



National
Corn Growers

Association
www.ncga.com

April 10, 2008

The Honorable Tom Harkin
Chairman
Senate Agriculture, Nutrition
& Forestry Committee
United States Senate
328-A Russell Senate Office Bldg.
Washington, D.C. 20510

The Honorable Saxby Chambliss
Ranking Member
Senate Agriculture, Nutrition
& Forestry Committee
United States Senate
328-A Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Chairman Harkin & Ranking Member Chambliss:

On behalf of the National Corn Growers Association (NCGA) and our 32,000 grower members, I am writing to reiterate our strong support for a viable, optional, market based revenue counter cyclical program as you work toward a new farm bill agreement. Given the many pressing needs that must be addressed in the legislation, we appreciate the ongoing effort and time directed toward improving upon the optional programs in the bills approved by the House and Senate last year. We are deeply concerned, though, that savings reported to be generated by the Average Crop Revenue Election (ACRE) program may be maximized to offset increases for funding existing price based programs. NCGA recognizes the importance that a revenue-based safety net option does no harm to current farm support programs, but we must oppose changes that will, in effect, result in a meaningless option.

The need for a viable revenue counter cyclical program option is becoming more apparent and pressing. NCGA wishes to restate the fundamental reasons behind our growers' support for an alternative farm safety net as well as for the proposed changes for the Average Crop Revenue program approved by the Senate.

Since the 2002 Farm Bill's enactment, our current policy of fixed price supports has functioned well as a risk management tool in times of chronic low prices due to continuing surpluses. Nevertheless, too many farmers have experienced a critical hole in this safety net when facing low yields impacted by drought, floods and other adverse weather conditions. Because marketing loan payments are based on actual production, low yields lead to low support even though revenue is low. Federal crop insurance can trigger both indemnities and price support as a result of significant crop losses or a decline in prices, but examination of participation data in crop insurance reveals that most producers purchase policies with deductible losses from 25 to 35 percent.

In recent years, U.S. agriculture has experienced major changes that have generated not only higher crop prices but also substantial increases in risk, including both (a) escalating costs for fertilizer, seed, chemicals and land, and (b) far greater price volatility. For example, the price of fertilizer, as tracked by USDA, was 37% higher in March 2008 than in March 2007 and 53% higher than in March 2006. In short, the financial risk that corn farmers have in putting out a crop is much higher this year than even two years ago. Moreover, because of the risk of margin calls resulting from the increase in price volatility, there have been instances in the last month in which private markets stopped offering forward contracts for a limited period of time. This increase in risk calls for an alternative farm policy instrument that offers protection based on market conditions. These risk factors did not exist when the 2002 Farm Bill was written.

A viable Average Crop Revenue program provides a cushion against the additional risks that exists in farming in 2008 by protecting farmers against short-term declines in revenue due to

factors beyond their control. Many agriculture economists and industry experts have projected a long term trend of commodity prices well above historical levels. However, the risks faced by many farmers have increased, not decreased over the past few years. Simply raising target prices or loan rates cannot provide a sufficient safety net under these conditions because these actions lift the floor under prices but do nothing to address the increase in market and input risks. Many farmers could experience substantive financial stress at prices noticeably above the proposed higher loan and target prices. Alternatively, a viable Average Crop Revenue (ACR) program will provide a better risk management tool for farmers as they deal with markets that fundamentally differ than those which existed when the 2002 farm bill was written.

In summary, as our agriculture economy evolves, so must our farm policy. U.S. farmers deserve and demand a viable choice in our agricultural safety net.

Sincerely,

A handwritten signature in black ink that reads "Ronald Litterer". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

Ron Litterer
President

cc: Members of Congress on Farm Bill Conference Committee