Madam Chairwoman, Ranking Member Roberts and Members of the Committee, thank you for the opportunity to address you today. I'm Erik Younggren, a fourth-generation wheat farmer from Hallock, Minn. I work with two of my cousins on our family's farm and have been an active part of the farm's management for 17 years. I am also serving as president of the National Association of Wheat Growers.

We know you and your staffs have been working intently since early last fall on crafting an appropriate and well-functioning farm and food policy reauthorization. Agriculture is known for its history of working in a bipartisan fashion, and we appreciate your continued efforts to work together to craft a functional farm safety net for the farmers who supply our nation with something each American needs several times a day, food.

Federal fiscal responsibility is important to wheat growers because we know a functioning and solvent U.S. government is one of many factors that help us maintain thriving farms, strong rural businesses and a secure domestic food supply. Our nation’s wheat farmers are proud to produce enough wheat to supply the nation’s domestic needs and provide 20 percent of the world’s wheat exports, making the U.S. the world’s largest wheat exporter.

Today I hope to share some of the experiences I have had and knowledge I have gained working my family’s farm, as well as the policy priorities of the National Association of Wheat Growers for the reauthorization of the 2008 Farm Bill.

**Primary Farm Risk Management Through Crop Insurance**

Agriculture is arguably the industry most susceptible to natural disasters. While science and technological advancements have enabled producers to increase production efficiencies, farmers still remain defenseless in the face of crop production losses from weather hazards, insects and other uncontrollable events. Historically, a strong crop insurance program has protected the livelihood of producers against inevitable acts of Mother Nature and volatile price swings while ensuring consumers a safe, abundant and affordable food supply.

Crop insurance provides a public good to our nation and consumers all over the world. By helping ensure the stability of U.S. farmers, the government is helping to ensure a stable food supply – a necessary government responsibility. History shows the stability of a safe, available food supply is the first step to the development of a society. Defense specialists will testify that the stability of an established nation also depends, in part, on a stable food supply. In fact, in many cases, food aid accompanies our soldiers in their efforts to stabilize the volatile regions of the world.

The federal crop insurance program provides risk management tools to address production and revenue losses. Today, approximately 75 percent of total policy premiums come from revenue protection policies, while the remaining stem from crop production policies. Since the inception of
Federal crop insurance in the early 1930s, the program has become one of the most important cost-share, farm risk management tools available. On average, the federal government contributes 60 percent of crop insurance premiums, while the individual producer contributes the remaining balance.

**Federal Crop Insurance Producer and Taxpayer Premium Cost**

Government subsidization of the federal crop insurance program is absolutely necessary to maintain affordable and competitive policies for America's farmers. The extremely high level of risk involved with production agriculture prohibits private entities from writing agricultural policies, which have extremely limited and risky profit potential. Without government involvement, private companies would target high-profit, low-risk areas and leave highly vulnerable regions without sufficient coverage options. As the crop insurance structure is now organized, private companies are able to write policies for regions and states that have historically shown losses. The public-private partnership ensures that all areas have equitable access to crop insurance.

Aside from stabilizing and expanding the cost and availability of crop insurance, the partnership between the government and private industry allows for streamlined service for America's farmers. Private companies are able to be more flexible in meeting their customers’ needs and providing quick, local and comprehensive solutions for farmers, while the government provides oversight and enhanced security. Private agents have the ability to travel more extensively and operate longer hours than government employees, which means farmers can operate their business around their farms’ schedules. Housing and storing data within the USDA Risk Management Agency (RMA) system enhances security and allows producers to keep track of sensitive information. Perhaps the largest beneficiary of the cost-share approach is the taxpayer. Because of this successful public-private partnership, the federal government is not liable for the large investment of hiring agents and providing them the resources to cover the countryside, writing policies or building infrastructure to meet the needs of farmers in rural communities.
The most recent Congressional Budget Office (CBO) projections predict that the current crop insurance program will cost an average of $7.7 billion per year through 2021. Compared to the 2011 cash value of major U.S. grain crops enrolled in the program, more than $109 billion, public investment in crop insurance shows an excellent return to the U.S. economy. That level of return on investment is expected to increase over time. Over the next ten years, as the cash value of crops are expected to increase, American taxpayers are expected to pay less than five cents per person per day to maintain current crop coverage options and protect the domestic food supply.
Overall, the federal crop insurance program has proven to be one of the most widely-used risk management tools available for row crop producers. Specifically, wheat acres are insured in 41 of the 50 U.S. states. As crop insurance has become more affordable and coverage options have expanded, a larger percentage of productive acres have been enrolled in the program, a trend that is expected to continue.

**U.S. Historical Total Planted Wheat Acres vs. Total Insured Acres**

It is more important now than ever to maintain a steady course of federal support for the federal crop insurance program in order to ensure affordable and reliable coverage options for growers. With program stability, American farmers will continue to produce the safest, most abundant, and affordable food supply in the world in one of the riskiest businesses there is.

**Risks and Crop Insurance on My Family’s Farm**

My family farm operation has benefited enormously from the evolution of crop insurance in recent decades, showing how important this tool has become.

We raise sugar beets, hard red spring wheat and soybeans in a five-year rotation on fields that total about 5,500 acres. Our ideal, four-year crop rotation on each field is to plant in cycles of sugar beets, wheat, soybeans and wheat. We have found this rotation helps alleviate disease issues arising from continuously cropping each field to the same crop every year.

We farm in the heavy gumbo soil in the heart of the Red River Valley, in the northwest corner of Minnesota. Our land is pool-table flat, which makes us highly efficient in running equipment but also poses problems because flood water spreads out and takes a long time to recede. This has been particularly evident in a very severe wet cycle that started in mid-1990s and continues to cause significant flooding in our river valley. Last year, my fields were completely flooded into May, a month after normal planting. It was also evident in the flood of 1997, when the River was about 12 miles wide by the time it reached our place.
My farm is only 20 miles south of the Canadian border. Because we are so far north, we have a relatively short growing season and need to get into the field as soon as we can to have a chance of getting our crops to maturity. I can remember killing frosts as late as June and as early as August, so time is of the essence for us.

For these reasons, our biggest production risk is the weather. We are prone to frequent flooding in spring and occasionally in summer, as well as heavy, yield-robbing rains. Our humid summers are conducive to disease and fungus growth.

Crop insurance has long been a part of our farm. Going back to the 1970s, crop insurance contracts protected the actual production history (APH) or historical yield from each field.

Throughout the 1980s, my dad’s yields hovered around 30 bushels per acre. In 1985 he insured his crop at an average production history of 47 bushels per acre with a coverage level of 65 percent, or 31 bushels per acre. The price for spring wheat at that time was about $3.75 per bushel, and most of our fields raised about 50 to 60 bushels of wheat per acre, producing an actual revenue of about $180 to $190 per acre. The crop insurance contract provided a total coverage of $115 an acre, and the producer paid premium was $4.57 per acre. Comparatively, in 2011, I paid $11.40 per acre for coverage of $326 per acre. My expected revenues per acre last year based on a five-year production history would have been in the neighborhood of $550 per acre, so I had unprotected expected revenue of more than $220 per acre.

I was in high school during the 1980s, and I remember some pretty good years on the farm. I remember thinking farming was easy; all you do is put a seed in the ground, watch it rain, care for it, harvest it and sell the crop. Little did I know that would be as good as it got for the next 20 years as our farm faced weather, disease and market risks beyond what I could imagine as a teenager. What I have learned since is that there are many things that can go wrong including drought (in 1988), disease like Fusarium head blight, or scab (through the 1990s), floods (2000s) and poor prices. Even with good yields, farmers are not guaranteed large revenues.

My dad would tell anyone that you don’t mess with Mother Nature. I learned that lesson in the drought of 1988. This drought caused some of the worst dust storms in our area on record, including an extended dust storm that closed schools in South Dakota in late February 1988.

Because of the lack of rainfall and snow melt, the only wheat harvested on our farm that year was on some new land we had rented for the first time. It had been summer-fallowed the year before to help the soil build moisture. That year, crop insurance protected the yield of the crop, costing $3.61 per acre for guaranteed minimum revenue of $111.53 per acre. We were able to keep the farm going that year, but it was tough as crop insurance covered 65 percent of what we were used to bringing in, about $170 per acre. Farming is a low-margin business and a 35 percent loss can put you under pretty fast.

During the mid-1990s, our wheat yields were hit a tragic blow because of scab. Yields waffled between 15 and 25 bushels per acre, maybe up to 30, and we felt fortunate to hit 40 bushels per acre. Because crop insurance is based on historical yields, our insurance protection dropped to somewhere between $90 and $100 per acre. Back in the 1970s, my dad and uncle had built nine 6,000 bushel bins. They thought they had nine quarters of wheat with a 40-bushels yield target, so a good crop would fill all of those bins. And here we were, in the 1990s trying to get back to where we were in the 1970s. This wasn’t a really wonderful time to start farming. It is of little wonder why so few of my classmates and neighbors came back to farm in the 1990s.

In the late 1990s, researchers’ work on scab began to show benefits on my farm. Since 1997, this complex, intransigent disease has been tackled through an organized project funded by USDA known as the U.S. Wheat and Barley Scab Initiative (USWBSI). As a program authorized in legislation by Congress, this project leverages USDA and university funding to make progress.
toward understanding the impact of crop rotation and fungicides combined with new variety
development which, as you know, is a long-term process.

While these important research findings have helped us manage scab, we have not eliminated it,
and we know the right conditions at the wrong time have brought it back to our area and others
around the country. For this reason, we continue to be strong supporters of the USWBSI as
authorized in the 2008 Farm Bill and full funding for it and other vital USDA-Agricultural Research
Service (ARS) research programs.

### Crop Insurance and Wheat Yields for Younggren Farms

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Weighted Yield</th>
<th>Insured Bushels Per Acre</th>
<th>Insured Bushels Per Acre as % of Actual Weighted Yield</th>
<th>Crop Insurance Type</th>
<th>Coverage Level</th>
<th>Insurance Indemnity Paid</th>
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<td>APH</td>
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By the early 2000s, we were predominantly wet. By this time, insurance that provided $115 of
protection in 1985 had shrunk to provide only $91 of protection per acre in 1999 and 2000. We
started purchasing Crop Revenue Coverage (CRC) crop insurance in 1999. This CRC policy
allowed me for the first time to protect my farm revenue as opposed to only farm production.
Although this is a better tool, through the 2000s our crop insurance protection continued to
decline while we fought rid our insurance guarantee calculation of low yields suffered through the
1990s. Because of our crop rotation in which wheat is planted only two or three times every five
years, it can take 15 years to get a low yield worked out of the APH calculation. Some well-timed
disaster programs kept many farms in our area afloat through the low production years of the late
1990s and early 2000s.

Just in the last six years, we have had good crops, so most of our poor yields have finally fallen
off the APH calculation. I now only have one plug yield in my APH calculation where just a few
years ago, some fields had one plug yield paired with a very low yield that brought down the APH
on that field. This improvement and historically high prices have allowed the crop insurance
revenue guarantees to protect us better than the contracts ever have.

Because our insurance premiums were getting awfully high between 2008 and 2010, we went to
enterprise units. In 2008 our insurance premiums skyrocketed to more than $25 an acre. An
enterprise unit combines all acres of my spring wheat crop within a county into a single unit. By
using enterprise units, I reduced the premium cost to a more reasonable level while increasing
the coverage to a higher percent of my risk. Last year, I also used enterprise units.
On behalf of the farmers in my area, I would like to thank the committee members for any part they played in making available crop insurance based on revenue. Those revenue plans have been our saving grace. As you can see in the table provided, by the late 1990s our declining APH was significantly under our actual wheat yields, which made the amount covered by our insurance guarantees laughable. Revenue products in which the market affects insurance prices have helped to make my coverage on a par with what my input expenses have been. In the past, the insurance price was set arbitrarily, so my input costs would go up and down based on the market though the insurance protection stayed the same and at times proved inadequate. Now with the correlation of commodity prices and energy prices, which compromise a large part of my input price risk, I can cover much of the risk I have from the volatile market prices.

We are very thankful for the revenue products beginning with Crop Revenue Coverage (CRC) that have evolved to revenue assurance products, which include the recent advent of enterprise units, which provide economical options for the premium that is shared between me and the nation’s taxpayers.

Last year, we had a wet spring, so we did not plant spring wheat until June, and even then we planted it into heavy, wet soil. Though conditions were far from ideal, we had little choice but to get the crop into the ground or risk not having enough growing days for it to get to maturity. That year, spring wheat was slated to be planted on low, flood ground, and it struggled to sprout. It didn’t establish a good stand, and we ended up with yields about average, but the price dropped 11 percent, prompting a crop insurance claim. Though this experience was not typical, unfortunately, farming is, for us, a risky business. On my farm, we have had disasters that affected all the crops on my farm in 2001, 2002 and 2005 and less significant losses on a field or two in 2004 and 2011. Disasters on my farm are defined as whole farm revenue declines not based on a single crop.

Like others who raise the major row crops, we forward contract our spring wheat using the Minneapolis Grain Exchange. With today’s wide price fluctuations, knowing that there is an insurance policy backing me up in that forward sale is extremely beneficial. Before crop insurance revenue products became available, we waited until the crop was established, estimated the yield potential, and then sold on the futures market what we couldn’t store on the farm. Now we can respond to the market and confidently sell up to half of our insured production history before the crop is in the ground and sell the other half after planting. I do buy puts in the market to set a floor on the uninsured portion of my crop to guarantee as high of a price as I can in the marketplace.

Crop insurance isn’t a cure-all, though. As wheat farmers, we are subject to discounts when we sell our product. A farmer has some control over discounts, but many times they have more to do with weather conditions than with production practices. For example, protein is a grading factor for spring wheat and, therefore, determines the price we get for our grain. Wheat kernels develop protein when the plant is stressed from heat. In the past few years we have experienced cool, wet summers that have not stressed the wheat plant into making protein. As a result, the discounts we receive when we sell our wheat have been up to $1.35 per bushel.

**Secondary Farm Risk Management Through Farm Programs**

The continued health of the farm sector through our recent economic downturn and the less-than-extraordinary weather and market conditions in recent years is a testament to the commitment of Congress to maintain federal support for production agriculture.

NAWG supported passage of the 2008 Farm Bill due to the inclusion of a number of programs of significance to wheat growers including crop insurance, the direct payment, conservation programs, renewable fuels programs, market development programs and research funding.

The programs of interest in this hearing - crop insurance and Title I programs including the direct and counter-cyclical (DCP) and marketing loan programs, the Average Crop Revenue Election
(ACRE) program and the Supplemental Revenue Assistance (SURE) program - were each designed to serve a specific function in contributing to the farm safety net and risk management system available to producers.

In general:

- As I have outlined in depth, crop insurance is a vital risk management cost-sharing program to address a combination of production and price risks up to a specified coverage level. It is largely predictable and can be purchased by an individual farmer based on his or her operating conditions. Though arguably the most heavily relied-upon risk management component of the current farm bill by wheat growers, it does have limitations in meeting the totality of producers’ risk management needs. These limitations include the fact that it does little to help growers protect against volatility in local market conditions such as basis risk, and that coverage can deteriorate after multiple years of disaster.

- The direct payment works as a reliable cash flow tool that enables growers to secure operating loans. It can be used to provide assistance with the expense of crop insurance, allowing producers to purchase more than they might be able to otherwise, or to help offset uncertainties related to input costs. It is also a relatively trade-friendly safety net program, which is of utmost importance to many agricultural producers in trade-dependent sectors, including wheat.

- The counter-cyclical program is designed to protect growers from the most extreme dips in market prices by creating a floor price. However, this tool has been rendered largely ineffective due to a target price for wheat that is far below the cost of production and that has not been triggered for 10 years.

- The marketing loan program is designed to address price risk by creating a floor price for marketing purposes and providing liquidity for growers in times of difficult marketing conditions. Because it is more tied to local prices, it can help compensate for some basis risk in a way that other safety net programs aren’t able. However, its utility is limited by the low loan rate. A few wheat farmers still rely on this risk management tool.

- The ACRE program is an optional, commodity-by-commodity, farm revenue protection program that creates an alternative to receiving CCPs at the cost of reducing direct payments by 20 percent and taking a 30 percent reduction in the loan rate. It gives producers an option for revenue protection beyond what is available in the federal crop insurance program. In general, the recent wheat price history has made ACRE guarantees attractive, but it is a moving target offering varying degrees of utility to wheat growers depending on their location, production mix and other factors.

- The SURE program is a program that was designed to supplement crop insurance in providing risk protection for growers in times of natural disaster. It offered whole-farm coverage that allowed wheat growers to fill the income gap between insurance coverage levels and cost recovery or income needs. This program’s main problem a severe delay in farmers receiving payments.

Wheat growers find varying degrees of utility in each of these programs, but some frustration has been expressed with the web of federal farm programs that is growing in complexity. However, farmers are growing in experience with some of the new revenue programs and continue to find areas for improvement.

During the 1996 and 2002 Farm Bills, my farm did benefit from the loan deficiency program. The loan deficiency payment is calculated from a posted county price that is based on the local market for my hard red spring wheat. If that price is below the target price, I could receive a
payment for this price risk. Unfortunately, the target prices were arbitrarily set and now are too low to be of consequence.

ACRE in the 2008 Farm Bill gave us a look at a revenue product in Title I. On my farm, we took a carefully considered ACRE because I felt the market price was so high it would be hard for Minnesota to not trigger a payment in the first year. Unfortunately, the program was so confusing I never did really figure out how it worked. Also, the stipulation that the landlord had to sign up made for an impossible situation of trying to explain something that I don’t understand to elderly landlords. Finally, in the end, we decided that if ACRE didn’t trigger in the first year, it most likely wouldn’t trigger in any subsequent year, and the dependability of the direct payment was preferred to the uncertainty of getting an ACRE payment.

Aside from ACRE being complicated, another reason we didn’t opt for ACRE was because it didn’t provide an acceptable trigger mechanism. The double requirement that both an individual’s farm and the entire state both experience a loss proved to be unworkable in many wheat-growing states, where the weather and growing conditions can be highly variable and the size of the state can be as large as some small countries. If one half of the state had a major loss, but the other half had a good crop, it was all too often the case that the state level trigger wouldn’t be tripped.

This was especially true in North Dakota. The Minnesota wheat area is the northwestern part of the state. The eastern side of North Dakota had the same weather problems as we did, though the western side of North Dakota had record yields and pushed the state above the trigger. Is it fair that those farmers in North Dakota didn’t qualify but their neighbors on the other side of the state line did? I believe we can learn an important lesson from the ACRE program: that the trigger needs to be as close to the farm-level as possible.

The SURE program was another Title I program that has been beneficial to some wheat growers in helping us cope with natural disasters and large-scale losses. The SURE program expired last September and, as of now, has not been extended. The SURE program helped to fill in one of the holes wheat farmers face in crop insurance and with quality-based losses. For example, in 2009 some Minnesota wheat farmers were discounted heavily because their spring wheat had abnormally low protein. Because crop insurance is based off of the futures price and not the price received by the farmer, crop insurance did not cover this price loss. SURE was able to cover that price risk. The major problem with SURE was that it did not provide timely benefits, reducing its utility as a safety net during a true time of need.

There has been significant discussion over the last several months about farm programs, with perhaps dozens of options explored. I think it is important at this point to remember that our current policies have contributed to the success of U.S. agriculture. Farm income is up, and farmers are receiving the vast majority of their income from the marketplace. If given the choice, many of my friends and neighbors would likely choose to keep our current policies and safety net as they are. Unfortunately, that no longer seems practically, or politically, possible. With the overarching need to reduce federal budget deficits, we recognize that agriculture needs to do our part.

**NAWG’s Risk Management Policy Priorities**

As you will note from its prominence in my testimony, the National Association of Wheat Growers’ highest priority for federal investment in farm safety net programs is the portion of crop insurance premiums subsidized by the federal government, the public part of one of the most well-functioning public-private partnerships undertaken by our government. More than 85 percent of non-irrigated wheat acres planted are covered by crop insurance. We believe crop insurance is essential to the farm safety net and to the reliable production of our nation’s food supply.

Perhaps one of the strongest testaments to crop insurance is the performance of the agricultural industry in 2011. Despite extreme weather losses and market volatility faced over the past 12
months, U.S. agriculture is poised to continue into a new year as one of the strongest segments of our nation’s economy. **NAWG strongly opposes any reductions to the baseline available for the federal crop insurance program.**

Furthermore, we would request that Congress make permanent the enterprise and whole farm unit subsidies; provide authority for growers to purchase a combination of individual and group risk coverage policies such as the Total Coverage Option introduced by Congressman Neugebauer; expand a North Dakota pilot program that allows the personal T-yield (PTY) to be used as a replacement yield in the APH calculations; and allow the Risk Management Agency to revise the yield plug to be based on the grower’s PTY to better address declining yields.

We have been meeting with our fellow producer groups for several months now in efforts to find a new set of policies that can provide a safety net that is as strong as our current at a lower cost and delivered in a fashion that is acceptable to American taxpayers. While we haven’t agreed on every policy point, we have agreed crop insurance is the first priority for those crops that have insurance products available. Additionally, we have found that there are regional and market differences that don’t allow the same farm program to work for everyone.

As you work to define risk management programs in Title I of the farm bill reauthorization, NAWG encourages you to keep a few basic principles in mind:

First and foremost, the **nation’s wheat farmers call on you to reauthorize this legislation this year**, before the expiration of the current bill on Sept. 30. This will provide reliability for the nation’s food supply as our wheat farmers go to the fields this fall to plant the 2013 crop.

Secondly, we ask you **to outline programs that are understandable and build on the lessons farmers have learned from the revenue crop insurance products**. Even with the inception of revenue-based Title I programs in the last farm bill, it took USDA, farmers and all of our advisors much study and research to determine how they would work on the farm. Our farmers, extension specialists, bankers, landlords and other farm partners need to be able to understand these programs so we can appropriately adapt our risk management plans.

We know **these programs must be defensible to our nation’s taxpayers and friendly to our trading partners, on whom we depend heavily.**

Realizing the probability that direct payments may not be a politically viable option, NAWG supports reallocation of funding away from direct payments to an alternative Title I safety net program. We support multiple safety net programs, including a disaster program in Title I. We recognize different production areas of the country rely on a variety of farm programs to provide a multi-legged safety net. However, we call on you to **make sure that changes to existing programs or newly-created programs do not affect planting decisions and allow producers planting flexibility**, which has been a central tenet to the last three farm bills.

NAWG supports a revenue-based program modeled on programs in the 2008-authorized ACRE and SURE programs with an on-farm trigger, and coverage by commodity as part of a multi-legged safety net. Coverage close to the farm provides a safety net with fewer holes for farms with losses than coverage at the state, crop reporting district or county levels. Additionally, although programs that provide whole-farm protection may sound appealing, it is important to note that they discourage diversification, one of the most basic tenets of risk management by producers.

Furthermore, we would request that any revenue-based program cover as large a portion of our planted acres as possible. Previous Title I programs have been based on historical base acres while crop insurance has covered a portion of planted acres. As we work to define new programs that build upon the safety net provided by crop insurance, we request that they use planted acres in all calculations.
It is my analysis that groups that want to tie crop insurance to conservation compliance believe farmers like crop insurance enough that they will do anything to keep it. However, the significant number of acres that go uncovered every year refute this. Any regulation that disincentivizes producers from participating in the crop insurance program shifts more risk to farmers in highly variable areas. NAWG believes we need to keep as many people in the crop insurance program as possible. In fact, RMA has been working to expand crop insurance to underserved areas and farmers. More regulation will hinder their participation.

Conclusion

On behalf of the nation’s wheat farmers, I appreciate your attention to my perspective on our nation’s agricultural risk management programs and that of the National Association of Wheat Growers. We are committed to working with you and the vast array of other stakeholders to federal agriculture programs as you outline a path forward through these serious and uncharted fiscal times. I am happy to answer any questions you have of me or my Association, now or at a later date.