperwork or unneeded process requirements, we want to hear about it. Regulations must be consistent, affordable, and practical enough for our customers and staff to continue doing the important job of feeding, fueling, and clothing the nation. Under President Trump's leadership, this Administration has made it a top priority to get rid of excessive regulations, and has eliminated 22 existing regulations for every new one that comes on the books. At the President's direction, regulatory reform is one of the cornerstones of the Department's strategies for creating a culture of consistent, efficient service to customers, while reducing burdens and improving efficiency. USDA has identified 27 final rules that will be completed in fiscal year 2018 and result in over \$56 million in annual savings.

We are strengthening our work with our interagency partners in furtherance of these efforts. At USDA, we are driving interagency coordination to ensure that we can address the challenges that affect our stakeholders, whether they are under our jurisdiction or beyond. For example, just last week, we signed an agreement with FDA aimed at making the oversight of food more efficient and effective by bolstering our coordination. The formal agreement outlines efforts to increase interagency collaboration, efficiency and effectiveness on produce safety and biotechnology activities, while providing clarity to manufacturers. We also are working closely with the Environmental Protection Agency, Department of Interior and other federal partners to coordinate on issues such as pesticides, endangered species, federal land management and other cross-cutting issues.

Finally, I would like to turn to the drafting of the 2018 Farm Bill. I recognize that it is the job of Congress to write the Farm Bill. But we at USDA stand ready to provide whatever counsel Congress may request or require. Over the past nine months, my team and I have traveled to more than 30 states to talk with the men and women who are at work in the fields on America's farms and ranches to produce the food and fiber that feeds and clothes every American, and also much of the world. Whether we were holding town halls, or listening sessions in fields, machine sheds, community colleges, or front yards, we were gathering good advice. We heard about what works from previous Farm Bills, and what is not working right now. We took what we heard from the field and have developed a set of principles to aid Congress in drafting the next Farm Bill. I have already shared those principles with you and I hope they serve you well as you go about your important work of drafting the 2018 Farm Bill. I would like to submit a copy of the principles for the record. As you move forward with crafting the Farm Bill, it is important that it be fiscally responsible in consideration of our future generations, and reflect the

Administration's budget goals. As you deliberate, it is imperative that you improve the tools the Department has to address pressing and difficult situations faced by our producers, and to provide us the authority to react quickly and provide additional assistance if current market conditions persist or worsen, within a streamlined budget constraint.

Conclusion

The economic success of the United States today and in the future depends on optimizing rural America's productivity and quality of life. Unleashing the potential and ingenuity of rural communities is an integral part of making America great again, and will help build a safe, strong, and proud America. Our whole nation's prosperity is intrinsically tied to rural America's ability to thrive in the new global economy, using its abundant natural resources to provide food, fiber, forest products, energy, and recreation to the world.

I look forward to working with you to implement policies that will harness the innovative spirit of the hard-working men and women in rural America and help them improve the quality of life and economic opportunities across America.

I would be happy to answer any questions at this time.