

TESTIMONY OF MIKE PETERSON

SUBMITTED TO THE HOUSE COMMITTEE ON AGRICULTURE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

“REVIEWING THE STATE OF THE FARM ECONOMY”

MAY 9, 2019

WASHINGTON, DC

Chairman Vela, Ranking Member Thompson, and members of the subcommittee, thank you for the opportunity to testify today. My name is Mike Peterson. Along with my wife and two sons, I farm about 800 acres of corn and soybeans near Northfield, Minnesota. I am also a member of Minnesota Farmers Union, which represents 13,000 family farmers, ranchers and rural members across Minnesota.

In addition to our corn and soybean production, my family also operates a number of entrepreneurial enterprises. We finish about 1200 hogs a year and do some custom work for other farmers in our area. We also have a golf driving range and a welding and fabrication business. To help make ends meet, my wife also works a part-time off-farm job.

Overview of Financial Stress

The last five years have been incredibly challenging on my farm and on farms across Minnesota. In 2018, median net farm income in the state was at its lowest level in the past 23 years.¹ In southern Minnesota, corn prices have been at or below the cost of production for five consecutive years.² Strong soybean yields and fair prices had kept many farmers profitable until the trade dispute with China took its toll on the market last year.

With the sustained slump in commodity prices, financial stress continues to grow. In the fourth quarter of 2018, the Federal Reserve Bank of Minneapolis reported lower repayment rates across the Ninth District, indicating growing financial stress.³ In real terms, national farm debt is at its highest level since the 1980s,⁴ and many farmers continue to burn through the equity they built up in the profitable years leading up to 2014. These financial challenges contributed to a significant increase in Chapter 12 Farm Bankruptcy filings in Minnesota last year.⁵

The financial challenges we face are due to a number of factors. Market consolidation and the increase of monopoly power has caused our input costs to rise dramatically. Overproduction has driven commodity prices low – a situation that is further exacerbated by the impacts of ongoing trade disputes. Our current environment is unsustainable. Unless we get our markets back and prices rebound, I'm worried that many more farmers will be forced out of business.

Market Consolidation and Input Costs

Over the last 30 years, major agribusiness companies have been acquiring small companies, consolidating the marketplace and increasing their market share. From 2000 to 2015, the market share

¹ University of Minnesota. Minnesota farm income hits historic low. (March 25, 2019). Retrieved from: <https://twin-cities.umn.edu/news-events/minnesota-farm-income-hits-historic-low>

² FINBIN (2019). Center for Farm Financial Management: University of Minnesota. Retrieved from <http://finbin.umn.edu> (originally created May 5 2019).

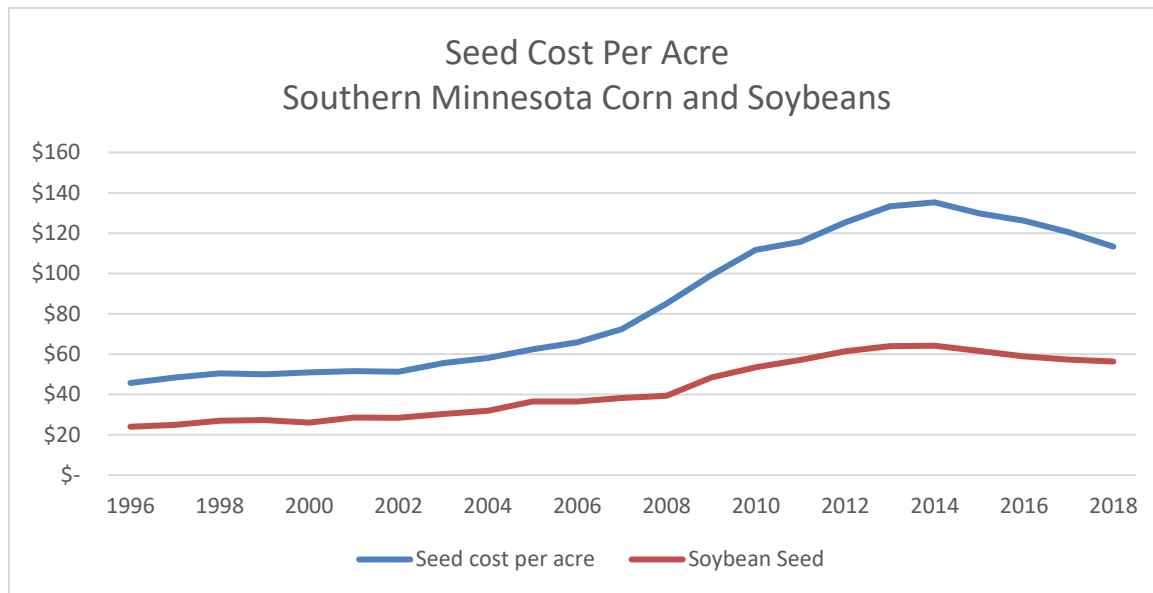
³ Federal Reserve Bank of Minneapolis. "Throwing in the towel": Another high production-low price year. (February 14, 2019). Retrieved from: <https://www.minneapolisfed.org/publications/agricultural-credit-conditions-survey/another-high-production-low-price-year-for-farmers>

⁴ United States Department of Agriculture, Economic Research Service. Farm Income and Wealth Statistics. Data as of March 6, 2019.

⁵ <https://www.fb.org/market-intel/farm-bankruptcies-in-2018-the-truth-is-out-there>

of the four largest companies increased from 60 percent to 85 percent for U.S. corn seed.⁶ Over the same time period, the CR4 for soybean seed sales increased from 51 to 76 percent.⁷

Diminished competition has left farmers with few options when purchasing seeds, allowing suppliers to charge higher prices. When I began farming in 1996, the average cost of corn seed per acre was \$28.53 and the average cost of soybean seed per acre was \$14.98. Today, those costs have increased to \$113.31 and \$56.28 respectively. Even when adjusted for inflation, the cost for both corn seed and soybean seed has more than doubled since 1996.



The fertilizer market is also highly concentrated with two companies controlling 93% of the world potash market and significant concentration in the phosphorous and nitrogen markets.⁸ This has caused the average farm price of fertilizer to increase significantly.⁹ Since 1996, the amount an average farm in southern Minnesota spends on fertilizer for each acre of corn produced has nearly doubled.¹⁰

The advances made in the agricultural input industries have helped farmers become far more productive. However, the increase in input costs has outpaced gains in productivity. The real total direct expense per bushel produced has increased by \$.40 for corn and \$1.05 for soybeans in southern Minnesota.¹¹

⁶ MacDonald, J. M. (2016) Mergers and competition in seed and agricultural chemical markets. Retrieved from: <https://www.ers.usda.gov/amber-waves/2017/april/mergers-and-competition-in-seed-and-agricultural-chemical-markets/>

⁷ *Id.*

⁸ Taylor, C. R., & Moss, D. L. (2013) The fertilizer oligopoly: The case for global antitrust enforcement.

⁹ USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, *Agricultural Prices*. Retrieved from: <https://www.ers.usda.gov/data-products/fertilizer-use-and-price.aspx>

¹⁰ FINBIN (2019). Center for Farm Financial Management: University of Minnesota. Retrieved from <http://finbin.umn.edu> (originally created May 5 2019).

¹¹ *Id.*

Improving Operational Efficiency

To improve our ability to operate on tight margins, we've adopted a number of conservation practices and production methods that reduce our input costs and usage to levels that put us on par with the most efficient operations. We plant cover crops and use no-till and zone tillage practices that reduce weed pressure and improve soil health. Together these practices help reduce chemical and fertilizer costs. We couple those practices with precision fertilizer application, which helps further reduce fertilizer costs and cuts down on fuel usage. We also don't grow late season hybrids, which helps keep our drying costs low.

Altogether, the practices we have adopted reduce our carbon footprint and put us in a better position to survive in a period of low prices. However, with commodity prices as low as they are currently, it is still a challenge to break even. Because we have so little cash flow, we are not able to afford the costs of installing practices that will improve our position in the long term.

Despite all I have done to adjust to tight margins and low prices, there's just no way to be profitable with the market scenarios facing the American farmer today. I'm currently enrolled in a Farm Business Management course at South Central College. Our advisor provides us data and management assistance, so we can identify the scenarios that will maximize our profitability. Even with his guidance and expertise, we're faced with a financial situation that is hard to present to a lender.

Farm Safety Net

Like most farmers, I would prefer to get a fair price from the market. However, during prolonged periods of low prices, I am extremely grateful that I have a farm safety net to fall back on. For the last five years, I've been enrolled in the Agricultural Risk Coverage (ARC) County program, which has at least offset some of my losses.

While ARC-County has been helpful to me, we have also experienced challenges with the program. I'm grateful that the 2018 Farm Bill includes improvements that will smooth disparities in payment rates between counties. We are also grateful for the opportunity to make a new election between ARC and the Price Loss Coverage program for 2019 and 2020 and on an annual basis starting in 2021. While we have not yet determined which program I will enroll in for the next two crop years, the increased flexibility will help me better respond to my operation's needs as the economic situation evolves.

Crop insurance has also been an essential risk management tool on our operation. Last year, a tornado struck our operation, knocking down about 85 percent of our corn crop. While we were able to salvage some of the crop, the damage was significant. Without our crop insurance indemnity, the losses would have been devastating to our operation.

Trade Disruptions

With the support of the programs mentioned above, we can handle a slump in commodity prices and volatile weather. However, we had no way to prepare for the significant disruption to our markets that was brought on by trade disputes last year. While I originally supported the goals of securing better

trade agreements and holding bad actors accountable, the approach to these trade disputes has caused damage that I'm afraid will take us decades to overcome.

The Market Facilitation Program (MFP) payments provided last year helped but didn't make up for what we lost. The program also contained a number of flaws, including wide disparities in payments for each commodity. The MFP also failed to provide payments for several commodities, such as canola and other minor oilseeds, that have been impacted by decreased overseas demand.

We just began spring planting without any assurances that we are going to have markets to sell to when harvest comes around. Without markets to sell into, the only way to keep farmers afloat is to provide them with an additional round of payments. The bottom line is, there's no way to make a profit if we don't have markets for our product. If our markets don't come back, and we don't have any additional support, then we would be better off shutting our farm down for the year.

Conclusion

I want to close by saying that I have a 23-year-old son who is just starting out on 80 acres a few miles from our farm. I'm proud to say that he's the fifth generation to carry on our family's farming tradition. I'm doing everything I can to prepare him for the challenges I've discussed here today, but it's hard to be optimistic about what the future holds. If we want to get the next generation into farming, we have to at least give them a fighting chance.

Thank you for the opportunity to testify. I look forward to your questions.