



# Statement of the American Farm Bureau Federation

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**TO THE UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE  
SUBCOMMITTEE ON GENERAL FARM COMMODITIES  
AND RISK MANAGEMENT**

**“FOCUS ON THE FARM ECONOMY:  
GROWING FARM FINANCIAL PRESSURE”**

**APRIL 14, 2016**

**Presented By:  
Zippy Duvall  
President, American Farm Bureau Federation**

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Chairman Crawford, Ranking Member Walz and members of the Subcommittee on General Farm Commodities and Risk Management, thank you for the opportunity to share the views of the American Farm Bureau Federation (AFBF) on the current state of the agricultural economy.

I am Zippy Duvall, a beef cattle and hay producer from Georgia, and I am privileged to serve as president of AFBF, the nation's largest farm organization with nearly 5.9 million member families, and work on behalf of our members in every state in the nation and Puerto Rico. Our farmer and rancher members grow virtually every crop produced and all sectors of the livestock, dairy and poultry industry on farms and ranches of every size, using the full range of production systems from organic methods to the latest in high-tech and biotechnology tools. And we proudly include as members many of the men and women who are our neighbors across rural America.

Let me start with our view of the big picture, Mr. Chairman: We all are well aware of the downturn in commodity prices: row crop prices for almost everything—corn, peanuts, soybeans, wheat—are down sharply from where we were just a couple years ago. Livestock prices also have tumbled.

Just as you all are doing by holding this hearing, farmers and ranchers are asking how the outlook for the agricultural economy got here after so many years of good prices and higher than normal farm income figures.

In 2003 our nation consumed or exported just over 10 billion bushels of corn and about 2.5 billion bushels of soybeans. By the 2009 marketing year corn use was over 13 billion bushels, and demand for soybeans exceeded 3.5 billion bushels—and soybean demand has continued to grow and is now over 3.7 billion bushels. The strong growth in exports to China and the effects of the Renewable Fuels Standard have contributed to this demand growth. The drought in 2012 also cut supplies and helped boost some commodity prices to new records.

You have been well aware of the challenges being faced by the cotton sector at every level of that industry. Cotton farmers have seen prices tumble from near 80 cents a pound just a few years back to dipping into the 50 cent range as world supplies of cotton stocks pressure the market. Industry analysts indicate there is in excess of 100 million bales of cotton lint on hand worldwide, with China alone holding more than 60 million bales. The carryover stocks along with strong competition from manmade fibers have pushed market returns for cotton farmers down an estimated 23 percent in the last two years.

As a former dairy producer, I would also note the picture for dairy farmers is just as concerning. Just a couple of years ago, all-milk prices were in the range of \$20 or more per hundredweight. Recently, we have seen all-milk prices decline by more than \$5 per hundredweight, with projections for this year staying in the \$15 to \$16 range.

Other livestock sectors have also been through some challenging times. The high feed costs in 2012 forced adjustments. The drought of just a couple of years ago, particularly in Texas and Oklahoma and still lingering in California, cut the beef herd and stopped dairy production growth cold in some parts of the country. To be sure, this led to livestock prices that were setting

or getting close to record levels—and as the old market maxim states, the cure for high prices is high prices.

Farmers and ranchers boosted production in response, bringing more land into production and expanding herds and flocks. As we all have witnessed, the outcry of just a few years ago regarding rising food costs is now pretty much just a memory.

As our economists have warned over the years, once demand stops growing and the inherent delay in those signals reaching farmers and ranchers is realized, agriculture experiences a period of effectively producing the profit out of the system.

That is about where we find ourselves today.

Several reports from United States Department of Agriculture's Economic Research Service and the Congressional Research Service have done excellent work in laying out the recent past and current condition of the farm economy. A capstone statement from USDA's latest projections of Farm Income lays this out pretty clearly:

- In 2013 net cash farm income was \$135 billion; for 2016, USDA's projection is \$91 billion.
- Net farm income, which includes other factors like depreciation, inventory change and other non-cash costs, moved from \$123 billion to \$55 billion over the same period.
- Longer-term projections by USDA leave net cash income averaging less than \$80 billion for the coming decade and net farm income at less than \$70 billion.

It is this long-term expectation of much lower farm income that is most concerning. For many of our major commodities, there is little domestic demand growth on the horizon. Add to this a strong dollar amplified by weaker economic growth in many countries and the production expansion by our major competitors, and one also has to be concerned over limited hopes for significant export demand growth.

The bottom line is that farmers and ranchers are being forced to tighten their belts and pay much closer attention to their financial situation, and they will be in greater need of safety net and risk management programs than has been the case for some time—for some, since they started farming.

One other signal, though still in the early stages, is that farmers and ranchers are only now beginning to take on additional debt. When one examines the financial ratios, such as debt to equity or debt to asset, they are at some of the lowest levels ever—but those levels, along with debt overall, are starting to climb.

Of particular concern is the rise in operating debt since 2012. Over those last few years, this category has risen from \$124 billion to over \$165 billion, a 33 percent increase. At the same time, as farmers and ranchers are adding debt, they have also been drawing down financial assets, such as cash or equity. Looking again at 2012—which was admittedly a record year—farmers held nearly \$134 billion in financial assets. For 2016, USDA estimates that figure will drop to less than \$80 billion. Boosting debt by a third at the same time as one is chewing through

a third of one's savings is not a long-term survival strategy, and puts substantial pressure on both the short and intermediate terms for farmers and ranchers in managing their operations.

It is this very situation—this economic reality, if you will—that makes the safety net programs provided by the Farm Bill so important. Younger and newer farmers and livestock producers are about to go through a steep learning curve on the difference between “variable” and “total” costs of production.

Dr. Gary Schnitkey at the University of Illinois regularly publishes cost of production estimates for corn and soybean producers in his state. His estimate for the 2016 per bushel cash or variable cost—seed, fertilizer, pesticides, fuel, crop insurance, etc.—on a highly productive farm in Illinois comes in at \$2.40 per bushel for corn and \$4.79 per bushel for soybeans. USDA is projecting \$3.60 per bushel for a 2016 corn price and \$8.75 per bushel for soybeans.

But before anyone jumps to the conclusion that this farm is operating in the black, recognize that out of the difference in this particular projection, a farmer has to pay for equipment, land costs and other farm expenses, as well as provide income for his or her family to live on. According to Dr. Schnitkey's analysis, cash rents ran approximately \$236 per acre, effectively leaving nothing to cover equipment replacement or for family living for those renting land. For those farmers who own their land and have no debt on equipment, they will have some return, albeit a small amount. I have included at the end of the testimony some graphics showing the returns over variable and total costs for several commodities. Should these prices and land rents hold, financial stress on those renting land will build. And when you add potential interest rate increases, the problem just gets worse.

The Kansas City Federal Reserve produces its Agricultural Finance Databook every quarter. In its latest report, its analysts indicate that for the third quarter of 2015 the share of non-performing production loans at commercial banks was near historic lows, as is the case for the share of total loans that are nonperforming at agricultural banks. From their perspective, individual farmers and ranchers have their own individual financial circumstances they are dealing with, but for now the sector, overall, is holding on. But warning signs abound, from the crash in farm income to the draw-down in financial assets and the buildup of operational debt.

This again highlights the importance of the safety net and risk management tools this committee has provided for agricultural producers. The last thing the sector would need at this point is some substantial reduction in the level of federal commitment, and on behalf of Farm Bureau members across the nation, we appreciate your continued efforts to protect these important programs.

There have been and will likely continue to be efforts to cut the level of government support provided through the crop insurance program. Farm Bureau will strongly oppose attempts to renege on the deal we all worked on as the Farm Bill was developed. Opponents of crop insurance need to realize that the program adjusts directly to changes in market signals, that the program directly reflects market prices on an annual basis.

Let me touch on one other important feature of crop insurance, particularly for the major program crops. It allows farmers to better market their crops, knowing that funding to replace

any crops contracted for early delivery will be there should they be hit by a drought. These are precisely the kind of marketing strategies suggested to farmers in low price periods. Price the crop before it is planted in order to have costs covered. Farmers can do that with insurance as a backup to that marketing approach.

One sector of the agricultural economy that is doing somewhat better from a market standpoint are our fruit and tree nut producers. While the list of products there is longer than I have time to cover here, prices for many citrus products are higher today than last year. Unfortunately this is driven in part by production losses coming from the citrus greening issues in Florida. If ever there was a need for research and technology, it is certainly there. As another example of higher fruit prices, apple prices are up in part due to lower supplies driven by poor growing conditions last season in Washington State.

It is not just market realities and farm program issues that our farmers and ranchers are facing today that are impacting their respective bottom lines.

Regulatory costs in agriculture are almost too numerous to quantify:

- If the new Waters of the U.S. rule goes into full effect, it is bound to put additional costs and uncertainties on farming operations.
- The new Food Safety Modernization Act implementation has implications for farm operations, particularly in the specialty crop sector.
- The expansion of Spill Prevention and Control requirements will add costs and clearly provide no new revenue to the bottom line (and is unlikely to result in any environmental benefit).
- Stalled legislative efforts to overturn the 6<sup>th</sup> Circuit decision on pesticide permits may leave farmers vulnerable to unjustified citizen lawsuits as they deal with disease and pest outbreaks on their land.
- EPA's failure to fully implement the Renewable Fuels Standard has sent a disturbing signal to the agriculture sector.

The Department of the Interior's proposal to rewrite federal plans to protect the sage grouse will undoubtedly have implications for ranchers in western states. EPA's increasing resistance to registering new farm protection tools while also threatening the ones we already have, like chlorpyrifos, are very concerning. And we cannot overlook the impact of state-by-state GMO labeling mandates that threaten farmers' ability to use this important technology to not only boost production, but also for the environmental and economic benefits it provides. Everywhere we look, costs of complying with ever-expanding regulations continue to build. And the last thing farmers and ranchers need right now are more unfunded government mandates.

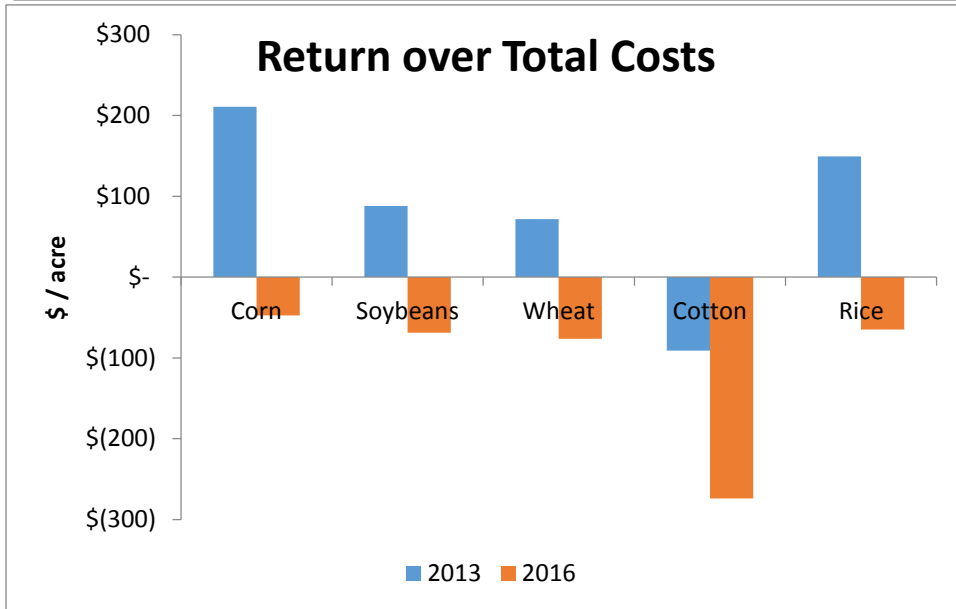
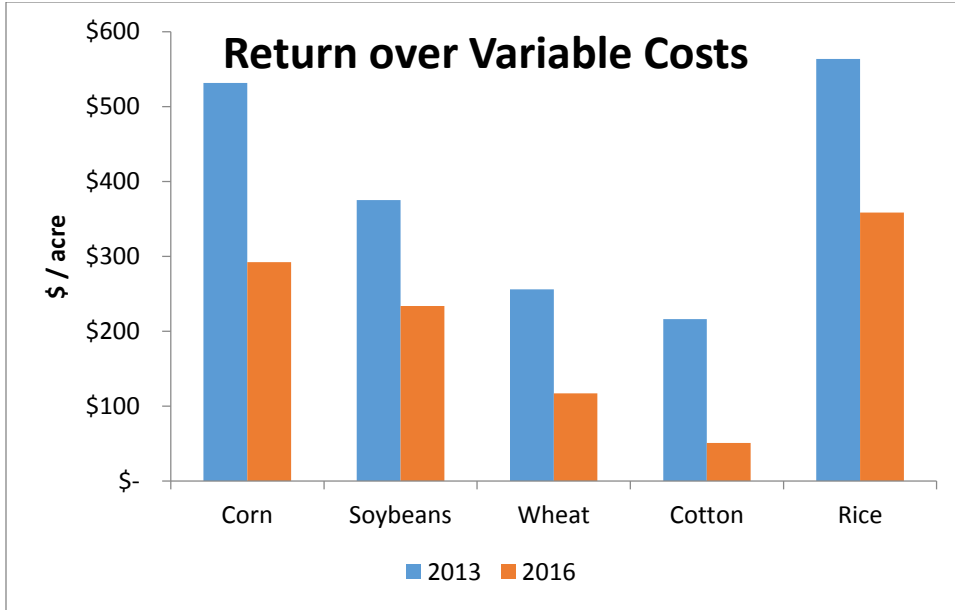
Tax policy can also play a major role in determining a farm or ranch's financial health. Converting the annual "extenders" into several permanent provisions has certainly been helpful in allowing farmers to plan, particularly in terms of equipment purchases or in estate planning with the adjustments in the "death tax." But there are other provisions that would have been very helpful had they already been on the books.

Finally, demand growth will be critical to helping the sector get out of this revenue downturn. The Trans-Pacific Partnership is a great example of action Congress could take that would help raise farm income without the need to boost government spending. This agreement, when fully implemented, will boost animal protein exports to Japan and other Asian countries, and has the potential to raise net farm income by \$4.4 billion on an annual basis. Passage of that agreement is one of the American Farm Bureau Federation's highest priorities.

Mr. Chairman, I again thank you and your members for holding this important hearing to examine the state of the agricultural economy. I also thank you and your colleagues on the Full Committee for standing up for the men and women who produce the crops and the livestock that provide food for our tables, make up the clothes we wear and contribute to our energy independence.

We appreciate your leadership and look forward to working with you as you seek ways to ensure America's farmers and ranchers are sustained through the economic challenges we face today.

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Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since January 1, 2013.

Name: Vincent "Zippy" Duvall

Organization you represent (if any): American Farm Bureau Federation

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since January 1, 2013, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: N/A Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since January 1, 2013, as well as the source and the amount of each grant or contract:

Source: N/A Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

3. Please list any payment or contract originating with a foreign government (including subcontracts) you have received since January 1, 2013, as well as the country of origin and amount of each payment or contract.

Country of Origin: N/A Amount: \_\_\_\_\_

Country of Origin: \_\_\_\_\_ Amount: \_\_\_\_\_

4. Please list any payment or contract originating with a foreign government (including subcontracts) the organization has received since January 1, 2013, as well as the country of origin and amount of each payment or contract.

Country of Origin: N/A Amount: \_\_\_\_\_

Country of Origin: \_\_\_\_\_ Amount: \_\_\_\_\_



**Committee on Agriculture  
U.S. House of Representatives  
Information Required From Nongovernmental Witnesses**

**House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.**

1. **Name:** \_\_\_\_\_
  
2. **Organization you represent:**  
\_\_\_\_\_
  
3. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
4. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
5. **If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:**  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.**

Please check here if this form is NOT applicable to you:

X

Signature: \_\_\_\_\_

*Larry Powell*

\* Rule XI, clause 2(g)(5) of the U.S. House of Representatives provides:

*(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.*

*(B) In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of any Federal grants or contracts, or contracts or payments originating with a foreign government, received during the current calendar year or either of the two previous calendar years by the witness or by an entity represented by the witness and related to the subject matter of the hearing.*

*(C) The disclosure referred to in subdivision (B) shall include--(i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.*

*(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.*

**PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.**

## **AFBF President Vincent “Zippy” Duvall**

Vincent “Zippy” Duvall, a poultry, cattle and hay producer from Greene County, Georgia, was most recently president of the Georgia Farm Bureau.

A Farm Bureau member since 1977, Duvall has held numerous leadership positions in the Greene County Farm Bureau, including president and vice president. Duvall has served on numerous GFB Commodity Advisory Committees, the GFB Policy Development Committee and, as past chairman, the GFB Young Farmer Committee. He has represented Georgia as a voting delegate at the American Farm Bureau Federation convention since being elected to the state board and served on the AFBF Board of Directors in the 1980s as chairman of the AFBF Young Farmers & Ranchers Committee. He also served as member of former Gov. Sonny Perdue’s Agricultural Advisory Council.

In addition to his Farm Bureau leadership, Duvall is the past chairman of the Greene County Board of Commissioners and is a member of the Association of County Commissioners of Georgia. He has served on the Rayle EMC board of directors for 16 years. Duvall is a member of the Greensboro Farmers Bank Board of Directors and is a member of the Greensboro/Greene County Chamber of Commerce. Duvall and his wife, Bonnie, have four children: Vince, Corrie, Zeb and Zellie.