March 15, 2017

The Hon. Mike Enzi, Chairman
The Hon. Bernard Sanders, Ranking Member
Committee on the Budget
United States Senate
624 Dirksen Senate Office Building
Washington, DC 20510

The Hon. Diane Black, Chairman
The Hon. John Yarmuth, Ranking Member
Committee on the Budget
U.S. House of Representatives
207 Cannon House Office Building
Washington, DC 20515

The Hon. Thad Cochran, Chairman
The Hon. Patrick Leahy, Ranking Member
Committee on Appropriations
United States Senate
Room S-128, The Capitol
Washington, DC 20510

The Hon. Rodney Frelinghuysen, Chairman
The Hon. Nita Lowey, Ranking Member
Committee on Appropriations
U.S. House of Representatives
H-305, The Capitol
Washington, DC 20515

Dear Chairmen and Ranking Members:

On March 1, the House Agriculture Committee sent its annual budget views and estimates letter to the House Budget Committee. In that letter, the Committee on Agriculture urges "the Committee on the Budget to require no further budget reductions from within the jurisdiction of the Committee on Agriculture [while] providing…the budget flexibility necessary to develop and enact an effective new farm bill before the current law expires." The letter also states, "To be sure, rural America and farm and ranch country are in a severe economic slump right now, with no end in sight." These statements are followed by an eloquent outline of the difficulties facing agriculture and rural America.

We write because we share the deep concerns expressed by the House Agriculture Committee regarding the financial pressures on farmers and ranchers as prices remain low and costs of production remain at high levels. Net farm income has dropped 50 percent from just four years ago, the largest four-year percentage decrease since the Great Depression.

It is difficult to assess conditions based on averages as they do not reflect variabilities. While the aggregate debt to asset ratio has risen from 12 to 14 percent in the last two years, it remains below those during the mid-1980s farm financial crisis and bankruptcies are still low. Still, many farmers and ranchers are facing incredibly difficult times. Many producers are relying on capital reserves while many others, including beginning farmers, have already depleted reserves because they have not had the necessary good years to build up their reserves. These latter producers will be the first to face the difficult decision of not being able to continue in farming. Given that the average age of farmers is now 58, it is especially imperative that we do what we must to keep young and beginning farmers in business.

Based on averages, one in ten farmers is either highly or extremely highly leveraged. For most major commodities, the figures are significantly higher – 19 percent for cotton farmers, 24 percent for wheat farmers, and 16 percent for corn farmers.

The dollar remains strong, which makes exporting our products even more difficult. Exports comprise over 22 percent of the value of production. But, again, the amount exported varies significantly among crops – from about half of the soybean, wheat, and rice crop to 75 percent of the cotton crop. Farmers are also concerned that our export markets may be stifled by U.S. trade policy. According to estimates, the Trans Pacific Partnership agreement would have increased farm income by $4.4 billion. Moreover, agricultural exports to Mexico and Canada have quadrupled since we entered the North American Free Trade Agreement (NAFTA), and Canada and Mexico are our second and third largest export markets. While the United States has a significant trade deficit, agriculture is one sector where the U.S. enjoys a trade surplus. In 2016, the agricultural trade surplus was $16 billion.

Another reason America's farmers and ranchers need a strong safety net is that other countries heavily subsidize and protect their producers. The Organization for Economic Cooperation and Development provides a Total Producer Support Estimate (PSE) each year for the 30 developed countries around the world. The average PSE is 18 percent, meaning 18 cents of each dollar a farmer receives come from domestic support by the government. The U.S. is way below that average, with a PSE of only 8.

Even more important is the fact that developing countries are now providing large sums of support to their producers. For 2015, China's rice, wheat, and corn subsidies are estimated to be $100 billion in excess of the levels to which they committed. That is more than the entire safety net for all of America's farmers and ranchers over the life of one Farm Bill and more than half of another. U.S. farmers have long said they were willing to compete with farmers elsewhere on a level playing field, but they cannot compete with the treasuries of foreign governments. Until there is a level playing field, U.S. agriculture requires a strong safety net.

Farmers and ranchers have always been concerned about a high budget deficit and they have done more than their fair share over the years to reduce red ink. The last time was when Congress passed a bipartisan farm bill in 2014. At the time of passage, the legislation was estimated to contribute $23 billion to deficit reduction over 10 years.

The farm bill was the only reauthorization bill that voluntarily offered savings during the 113th Congress. These difficult cuts resulted from hard choices made to reform and reduce the farm safety net.

The 2018 Farm Bill represents an opportunity for Congress to respond to the sharp declines in farm prices and farm income. While the safety net provided under Title I of the farm bill and crop insurance have provided some protection, they must be strengthened. The safety net for dairy and cotton are woefully inadequate, with less than 30 percent of cotton farmers participating in the Stacked Income Protection Plan (STAX) and only 23 percent of dairy producers buying more than the catastrophic coverage level in the Margin Protection Program (MPP) in 2016. Most dairy producers have completed their sign up for the MPP for 2017. Unfortunately, as of today, only two percent have taken more than catastrophic coverage in 2017. While the safety nets for other farmers have performed better than that of cotton and dairy farmers, these farmers have also suffered sharp declines in prices that requires a more effective response. Fixing these problems and writing sound farm policies will require more resources than are available under the CBO baseline.

The undersigned farm organizations support writing the 2018 Farm Bill based on the clear need for a stronger farm safety net and more resources for key priorities. We were the only sector willing to contribute to deficit reduction when the farm economy was healthy. Now we look to Congress to provide the resources necessary to help America's farmers and ranchers through this very difficult period. Farm budgets are very tight this year and with USDA predicting commodity prices to remain flat for the next several years, we need a strong, effective farm bill to help farmers and ranchers through this difficult, long-term period of depressed prices and income.

While we do not yet have a full-fledged financial crisis in rural America, many farmers and ranchers are not going to be able to cash-flow in 2017. With USDA projecting continued low prices in 2018 and beyond, this situation threatens to quickly and vastly expand with each and every crop year. The factors outlined above make the case for a strong safety net that will ensure that U.S. farmers and ranchers have the wherewithal to continue to farm and ranch until market conditions improve. Providing this safety net will be impossible to achieve without providing additional funding outside the current Farm Bill resources.

Thank you for your consideration.

Sincerely,

American Farm Bureau Federation

American Soybean Association

American Sugar Alliance

National Association of Wheat Growers

National Barley Growers Association

National Milk Producers Federation

National Sunflower Association

National Corn Growers Association

National Cotton Council

National Farmers Union

National Sorghum Producers

Panhandle Peanut Growers Association

Southwest Council of Agribusiness

USA Rice Federation

US Canola Association

US Dry Bean Council

Western Peanut Growers Association