American Farm Bureau Federation
Policy Recommendations for the 2012 Farm Bill

The American Farm Bureau Federation Board of Directors approved the following document on September 28.

Farm Bureau provides these suggestions to the House and Senate Ag Committees for their consideration as they develop input to the Joint Select Committee on Deficit Reduction (Joint Committee) and as the Ag Committees consider policy changes to write the 2012 Farm Bill.

Farm Bureau is the country's largest farm organization, representing farmers and ranchers producing all types of agricultural products in all 50 states and Puerto Rico. Our members grow, produce and raise the food, fiber and energy sources that feed, clothe and fuel the U.S. and the world. Our membership includes producers of every size and scale of operation. We believe this puts our organization in the unique position of representing exactly the same constituency as is represented by the members of the House and Senate Ag Committee.

We have and will continue to urge the Joint Committee to provide specific guidance to the House and Senate Ag Committees as to a specific amount of funding required in programs under the Committees jurisdictions. Without such a target number for reductions, it is extremely difficult for the House and Senate Ag Committees to know how to make the reductions and still have an adequate safety net for farmers and ranchers.

Multiple Programs for an Adequate Safety Net:

Because of our diversity, we must consider the big picture of a farm safety net rather than to suggest program options that might only be workable for one commodity or one region of the country. <u>Utilizing a single program as the entire safety net will not work for all commodities in all regions of the country.</u>

Continuation of a multi-legged stool for commodity programs is the best approach. A combination of direct payments, counter-cyclical payments (both CCPs and the ACRE program), a commodity loan program and crop insurance will provide a much better safety net than only relying on one or two of those options.

Congress should avoid adopting any safety net program that only works well for one or two commodities. Doing so would make "leveling the playing field" for all commodities virtually impossible. <u>Rather, all of our current programs, including direct payments, crop insurance, ACRE, target prices, and a marketing loan program should be maintained. Farm Bureau is willing to consider modifications and adjustments to these programs to make them more effective in a reduced budget environment.</u>

As the Committees proceed in sending their recommendations to the Joint Committee, we recognize that reductions will almost certainly have to be made largely in four titles of the Farm Bill that account for the majority of the spending – nutrition, commodities, conservation and crop insurance. The March 2011 baseline scores spending under the control of the House Agriculture Committee as 76 percent for nutrition programs, 9 percent for crop insurance programs, 7 percent for commodity programs, 7 percent for conservation programs and one percent for the remaining programs such as research, rural development, livestock, specialty crops, etc.

A Safety Net:

It is important to remember that America's farmers want to get their income from the marketplace, not the government. But market conditions can fluctuate widely and in years of low prices and rising costs, farm program payments help keep family farms in business. It is also important to remember that regardless of high prices, markets around the world or the weather can render some farm programs useless in any given year.

To put it simply, farm program payments have been critical to the economic survival of this nation's traditionally family-owned farm structure. They help provide some measure of stability to the volatile business of food production, providing Americans with one of the safest and most affordable food supplies in the world. Despite the big payments that are highlighted in press reports, the vast majority of commodity payments go to family farm operations. In addition to paying for machinery, seed, and fertilizer, some of this money goes to pay household bills, interest on farm loans and ordinary living expenses.

America's farmers provide a bountiful supply of food for our nation and much of the world, but they can't control the outcome of every planting and harvest. All businesses must deal with some amount of risk, but it is usually greater for agriculture. Farmers invest their economic future in the next crop without knowing if the weather, energy costs, pest infestation, market prices and countless other perils will produce a profit or loss. For the producers of certain basic farm commodities, federal programs provide farmers some confidence that their farm can survive and recover from a calamity.

U. S. consumers reap many benefits from these payments, including a top quality, stable and economical food supply that takes less of the U.S. consumer's dollar than any other country in the world. Dollars received by farmers are also re-invested in communities and businesses that would often wither without a stable local agricultural industry.

SURE:

Farm Bureau members strongly supported continuation of the vast majority of the programs included in the 2008 Farm Bill during our annual meeting last January. The only exception to that was support for SURE, the permanent disaster program. The program does not work, and even a revamped SURE program would be our lowest priority. Given the deficit situation, we believe the SURE program should be allowed to lapse and that no further support for that program or a modified SURE program should be pursued.

Programs without Baseline After FY2012:

Beyond SURE, there are 36 programs that received mandatory funds in the 2008 Farm Bill that are not assumed to continue from a budgetary perspective because they do not have a baseline beyond FY2012. These provisions are spread among 11 of the 2008 Farm Bill's 15 titles. While we have members that support each of these programs, Farm Bureau does not believe these programs represent a high enough priority to continue them by cutting funding elsewhere.

Five Priority Programs:

<u>Farm Bureau believes the five most important priorities for the upcoming Farm Bill are commodity programs, conservation programs, crop insurance, research and rural development. Because the research and rural development programs are such a small part of the budget, we encourage those programs be maintained at current funding levels. Other programs included in the 2008 Farm Bill should receive minor reductions in funding in order to move toward a more balanced Federal budget.</u>

Farm Bureau recognizes that the funding reductions expected under the Joint Committee scenario will primarily have to come from the commodity, conservation and nutrition titles, as well as from crop insurance. These four areas comprise 99% of the funding under the jurisdiction of the House and Senate Ag Committees. Without knowing what that reduction target is likely to be, <u>we recommend the reductions be spread among these four main spending areas in the following proportion:</u>

<u>30% of the reductions from commodity programs;</u>

<u>30% of the reductions from conservation programs;</u>

<u>30% of the reductions from nutrition programs; and</u>

<u>10% of the reductions from the crop insurance program.</u>

Two clarifications are important. First, we are not suggesting a 30 percent cut in the $65 billion commodity program baseline, but rather that 30 percent of the share of total cuts finally agreed to by the House and Senate Ag Committees come from the commodity programs. The same clarification applies to the other three categories.

Second, spending on the administrative functions of the Supplemental Nutrition Assistance Program and the child nutrition programs will exceed $50 billion in the next ten years. We believe administrative program changes in this area could generate significant savings with no reductions necessary in program benefits.

Recently, the Administration proposed reductions of $33 billion in agricultural programs. While Farm Bureau adamantly opposes reductions of that magnitude, use of that number as an example may help provide a clearer picture of how the 30/30/30/10 recommended reduction target percentages outlined above would work. Percentage cuts applied to a $33 billion reduction target would translate into the following percentage cuts over the next ten years:

-- Commodity programs would be reduced by 15% of the $65 billion baseline;

--Conservation programs would be reduced by 16% of the $63 billion baseline;

--Nutrition programs would be reduced by 1% of the $700 billion baseline; and

-- Crop insurance programs would be reduced by 4% of the $80 billion baseline.

In other words, commodity and conservation programs would take cuts of roughly equal proportions, but both would face 15% cuts as opposed to 1% reductions in nutrition program spending.

Commodity Title Reductions:

In determining how to apportion the reductions in commodity programs, we believe the reductions should be focused on Direct Payments, ACRE and the dairy program. Outlays for Direct Payments should be reduced to provide 94 percent of the commodity program reduction, 5 percent should be attributed to the ACRE program, and one percent to the dairy program.

Direct Payments:

Direct payments could be reduced in several ways. For the 2012 crop year, they are based on the payment yield times 85 percent of the Direct Payment acreage base. Budget savings would accrue if the 85 percent level is further reduced.

Direct payments have helped many producers endure drought years because they did not have to "grow" a crop in order to get the payments. If it were not for direct payments during droughts over the past few years in several parts of the country, many family-owned and operated farms would be out of business.

Those who believe direct payments are no longer needed because current high commodity prices are here to stay need to remember that we are dealing with a commodity market that responds to high prices. We have seen bull markets in agricultural commodities before. Unless history does not repeat itself, bull markets are usually followed by bear markets because farmers around the world will respond to higher prices and grow more commodities. Direct payments are a basic part of a safety net that may be needed if prices and/or revenues cycle lower.

Counter-Cyclical Payments and Marketing Loans:

While the counter-cyclical and marketing loan programs work well for some commodities and not as well for others, we chose not to focus on these programs for reductions.

ACRE:

ACRE payments are projected to cost almost $5 billion over the next ten years and therefore should be included in a package of reductions. Like Direct Payments, ACRE payments are provided on 85 percent of the historical base. Simply reducing the payment base would generate savings.

Dairy:

The cost of the dairy program should be marginally reduced. We support Ranking Member Peterson's current legislation, H.R. 3062. The proposal eliminates the current dairy price support mechanism and Milk Income Loss Contract Payments and replaces them with a voluntary risk management program. We appreciate the changes Representative Peterson made to his original proposal to ensure we are not mandating supply management provisions in the law. Instead, farmers are provided an option to participate in a gross margin revenue insurance program and comply with supply management provisions, or simply refrain from participation in the program entirely. We believe his concepts can also provide some portion of the necessary agriculture budget reductions.

Sugar:

There are no baseline expenditures associated with the sugar program. While other commodities will be taking reductions in government support, the sugar program should be left intact as efforts to generate savings would require convoluted policy structures.

Conservation Title Reductions:

In determining how to apportion reductions in the conservation program, we suggest 67 percent come from retirement land programs and 33 percent from working land programs. This follows the direction provided by our voting delegates earlier this year. Again, while we support all the current conservation programs, given the current fiscal considerations, our delegates prioritized working land programs over retirement and easement land programs. We suggest 67% of the reductions be taken from the Conservation Reserve Program and 33 percent from the Conservation Security Program.

Consolidation of Conservation Programs:

We believe 23 conservation programs are too many. We encourage the committees to consolidate the current programs into a working lands program, a retirement lands program and a Conservation Reserve Program. As much saving as possible should be garnered by reductions in the cost of administering all of these programs before the Committees recommend reductions to conservation programs where funding is actually utilized by farmers and ranchers. In addition, consolidation of programs should make understanding the programs simpler for producers and easier to administer for USDA.

CRP:

The Conservation Reserve Program is capped at 32 million acres, but given current prices, it is doubtful that target will be reached. We strongly urge the Committee to reduce the number of acres eligible for CRP sign-up in order to capture this savings. While it is imperative that current contracts between the government and producers not be affected, we encourage the Committees to further limit program acre eligibility as those lands reach the end of their contracts. In addition, the Committees should further limit the land eligibility classifications so that some of the less high erodible land is not allowed to be enrolled in the CRP in the future.

CSP:

The Conservation Stewardship Program is scheduled to increase in size by almost 13 million acres per year at an average cost of $18 per acre. We believe the program should be capped in order to garner one-third of the savings required in the conservation programs.

EQIP:

Use of EQIP monies to support relief of regulatory compliance costs is a high priority for our membership and therefore we do not believe reductions should be made in this program.

Crop Insurance Reductions:

<u>If we are significantly reducing the Direct Payment program in order to meet deficit reduction targets, the crop insurance program becomes an even more important risk management tool. That is why we believe significantly fewer budget reductions should be made in this program than in the commodity programs.</u>

As with the nutrition programs, we believe the further reductions in the crop insurance program should be garnered from the Administrative and Operating expenses of running the program and from reducing underwriting gains. We do not believe reductions should be made in farmer premium incentives.