Statement of the
American Farm Bureau Federation

TO THE HOUSE OF REPRESENTATIVES COMMITTEE ON AGRICULTURE

Uncertainty, Inflation, Regulations: Challenges for American Agriculture
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Mr. Chairman and members of the Committee, my name is Zippy Duvall. I am a third-generation farmer and president of the American Farm Bureau Federation, and I am pleased to offer this testimony on behalf of the American Farm Bureau Federation and Farm Bureau members across this country.

There are certainly plenty of challenges for American agriculture. Beginning with losses experienced from the trade war with China, pandemic lockdowns, supply chain disruptions, and record-high input costs, farmers and ranchers have been facing unprecedented volatility in recent years. Recognizing that other witnesses might cover some of these challenges more in-depth, I want to briefly highlight market uncertainties, energy affordability and potential regulatory burdens that will have an impact on farmers, ranchers and our rural communities.

While there are challenges, I remain optimistic for the future of American agriculture. Through science, technology and innovation and the get-it-done attitude of rural Americans, no challenge has been too great. But we also must make sure that farmers and ranchers have the tools necessary to succeed, including support from good public policy and strong markets both domestically and abroad.

Uncertainty

USDA's most recent Farm Sector Income Forecast, released Feb. 7, sees a decrease in net farm income in 2023. U.S. net farm income, a broad measure of farm profitability, is currently forecast at $136.9 billion, down 15.9% from 2022's $162.7 billion. This $25.9 billion decline erases the $21.9 billion increase that was forecast between 2021 and 2022. Adjusted for inflation, 2023 net farm income is expected to decrease even more: $30.5 billion (18.2%). The report expects farm and ranch production expenses to continue to increase by $18.2 billion (4.1%) in 2023 to $459.5 billion, following a record increase of $70 billion in production expenses in 2022.

The largest decrease in net farm income is tied to a projected fall in cash receipts from livestock due to lower prices for all major categories except cattle. The value of livestock production (in nominal dollars) is expected to decrease nearly 6%, or $14.7 billion, in 2023. Chicken eggs and milk are responsible for the largest percentage decreases, with cash receipts for chicken eggs projected to decrease by $4.9 billion or 24%. Highly pathogenic avian influenza has affected over 52 million birds in commercial flocks in the U.S., including over 43 million egg layers, pressuring supplies and pushing up prices. As the flock recovers, egg production increases and consumer demand fundamentals recalibrate prices lower. Milk receipts are similarly expected to decline $8.4 billion (14.6%) on expectations for higher milk production and lower corresponding prices.

Cash receipts for cattle and calves are estimated to increase by $2.1 billion or 2.4%; but this is because drought conditions in the West and southern Plains have damaged pastures and led to higher costs for feed such as hay. This has resulted in many farmers marketing heifers that would typically be kept for breeding and herd replacement, resulting in a reduction in U.S. cattle inventory that will continue for years. Tighter cattle supplies have pulled both cash and futures prices higher, leading to continued growth in cash receipts and marketing of cattle.

On the crops side, receipts for many major row crops like corn and soybeans are expected to decline, though wheat and hay are expected to increase. Receipts for corn are expected to fall by 4.5% ($4.1 billion), while soybeans are expected to be down 8.1% ($5.2 billion). Wheat is expected up 4% ($0.6 billion) and hay receipts are expected to grow by $0.6 billion (6.1%). Fruits and nuts are expected to hover close to $30.8 billion in receipts, while vegetables and melons are poised to fall from $21.8 billion to $19.9 billion (-8.6%). The vast majority of expected receipt declines are linked to falling prices rather than volume dynamics.

Weather and climate conditions will have strong impacts on the true outcome of this year's price outlook. Extreme drought that has pushed up hay and wheat prices could subside marginally after a winter of strong (so far) Western precipitation and snow. Record corn and soybean production in exporting countries like Brazil and Argentina are competition for U.S. crops overseas, particularly in the China market. Uncertainty related to Mexico's commitment to ban GMO corn for human consumption and the ongoing Ukraine-Russia conflict remains.

On the cost side, production expenses, including operator dwelling expenses, are forecast to increase for a sixth consecutive year, growing in 2023 by $18.2 billion, or 4.1%, to reach a record $459.5 billion. And while it's little consolation, some major input items such as cumulative feed costs, fertilizers and fuels and oil are expected to decline from record highs. Feed costs, which represent the largest single expense category, are expected to decline $3.92 billion to $72.66 billion (-5%). Fertilizers, lime and soil conditioners are expected to decrease

$1.25 billion, or 3%, from $43.42 billion to $42.17 billion. Typically, fertilizers represent about 15% of a crop farmer's costs and any increase, regardless of magnitude, can be crushing for some producers, especially in times of declining revenue. Fuels and oils are expected to experience the largest percent decline – 17% – from 2022, moving from $20.25 billion to $17.1 billion. These drops, however, are easily outpaced by increases in other expense categories including marketing, storage and transportation, which are forecast to increase 11%. Labor costs are expected up across all subcategories, with cash labor forecast to move from $39.2 billion to $42.08 billion (+7%). Inflation, currently sitting at 6.5%, remains a source of uncertainty and is eroding asset values; and interest expenses have increased as the Federal Reserve Bank attempts to bring inflation under control through higher rates. Between 2022 and 2023, interest expenses, including operator dwellings, are expected to jump 22%, going from $27.6 billion to $33.84 billion, making it more difficult for farmers and ranchers to acquire lines of credit to purchase inputs and equipment this year. Livestock, seed, electricity, repair and maintenance are among the other categories expected to increase in price.

Other farm income, which includes things like income from custom work, machine hire, commodity insurance indemnities and rent received by operator landlords, is estimated to increase by $3.2 billion, or 8%, from $42 billion to $45.2 billion in 2023. But when all these factors are accounted for, the resulting expectations for net farm income decline become apparent.

USDA's Farm Sector Income Forecast also provides expectations of farm financial indicators that provide insight into the overall financial health of the farm economy. During 2023, U.S. farm sector debt is projected to increase $31.19 billion, or 6.2%, to a record $535 billion in nominal terms. Nearly 70% of farm debt is in the form of real estate debt, for the land to grow crops and raise livestock. Real estate debt is projected to increase $26.79 billion to a record-high $375.8 billion, largely due to an increase in land values across the country. Non-real estate debt, or debt for purchases of things like equipment, machinery, feed and livestock, is projected to increase by $4.4 billion to a record $159.1 billion. The value of assets regularly being purchased with debt is rising, which means it will continue to be important for farmers and ranchers to pay down debt and cover interest to maintain a healthy balance sheet, an endeavor that will be even more cumbersome within a high interest environment.

Based on 2023 debt and asset levels, USDA expects the debt-to-asset ratio to be 13.22% for 2023, which sits marginally below the prior five-year average (13.5%), meaning farmers are expected to hold steady on borrowing to finance the purchase of assets. Higher interest rates will likely act as a barrier for farmers to finance new assets, and will then likely drive down the value of these assets over the next couple of years.

Working capital, which takes into consideration current assets and liabilities, is the amount of cash and cash-convertible assets minus amounts due to creditors within 12 months. In 2023, working capital is projected to fall by $14.9 billion, or 8.9%, to $118 billion, which is the first decline since 2016, and sits at $2.5 billion below 2014 levels, when farmers and ranchers held $121 billion in working capital. Lower levels of working capital often suggest that many U.S. farmers have just enough capital to service their short-term expenses and debt, which becomes more difficult as interest rates rise.

Inflation

Short- and long-term interest rates are also high and rising. In recent years, interest expense has been about 5% of farm cash production expenses. Farmers will be facing interest rates double and triple what they were just a few years ago, with corresponding increases in interest expense; high interest rates, caused by both high inflation and the Fed's steps to address inflation, led to the farm debt crisis in the 1980s. A doubling or tripling of interest expenses now could cause similar pressures, especially for any farmer already committed to new investments, beginning farmers or farmers forced to borrow for succession. If history is a guide, it could take years for long-term interest rates to come back down to where they were for the last decade.

Higher interest rates tend to lower property values, including farmland values, which would make worse the debt trap of higher interest rates and lower farm returns. Rising interest rates will raise the cost of all debt, including government debt, which will ultimately cost the taxpayer and limit the government's flexibility to provide assistance in a debt crisis. Inflation is slashing the purchasing power of American consumers, and weakening the economy, which both undercuts demand for farm products and lowers prices. Inflation undermines the real value of USDA programs, including the value of reference prices and budgets for most commodity programs.

The aggressive interest rate increases by the Fed are making the dollar attractive to foreign investors and strengthening the dollar, which undermines U.S. agricultural export competitiveness. A Fed-driven recession in the U.S. is bad for the global economy, which will also undermine U.S. agricultural exports.

Energy

Affordable and abundant energy is critical for farmers and ranchers as it is a major factor for input costs. The price of crude oil is the main factor in the price of diesel fuel and gasoline, and fluctuations in the crude oil market greatly influence changes in prices.

On March 8, President Biden announced a ban on U.S. imports of petroleum, coal and natural gas from Russia in response to Russia's further invasion into Ukraine. The ban includes crude oil and petroleum products. It was well reported at the time that in 2021, imports from Russia only accounted for 3% of the U.S.'s crude oil imports. However, less discussed is that Russia accounted for a 20% share of U.S. imports of petroleum products in 2021. Petroleum products, namely unfinished oils and fuel oil, are used by the U.S. as a supplement to crude oil in the refining process. According to the U.S. Energy Information Administration (EIA), a substantial share of the unfinished oils from Russia was used as a supplementary refinery input and has qualities similar to a heavier, relatively high-sulfur crude oil. These higher-sulfur oils are heavily used in the production of diesel fuels.

U.S. imports of distillates (a category of petroleum distillation fractions that includes primarily diesel fuel and fuel oil) were lower in 2021-2022, relative to 2020-2021. Additionally, U.S. exports of distillates are higher in 2021-2022, relative to 2020-2021. Russia's invasion of Ukraine has had significant impacts on global markets for crude oil and petroleum products, not just U.S. markets. These disruptions have created unusual marketing opportunities for producers of oils and fuels and resulted in some unusual product flow. The result for the U.S. diesel market is a net decrease in distillate trade, further tightening U.S. supplies.

Beyond the impact of Russia, since 2019, diesel production capacity has dropped by about 180,000 barrels per day. This is equivalent to about 4% of current diesel production. Effectively, this means that the price of diesel fuel – upon which farmers rely very heavily to run equipment and to bring their supplies in and to ship their products out on rail, truck and barge – have stayed high, even as gasoline prices have moderated.

Farm Bureau strongly supports the development of a national energy policy that provides for increased exploration and use of domestic energy resources. In addition, Farm Bureau advocates policies that will create a diverse, domestic energy supply to fuel America's economic growth and prosperity while strengthening our energy security. Further development and use of renewable energy sources such as ethanol, biodiesel, renewable diesel, biomass, solar and wind are critical to our nation's energy future and will help further strengthen the overall national security of the United States.

Regulations

All Americans have an interest in a regulatory process that is transparent and fact-based, respects the will of Congress, and observes the separation of powers in the Constitution. Federal regulations have a direct impact on farmers and ranchers, and over the years, the breadth and extent of that regulatory landscape have increased. AFBF has taken a stand against regulatory overreach and is working to reform the federal regulatory process and preserve farmers' and ranchers' land-use and water rights.

Today, farmers and ranchers are faced with a flurry of requirements through the Clean Water Act, the Endangered Species Act, the Federal Insecticide, Fungicide and Rodenticide Act, the Food Safety Modernization Act, immigration and labor regulations, and interpretation of the Federal Land Policy and Management Act—to name just a few.

Often, these requirements are the result of federal regulations; sometimes they emanate from court decisions. But no matter how they are established, the result often can be controversial. Stakeholders can disagree on the language in the statute, and affected parties can also disagree on the science, the data or the models underpinning one or the other.

Farm Bureau strongly believes that all Americans, including farmers and ranchers, need a regulatory system that is fair, transparent, adheres to the will of Congress, takes economic impacts into account and respects our freedoms.

WOTUS

The EPA and the U.S. Army Corps of Engineers have finalized a new Waters of the United States (WOTUS) rulemaking that repeals the Navigable Waters Protection Rule, doubles down on the unworkable "significant nexus test" and creates more complicated, overreaching regulations.

The new rule greatly expands the federal government's regulatory reach over private land use because it allows it to regulate ditches, ephemeral drainages and low spots on farmland and pastures. This could impact everyday activities such as plowing, planting and fence-building in or near these areas.

This rulemaking brings us further away from the clarity and predictability achieved by the Navigable Waters Protection Rule. This is important for farmers and ranchers because the penalties for non-compliance are significant. A simple misjudgment by a farmer in determining whether a low spot is or isn't subject to the regulation can trigger substantial civil fines as well as criminal penalties.

Farmers and ranchers care about clean water and preserving the land, both of which are essential to producing healthy food and fiber and ensuring future generations can do the same. That's why we supported the Navigable Waters Protection Rule. Farmers play a leading role in protecting our nation's wetlands and unfortunately, the new WOTUS rule could prevent farmers from incorporating beneficial conservation practices into their operations. Farmers and ranchers often take on projects that provide stormwater management, wildlife habitat, flood control, and nutrient processing and improve overall water quality in uplands and ephemeral features. But, if they cannot do this without applying for a federal permit, it may be cost-prohibitive, resulting in environmental degradation, not protection. Additionally, over the last 15 years, the number of acres enrolled in wetland and buffer practices under the Conservation Reserve Program has more than doubled (from 2.5 million acres to 5.3 million acres). In addition, more than 140 million acres of U.S. farmland are used for voluntary conservation efforts and wildlife habitats—an area equal to the states of California and New York combined. Finally, farmers advocate for and support commonsense rules that don't require a team of consultants and lawyers to navigate.

Endangered Species Act

Preserving natural surroundings for America's wildlife has long been a priority for America's farmers and ranchers. Today, Americans have a growing understanding of and appreciation for wildlife conservation. There are countless examples of effective voluntary conservation programs and practices that are being implemented at the state and local level. However, the Endangered Species Act (ESA) is long overdue for a meaningful update that recognizes these voluntary efforts to restore and enhance habitats.

Endangered and threatened species protection can be more effectively achieved by providing incentives to private landowners and public land users rather than by imposing land use restrictions and penalties. We must all be good stewards of our natural resources and wildlife habitats.

Farm Bureaus across the country have played a leading role in education, outreach and goal setting to protect at-risk species such as the monarch butterfly and lesser prairie chicken. Unfortunately, ESA listings often entangle farmers and ranchers in bureaucratic red tape rather than providing a path to achieve shared conservation goals.

National Environmental Policy Act

The National Environmental Policy Act (NEPA) was enacted in 1970, designed to ensure that environmental impacts are considered in proposed agency decision-making. NEPA's requirements apply to a broad range of actions affecting the daily lives of Americans across the country. From the construction of roads, bridges, highways, transmission lines, conventional and renewable energy projects, broadband deployment, and water infrastructure to management of activities on federal lands, such as grazing, forest management, and wildfire protection to environmental restoration and other projects. We support the over-riding goal for better environmental decisions in a cost and time-efficient manner.

However, Farm Bureau members have experienced significant delays in obtaining and renewing federal grazing permits as well as securing timber sale contracts with many averaging over seven years to complete. In some cases, NEPA reviews have taken a decade or more to complete, and often get caught in a cycle of litigation. Farm Bureau policy supports immediate simplification, improvement, and streamlining of NEPA. NEPA, and its implementing regulations, should reflect current technologies, agency practice, eliminate obsolete provisions, and improve the format and readability of the regulations while reducing unnecessary paperwork and promoting better decision-making consistent with NEPA's statutory requirements. We encourage Congress to update this decades-old law.

Crop Health

Protecting our sustainable food supply starts with protecting crops while they are still in the ground or on the tree or vine. To that end, farmers and ranchers rely on a variety of tools and techniques as they grow the crops that will become our food, fiber and renewable fuel. Specific methods of crop protection vary from farm to farm based on regional climate and specific threats to crops, such as weeds, pests and invasive species. Crop protection tools, like herbicides, also enable environmentally beneficial practices such as reduced- or no-till, which sequester carbon and promote healthy soils. Additionally, it's critical farmers have access to a variety of pesticides to ensure the most effective product can be used for the targeted pest and prevent resistance issues. Above all, safety is the top priority for farmers when using any kind of pesticide, and thanks to advances in technology, farmers can be precise in their applications, down to the individual plant.

Farmers need access to affordable and effective crop protection chemistry, but this is threatened by the push to regulate pesticides in ways that directly contradict decades-long science-based conclusions from the EPA. We need legislative clarity that acknowledges states have the right to build on the federal government's baseline regulations but limits their ability to directly contradict the scientific findings and rigorous review process of the experts at the EPA.

Labor

Farmers and ranchers need a reliable, skilled workforce. Farm work is challenging, often seasonal and transitory, and with fewer and fewer Americans growing up on the farm, it's increasingly difficult to find American workers attracted to these kinds of jobs. Not all farm jobs can be replaced by machines. There are certain farm jobs, like tending livestock and pruning or picking fresh produce, that require a human touch. Where American workers are unwilling or unavailable, workers from other countries have provided crucial support to American agriculture.

Congress needs to pass responsible immigration reform that addresses agriculture's current experienced workforce and creates a new flexible guest worker program. Instability in the agricultural workforce places domestic food production at risk--increasing immigration enforcement without also reforming our worker visa program could cost America $70 billion in agricultural production.

Grain Inspection, Packers, and Stockyards Administration

The Packers and Stockyards Act was enacted in 1921 and prohibits unfair, deceptive, and unjust discriminatory practices by market agencies, dealers, stockyards, packers, swine contractors, and live poultry dealers in the livestock and poultry industries. Farm Bureau has long advocated for remedies that provide fairness and transparency for poultry growers, while maintaining provisions that keep hog and cattle markets flexible and competitive.

Dairy

Modernizing our Federal Milk Marketing Order system is an important step to provide dairy farmers with confidence in how their milk is priced in today's market environment. In the 2018 farm bill, a Class I formula change resulted in nearly $750 million less in the federal order pool during COVID-19 market disruptions, meaning lower checks for many farmers across the country. In 2021, the latest data point available, for each $27.50 per hundredweight spent, dairy farmers received only $21.23, a loss of $6.27 per hundredweight. It is essential that adjustments are made both legislatively and through the Federal Order hearing process to ensure the system works fairly for all dairy farmers. Switching back to the higher-of Class I pricing formula in the most expedient manner possible is necessary to provide farmers with more price certainty.

Make allowances, a fixed deduction from each milk product formula used to offset processing costs, are expected to be a primary topic for dairy industry stakeholders to consider in future Federal Order discussions. Currently, make allowances can be changed using information from voluntary cost of processing surveys taken by different researchers across the country. Voluntary participation means some processors may be left out when establishing data points stakeholders then use to formulate milk checks, potentially skewing dairy farmers' checks negatively. Mandatory processing cost surveying would provide farmers the assurance that any make allowance increase reflects true costs borne by processors. This will have to be done legislatively as USDA does not have the power to authorize without Congress. Other priorities include a switch to modified bloc voting during the Federal Order hearing process, which would give farmers the opportunity to vote independently and confidentially if they so desire. Milk check transparency and uniformity can help provide farmers with clarity and confidence in how they are being paid.

Securities and Exchange Commission Climate Disclosure Regulations

In March 2022, the Securities and Exchange Commission (SEC) proposed a rule requiring public companies to include climate-related disclosures in their financial statements. Notably, the rule would necessitate the disclosure of the public companies' "Scope 3" emissions, indirect emissions from upstream and downstream activities in their supply chains.

The rule applies throughout a publicly traded company's value chain, burdening all agricultural producers, particularly small and mid-sized farm operations.

The Scope 3 emissions reporting requirement could impact most farms since a majority of agricultural products are used or sold by a publicly traded company. Ninety-eight percent of all farms in the U.S. are independent, family operations that do not have the resources to track and report the emissions data necessary to meet the disclosure requirements. The increased production costs and difficulty in supplying emissions data to public companies will hinder our ability to compete in global markets and will encourage further market consolidation and vertically integrated supply chains.

Farmers and ranchers already comply with expansive legislative and regulatory directives that exist at the local, state and federal levels. The SEC's proposed rule seeks to further extend regulatory burdens on farmers and ranchers, all while lacking appropriate statutory authority. In fact, Congress has been very clear that agencies may not require mandatory reporting of greenhouse gas emissions from livestock.

The SEC's primary purpose is to enforce the law against market manipulation and fraud. However, this rule moves well beyond its traditional regulatory authority by mandating climate change reporting requirements that will not only regulate publicly traded companies but will impact every company in the value chain. More importantly, this rule could require public companies to force farmers and ranchers to report personal information and business-related data, raising serious privacy concerns. In this capacity, the SEC would be granted unprecedented jurisdiction over America's farms and ranches, potentially creating onerous compliance requirements for even small farms and ranches with few or no employees.

Farmers and ranchers have never been subjected to SEC oversight and, in fact, no company involved in agricultural production for crops or livestock is a registrant with the SEC. Unlike the large corporations the SEC presently regulates, family farms and ranches do not have teams of compliance officers or access to the financial resources compliance would require.

Farmers and ranchers have been on the forefront of climate mitigation efforts from the very beginning, working on conservation stewardship efforts and decreasing their greenhouse gas emissions through voluntary efforts. This rule could undermine that progress and force mandates that could eliminate many farms and ranches. If the SEC does not take into consideration these concerns in their final rule, farmers and ranchers will be looking to Congress to intervene. One way to do that is to pass H.R. 1018, the Protect Farmers from the SEC Act.

Conclusion

Much uncertainty remains related to the ability of farmers and ranchers to cost-effectively access inputs and deal with regional regulatory and weather-related challenges. With an early expectation of revenue declines, which more than erase gains made during 2022, it becomes all the more important for producers to have clarity on rules that impact their businesses' ability to operate, for producers to have access to comprehensive risk management options and for producers to be given a resounding voice during formulation of vital legislation such as the farm bill, which can either complicate or streamline farmers' and ranchers' ability to contribute to a reliable and resilient U.S. food supply sustainably.

The farm bill is a critical tool for ensuring our nation's food supply remains secure. No one buys insurance for the good times, and similarly, farm bill programs provide critical tools to help farmers and ranchers manage risk. Farm programs are written to provide a basic level of protection to help offset bad economic times and severe weather. The 2018 farm bill brought certainty to farm and ranch families through crop insurance, improved risk management programs and support for beginning farmers and ranchers, while also providing much-needed funding for trade development and ag research.

As you can hear from my testimony, farming is a difficult and risky business, yet critical to the well-being of our country. It's often stated that food security is national security. Few pieces of legislation are more significant than the farm bill when it comes to ensuring our food system is secure. We urge lawmakers to recognize this significance as they consider updating and improving the farm bill.

Farm Bureau supports the following principles to guide development of programs in the next farm bill:

- Increase baseline funding commitments to farm programs;
- Maintain a unified farm bill that includes nutrition programs and farm programs together; and
- Prioritize funding for risk management tools, which include both federal crop insurance and commodity programs.

The farm bill has been a bipartisan effort in the past. The 2023 farm bill presents an important opportunity for lawmakers to rise above partisanship and work together again to pass legislation that protects food security for all Americans and the future success of our farmers and ranchers.

Farm Bureau will continue to work to ensure that farm families maintain their ability to feed, fuel and clothe the world and defeat public policy that threatens the long-term resiliency of our rural communities. Congress must protect American agriculture and production practices from undue burden, and respect farmers' and ranchers' ability to innovate and solve problems.

American farm families want to leave the land better than when it was first entrusted to our care. That is the story of my family's farm in Georgia and the story of millions of farms across this country. We want to protect the planet, feed and clothe people, and promote vibrant communities. Working with our partners, land-grant universities, policymakers, and the farmers and ranchers we represent, Farm Bureau intends to continue finding solutions for the challenges of the future.

Mr. Chairman, I commend you for convening this hearing and for all your hard work on behalf of agriculture across the country. I will be pleased to respond to questions.