Written Testimony of Nicole Berg
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Before the House Agriculture Committee
A 2022 Review of the Farm Bill: Commodity Group Perspectives on Title 1
March 1, 2022

Chairman Scott, Ranking Member Thompson, and Members of the Committee thank you for the opportunity to testify before the House Agriculture Committee. My name is Nicole Berg, a fourth-generation farmer where I work alongside my dad and two brothers on our family farm in Paterson, Washington. Currently, I also serve as the Vice President of the National Association of Wheat Growers (NAWG). We grow dry-land and irrigated wheat; Blue Grass Seed; Field Corn; Sweet Corn, Sweet Peas, Green Beans, and Alfalfa. Thank you for holding this hearing today to discuss Title 1 – the commodity title – of the 2018 Farm Bill. The Title 1 programs established under the 2014 Farm Bill and reauthorized in the 2018 Farm Bill deliver important risk management tools for farmers and help protect producers from declines in either crop revenue or prices.

NAWG is a federation of 20 state wheat grower associations 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 grower-funded 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 the House Agriculture Committee today as we reflect on the programs authorized under Title 1 of the Farm Bill. Today's hearing is particularly timely as NAWG is also evaluating the effectiveness of the farm safety net programs, how those programs can be improved going into the next Farm Bill, and how the U.S. Department of Agriculture (USDA) administers these programs. Many of us at this hearing today will be at Commodity Classic next week, where our organization will continue to review the authorized Farm Bill program. NAWG intends to outline our Farm Bill priorities for lawmakers in the coming months as Congress begins debating Farm Bill reauthorization.

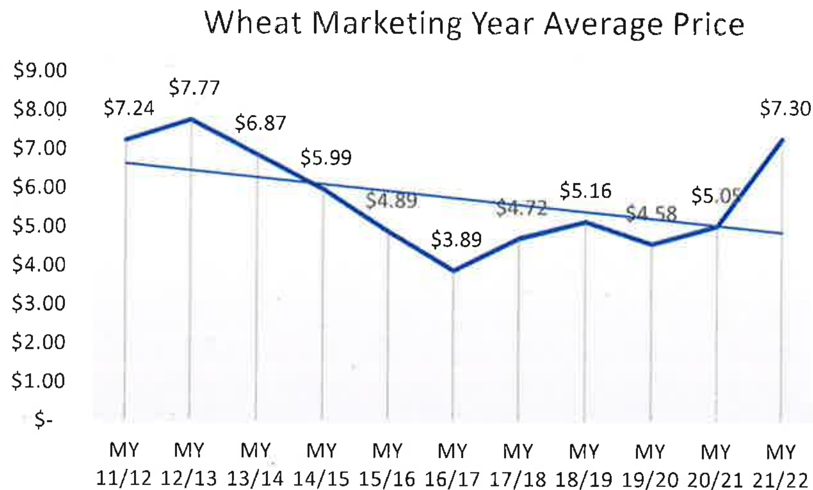
According to the USDA's Crop Production Summary released last month, wheat growers planted 46.7 million acres of wheat in 2021, up 2.3 million acres from the year prior. However, production was down from 1.83 billion bushels of wheat in 2020, to 1.65 billion bushels in 2021. The decrease in production – from 49.7 bushels per acre to 44.3 bushels per acre – was largely due to the severe drought, which is discussed later in my testimony. Wheat is the principal food grain produced in the United States and consumed around the world. In the last decade it ranked third among U.S. field crops in both planted acreage and gross farm receipts, behind corn and soybeans.

Nationwide, there are six different classes of wheat, each of which is grown for different uses. In my home state of Washington where there are roughly 2,500 growers, the eastern part of the state in

known as the home of soft white and club wheat production. These varieties are known for their use in cookies, crackers, and cakes as well as flat breads. Washington farmers also raise superb hard red winter and spring wheats for bread.

Economic Conditions in Wheat Country

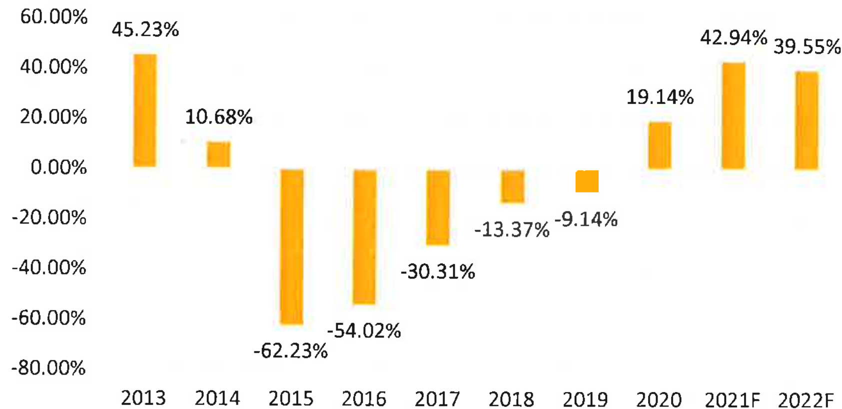
The agricultural economy can be described as nothing short of a roller coaster ride for most producers. Wheat growers across the country have experienced a multitude of challenges the past couple of years, from trade disputes, impacts of COVID-19, extreme drought and other severe weather events, current supply chain issues and difficulty in procuring key inputs. As a result, wheat prices are generally the item most pointed to when looking at the agricultural economy. The graph below, made using USDA Economic Research Service (ERS) data, demonstrates the Marketing Year Average Price for wheat over the past decade.



Wheat farmers caught a break these last two years in terms of price. These increased prices since the marketing year 2019/2020 have been primarily due to three factors, each of which will be discussed further in my testimony.

- The pandemic and inflation
- Droughts across the country
- International disruptions

These increases in price have been reflected 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 the high prices, farmers have seen the highest net cash income since 2013. These prices have been a much-needed break from record low levels that preceded the 2018 Farm Bill. These recent developments have led to a decrease in farm debt, improved credit conditions, and increased farmland values. Prospects for farm income moving into the new year remain high. This can be seen when looking at the percent change from the 10-year average of net cash income in the graph below, which also uses ERS data.



After sustaining massive financial losses from 2014-2018, the last two years have been crucial in keeping the American wheat farmer in business. Many farmers were facing bankruptcy, and indeed many lost their farm. However, USDA programs such as the Market Facilitation Program (MFP) and Coronavirus Food Assistance Program (CFAP), coupled with recent high crop prices, have helped the agriculture economy stay whole and begin to recover after years of economic turmoil.

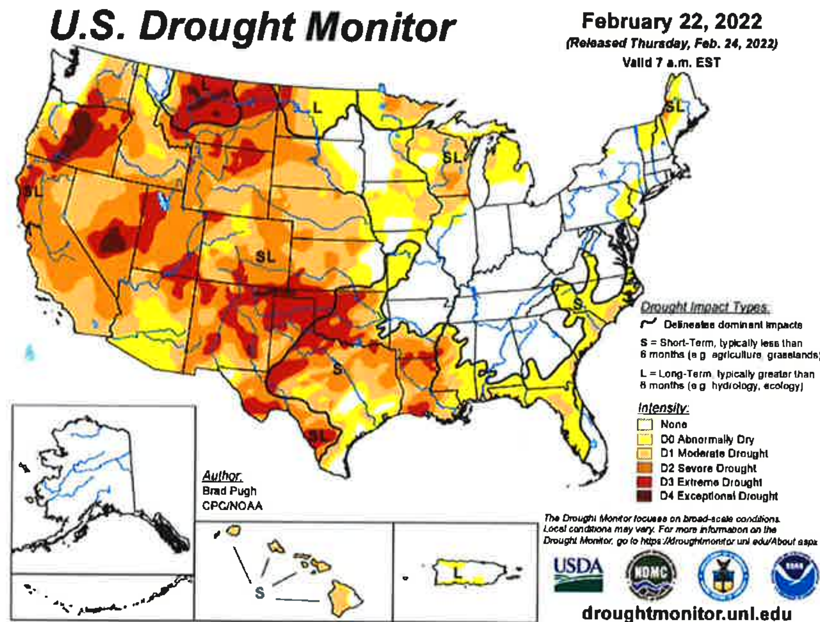
Unfortunately, the three factors mentioned earlier that have helped increase prices and rebound the economy could ultimately threaten the viability of farmers once again.

The pandemic has created reverberations across the entire economy. The agricultural economy was not immune to this. While prices have improved thanks to the increased demand for at-home food products, especially flour, it has also created inflation that threatens to eliminate the gains from price increases. As supply chains have been disrupted or halted, farmers have faced many different challenges. These challenges include rising fuel costs, increasing prices for parts – if they can get them at all – and vital equipment, such as tractors, combines, and implements. Some of these items have been on backorder for over a year. For example, it's tough to manage the 2022 wheat harvest when you have been waiting on a part for over a year or the combine you need will not be available until April 2023.

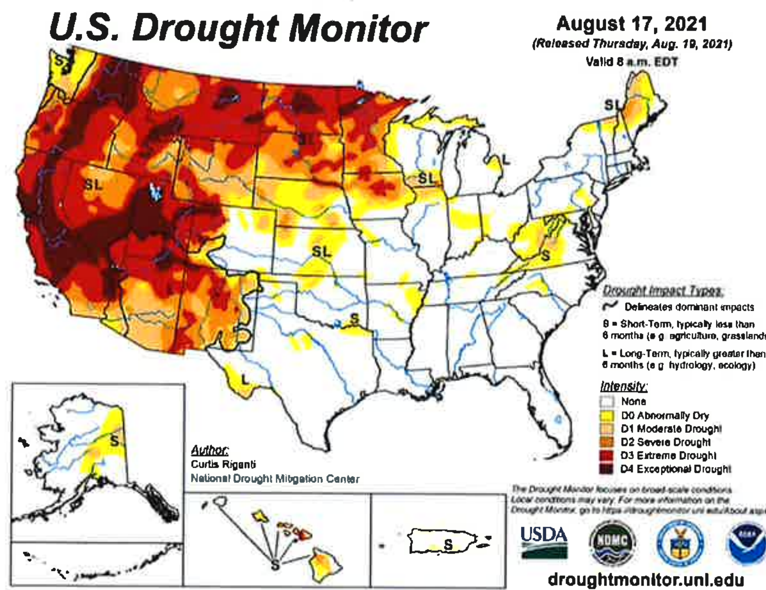
The supply chain challenges, and availability of inputs has also been felt in the case of fertilizer and other crop protection tools that are required to deploy climate-smart agricultural practices like no-till. One analysis that a wheat farmer in Southwest Kansas made on his own 308 acres of no-till fallowed wheat showed that the price per acre of crop protection tools more than tripled between 2021 and 2022, an increase of $27,981.80. This increased cost does not tell the whole story of increased input costs either as labor, and equipment parts and repairs. This is only a small fraction of the entire increases in costs that wheat farmers are now facing.

Droughts across the country were also a driving factor in the increase in prices starting in 2020 that continue to push prices today. Unfortunately, as drought worsens, the chances for a strong wheat crop

also worsen. This drought map taken from February 24, 2022, shows that the vast majority of the wheat producing areas in the United States is in at least a severe drought.



Spring wheat country like my own state of Washington has been hit particularly hard by this drought. The drought map below shows the devastating reach of one of the worst droughts in recent history for growers in the Pacific Northwest and across the northern tier. This map is from August of last year as farmers were planning to plant winter wheat or wrapping up harvest.



According to the USDA 2021 Small Grains Report, spring wheat saw a 44 percent reduction in total bushels despite only a 7 percent decrease in planted acres. In my home state of Washington, we only produced 87.1 million bushels of wheat, where in 2020 we produce 166.2 million bushels. No matter how high the price for wheat gets, if a farmer can't produce a crop thanks to drought, they can't turn a profit.

Lastly, the international disruptions in the market have led to massive volatility in recent weeks. As the world watched in horror as Russia invaded Ukraine, grain markets soared and then retreated some on Friday. The February World Agricultural Supply and Demand Estimates from the USDA projected both Russia and Ukraine to be a large exporter of wheat, which is largely transported through the Black Sea. The current high prices caused by not only this conflict, but previous international disruptions in trade may not last long, and the unknown outcomes of that conflict will undoubtedly create market volatility.

Overall, the current agriculture economy is strong with near-historically high prices improving working capital, farm income and revenue, and farmland value. However, it is not without concern. The USDA projects net farm income to decrease by 7.9 percent when adjusted for inflation in 2022 thanks to rising input costs, supply chain crunches, and significant droughts throughout wheat country that make high wheat prices irrelevant to many farmers. The important thing to remember is that good times in the farming economy rarely last. Removing essential pieces of the farming safety net can have disastrous consequences when the economy inevitably takes a downturn. Frequently throughout history, an improving farming economy is followed by changes to agriculture policy, only to see a farming economic recession. Therefore, the high prices brought on these last two years will not last forever, and it is important that Congress maintain a strong safety net in place given the cyclical nature of the farm economy.

2018 Farm Bill Safety Net and Risk Management Programs

NAWG supported the passage and enactment of the bipartisan 2018 Farm Bill, which provided certainty during a difficult time and improved upon the revolutionary 2014 Farm Bill, which established the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. As mentioned earlier, farmers experience significant risk from market volatility to mother nature. As part of the 2018 Farm Bill, wheat growers strongly supported maintaining a strong crop insurance title, which, along with ARC and PLC, serve as key pillars to the risk management strategy kick in for losses not covered by crop insurance. These additional tools are necessary to support American agriculture and our rural communities.

Since the revolutionary changes of the 2014 Farm Bill that did away with direct payments, the producer choice between revenue protection and price protection has continued to function as was intended. With the reauthorization in 2018, ARC and PLC, there were improvements made to both programs. One such improvement was the ability for producers to re-elect programs beginning with the 2019 crop year and then with the ability for annual elections since the 2021 crop year. The ability to elect annually has provided a valuable option for producers to help them better manage their risk. Additionally, as part of the 2018 Farm Bill, the Agriculture Committees recognized the importance of using consistent data in determining farm program payments, while making USDA Risk Management Agency (RMA) data its primary source, and for making key improvements to both ARC and PLC.

While there are still improvements to be made moving into the next Farm Bill, Title 1 Programs remain a popular and valuable tool in managing farmer's risk.

Agriculture Risk Coverage (ARC) program

As part of their farm program election choice, farmers are able to choose between county level or individual level coverage. County level coverage will continue to pay on 85 percent of base acres, while individual level coverage will continue to pay on 65 percent of base acres. Additionally, counties that are larger than 1,400 square miles and contain more than 190,000 base acres had the opportunity to split into 2 administrative units for the purposes of ARC-County (up to 25 counties nationwide). Administrative improvements to ARC included a requirement that RMA yield data be used if it's available in a county and that the physical location of a farm be used to determine which county payment rate applies to that specific farm.

In terms of programmatic improvements, the bill increased the plug yield from 70 percent to 80 percent of the transitional yield, required USDA to calculate and use a trend-adjusted yield factor to adjust yields (similar to the crop insurance trend-adjusted yield endorsement), requires the use of an effective reference price (similar to the PLC change where reference prices can increase if certain market improvements happen over time), and it requires the publishing of separate irrigated and non-irrigated yields in each county. USDA is also required to publish payment rate information within 30 days of the end of the marketing year for each commodity publish the data source that was used.

Price Loss Coverage (PLC) program

The 2018 Farm Bill maintained the current statutory reference prices but requires the use of an "effective reference price." In any given year, the five-year Olympic average market year average price will be multiplied by 85 percent; if that level is higher than the statutory reference price, then the effective reference price is that level up to 115 percent of the statutory reference price. The maximum level for wheat would be $6.33 per bushel, and it cannot drop below the statutory reference price of $5.50.

Current law also allows for all producers nationwide the option of updating their yields for PLC in the 2020 crop year. The yield update would be 90 percent of the average farm yield of the 2013-2017 crop years (with a plug of 75 percent for any year that a yield was lower than that), and that level is multiplied by a ratio obtained by dividing the 2008-2012 national average yield by the 2013-2017 national average yield, with the ratio limited to between 90-100 percent.

Marketing Assistance Loans

The Marketing Assistance Loan (MAL) program and Loan Deficiency Payments (LDP) were maintained in the 2018 Farm Bill. Loan rates used in the program were increased for several commodities during reauthorization, including a 15 percent increase for wheat from the current level of $2.94 to $3.38 per bushel. As the Wheat Marketing Year Average Price on page 2 illustrates, 2016 was a particularly bad year for wheat growers and was also the last time when the LDPs have been made available. Prior to 2016, it had been 16 years since wheat farmers were able to collect LDPs. While we are fortunate prices have not been at the level for these programs to kick in, as mentioned earlier, there were significant periods of depressed prices, and the loan rates may need further consideration and analysis to serve as effective programs. NAWG is currently reviewing the efficacy of these programs going into the Farm Bill reauthorization.

Accessibility of USDA Programs

The application process is straightforward and has been easy to use for growers. While some federal programs have large amounts of paperwork that must be combed through by lawyers, the application for ARC and PLC is just a signature form. This is one of the attributes that has led to the large amount of adoption.

In some instances, what has made this difficult is the staffing levels in county offices. The USDA currently has full hiring authority and is working to fill vacated positions at the county level. The USDA also maintains that they continue to provide pre-pandemic levels of service. However, some areas of the country were understaffed before the pandemic and continue to be so understaffed that farmers are receiving poor service, at no fault of the employees. Farmers have voiced these concerns within our organization. Some farmer's counties have no or significantly reduced FSA staff, and they are forced to travel to other counties to receive service. In some rural counties, this can amount to drives of two or more hours one way, which can be very onerous during planting or harvest season. Some counties are authorized to have multiple employees but are only staffed with one or fewer employees. This causes serious issues and frustrations to farmers. It is important that the House Agriculture Committee works with the USDA, other administrative agencies, and other congressional committees to find ways to address these issues that impact other Farm Bill programs as well.

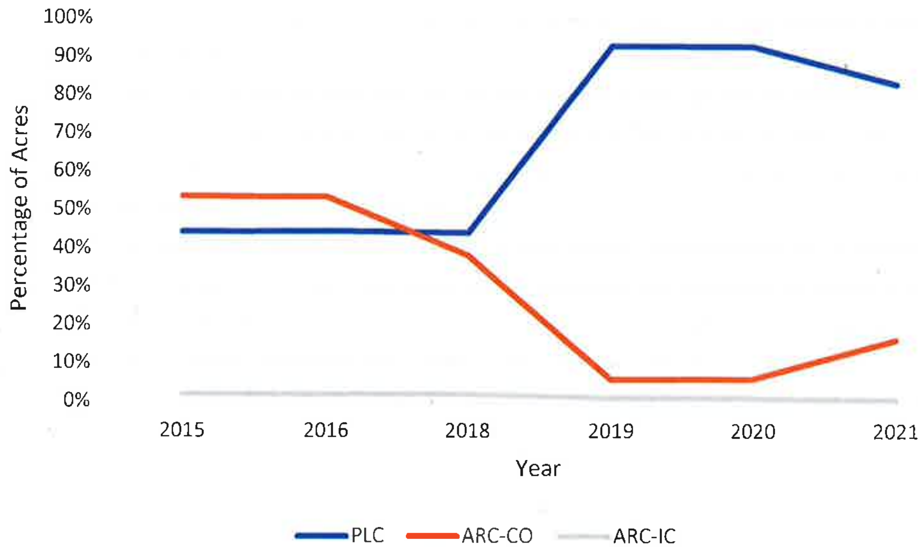
The USDA and university extension agencies have done a good job of informing farmers about Title 1 programs and providing tools that help them forecast the upcoming year to make an educated choice on program election. Investment in these models is essential as, without them, farmers are left to guess about what they think might happen and which program might protect them. However, one common complaint amongst farmers is the difficulty in using and interpreting the models and the lack of awareness that these modeling tools exist. In my situation, we find it challenging to interpret what the model is telling us to do, so we have accountants that run the models for other clients and us. These modeling tools, while extremely important, need accompanying technical support and training through FSA to help farmers utilize these tools more effectively.

Implementation of Programs

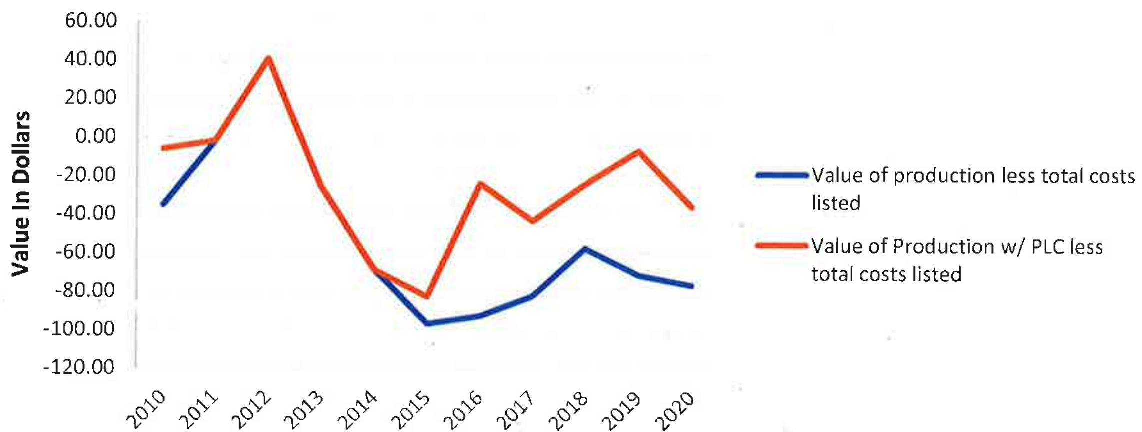
NAWG is currently working through our priorities for the next Farm Bill and will make sure to share them with you once they are finalized. Looking back at the 2018 Farm Bill, however, there are certainly programs that excelled and other that could be refined to better serve grower needs.

One popular change from 2014 to 2018 was the ability to make yearly elections between ARC and PLC. In 2014, farmers were forced to forecast out the next five-plus years to determine which program they thought would best protect them. In many cases, farmers were wholly uninformed, unprepared, and made a choice based on the limited information that land-grant extension agencies were able to provide them with. They were then forced to remain in these programs even though they were not being adequately protected. The ability to choose between the programs allows farmers a much tighter safety net that varies year on year.

According to data from the USDA, prior to the 2018 Farm Bill, wheat farmers chose ARC more frequently than PLC. Since the 2018 Farm Bill however, wheat farmers choose PLC 78 percent of the time on average, with highs of 93 percent in 2019 and 2020. The percentage of acres enrolled in ARC and PLC can be shown in the graph below.



While wheat farmers almost universally enroll in PLC, there are still issues that persist with the program that the Committee should consider going into the next Farm Bill. As established in my introduction, wheat is the staple food grain produced in the United States. Meanwhile, wheat farmers consistently lose money producing wheat according to USDA cost of production data when factoring in total costs listed by the USDA. In 2020, wheat farmers lost $76.62 an acre, an increase from the lows of 2015 when wheat farmers were losing $96.60 per acre. In fact, it has not been profitable for wheat farmers to grow wheat since 2012, when farmers made $40.70 an acre. Enrolling in PLC has helped with this issue, but it does not prevent losses. In 2020, the value of production with PLC less total costs, according to USDA, was a negative $36.05. This data can be found in the graph below. Without Farm Bill programs like those contained in Title 1, these sustained losses and missed opportunities are what ultimately push farmers to bankruptcy and out of the industry.



Keeping this in mind, the Committee should consider how to make ARC more effective for wheat farmers and how to improve PLC to be more effective at preventing these types of total losses. Both loan rates and PLC reference prices should undergo thorough investigation throughout this review process, especially given recent inflation and increases in input prices, not to mention land costs.

The 2018 Farm Bill attempted to remedy this issue with the effective reference price mentioned earlier in my testimony. This change to the reference price will help if the current high prices are sustained over multiple years. Overall, having an adjustment that takes years to occur is too slow with the current volatility of commodity markets and ever-increasing cost of production.

Another issue the Committee needs to think about is the timing of these payments. For wheat, payments come almost a year and a half after the crop is harvested. Farmers often need help more immediately. When major disruptions occur in the agriculture economy or in weather patterns that effect yield, waiting eighteen months to hit the safety net can prove disastrous. By that time, some farmers may be forced into bankruptcy.

At the end of the day, farmers prefer producing a crop and selling it for a profit over government payments. However, Title 1 Farm Bill programs help provide certainty whereby growers can make long-term investments in land and equipment where it would otherwise be incredibly difficult if not prohibitive for growers. This is even more apparent when looking at farmers who don't have equity built up or enough working capital to withstand difficult years as established farmers can, which is a particular challenge with new or beginning farmers or socially disadvantaged growers. That is why Congress should evaluate program effectiveness and work to improve upon them in a timely manner.

Conclusion

NAWG's policy committees and board of directors will be meeting in the coming weeks to continue evaluating the effectiveness of these programs and work to finalize our key policy priorities over the coming months. These priorities will be shared with you and your staff upon being finalized. As the House Agriculture Committee continues to have these hearings and reflects on programs authorized under the 2018 Farm Bill, I look forward to working with the members of this committee, their staff, and the other witnesses here today to help craft the next 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.

Sincerely,

Nicole Berg
Vice President
NAWG