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Regarding
The Future of America's Small Family Farms

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Chairman Blum, Ranking Member Schneider, and members of the Subcommittee, thank you for holding today's hearing on the future of America's family farms.

I am Chuck Conner, president and chief executive officer of the National Council of Farmer Cooperatives (NCFC). NCFC represents the interests of America's farmer-owned cooperatives. With nearly 3,000 farmer cooperatives across the United States, the majority of our nation's more than 2 million farmers and ranchers belong to one or more farmer co-ops. NCFC members also include 21 state and regional councils of cooperatives.

Farmer-owned cooperatives are central to America's abundant, safe, and affordable food, feed, fiber, and fuel supply. Cooperatives are owned by the farmers who have been producing food and responsibly caring for their land and animals for generations. Through cooperatives, farmers can better manage risk, strengthen bargaining power, and improve their income from the marketplace, allowing individual producers to compete globally in a way that would be impossible to replicate as individual producers. In short, cooperatives share the financial value they create with their farmer-owners.

By pooling the buying power of hundreds or thousands of individual producers, farmer cooperatives are able to supply their members—at a competitive price—with nearly every input necessary to run a successful farming operation, including access to a dependable source of credit. Furthermore, farmer cooperative members can capitalize on new marketplace opportunities, including value-added processing to meet changing consumer demand. Cooperatives also create and sustain quality jobs, businesses, and consumer spending in their local communities.

On behalf of my members, I thank this Subcommittee for supporting public policy that continues to protect and strengthen the ability of farmers and ranchers to join together in cooperative efforts in order to maintain and promote the economic well-being of farmers, ensure access to competitive markets, and help capitalize on market opportunities.

I also applaud this Subcommittee for taking a deeper dive into the factors influencing the current and future farm economy. It is imperative that federal policies promote an economically healthy and competitive U.S. agriculture sector.

In examining the dynamics of the farm economy and future needs of family farmers across the country, I remind you that numerous influences – some of which are out of our control—come into play. Extremely volatile weather and global markets result in equally volatile farm gate prices, yields, and production costs. Agricultural commodities currently face tight margins, and farm income has retreated significantly from the highs it reached just a few years ago.

Our common, ultimate goal is to preserve the productive capacity of our farms. In today's testimony, I wish to highlight legislative and regulatory efforts that will have a direct impact on our members and their farmer-owners as well as initiatives by our members to ensure the future of American agriculture remains strong.

Tax Reform

NCFC supports pro-growth tax reform and wants to work with Congress to achieve this result. However, certain aspects of tax reform must be coordinated with the special circumstances of agriculture in general and cooperatives in particular.

Farmer cooperatives calculate their taxable income under Subchapter T of the Internal Revenue Code. Under Subchapter T, earnings from business conducted with or for a cooperative's members are subject to single tax treatment as income of farmer members, provided the cooperative pays or allocates the earnings to its members. If the earnings are used to support the cooperative's capital funding or other needs, the earnings are taxed at regular corporate rates when retained and taxed a second time when distributed to the farmer members. Additionally, earnings from sources other than business with or for the cooperative's members are taxed at corporate rates. This method of taxation has been in use for nearly a century and was codified more than 50 years ago. NCFC supports the continuation of Subchapter T and related regulations.

The House GOP Blueprint would reduce the top individual marginal rate from 39.6 percent to 33 percent, and it would reduce the top pass-through rate to 25 percent on non-wage income. For cooperatives to thrive, the Blueprint should provide that patronage distributions from cooperatives are subject to the 25 percent maximum pass-through rate. Currently, patronage distributions are subject to individual tax rates, which max out at 39.6 percent. This is the same rate that currently applies to pass-through income from partnerships, limited liability companies, and S corporations. If the 25 percent rate is applied to income from these entities but not cooperatives, the maximum tax rate on patronage distributions will be 33 percent, placing cooperatives and their members at a disadvantage. It is essential that the rate on pass-through income apply to patronage distributions from cooperatives.

NCFC members also feel concern about the Border Adjustability Tax (BAT). The provision would make exports tax-free, a benefit to exporters. However, farmer cooperatives would need a way to pass that benefit through to their farmer members who produce the exported goods. The BAT also would disallow the business expense deduction for imported goods, resulting in essentially a 20 percent tax on imported goods (assuming a 20 percent corporate tax rate). For agriculture, a tax on imported fertilizer, fuel, farm machinery components, and retail goods would be extremely detrimental.

Tax experts say the BAT *should* cause a rise in the dollar's value, which would offset the loss of the deduction for imports by making imported goods cheaper. However, there is no guarantee on the timing or extent of the rise in value of the dollar. Also, consideration should be given to the effects of the strengthening of the dollar, which would increase costs for U.S. trading partners and likely result in retaliatory tariffs on farm exports.

The Blueprint also would eliminate the deduction for net interest expense and would allow for immediate expensing of capital investments, other than land. In many cases, farmers do not have the resources to satisfy all of their cooperatives' capital needs. As a result, cooperatives often rely on debt to finance growth. The repeal of the deduction for interest on debt would cause harm to farmer cooperatives and their farmer members by impeding business expansion, new hiring, and product development.

Immediate expensing of capital investments is also a challenge for farmer cooperatives. By not spreading the cost of an investment over the life of the asset, the provision will cause net operating losses that cannot be equitably shared among current and future members. Additionally, the Blueprint would repeal Section 199, the Deduction for Domestic Production Activities Income. The Section 199 deduction was enacted as a jobs creation measure in *The American Jobs Creation Act of 2004*. The deduction applies to proceeds from agricultural or horticultural products that are manufactured, produced, grown, or extracted by cooperatives, or that are marketed through cooperatives, including dairy, grains, fruits, nuts, soybeans, sugar beets, oil and gas refining, and livestock.

Cooperatives may choose to pass the Section 199 deduction through to their members or to keep it at the cooperative level, making it extremely beneficial to both. Section 199 benefits return to the economy through job creation as well as increased spending on agricultural production and in rural communities. Some have suggested lowering corporate rates to offset the impact losing of the deduction. However, because farmer cooperatives' income is passed through to farmer members, a corporate rate reduction would not benefit cooperatives and their farmers. NCFC opposes the repeal of this incentive for domestic production.

If tax reform retains the requirement to maintain inventory records for tax purposes, NCFC supports the continued viability of the last-in, first-out (LIFO) accounting method. The LIFO method is a widely accepted accounting method and is used by some farmer cooperatives. Taxpayers using LIFO assume for accounting purposes that inventory most recently acquired is sold first. If LIFO is repealed and replaced with the first-in, first-out (FIFO) method, farmer cooperatives and other businesses would be taxed as though they had sold all of their inventory assets, even though they would have received no cash. Obtaining the funds necessary to pay the tax on this deemed sale would cause severe strain on cooperatives' capital budgets. Taxation of LIFO reserves would be the equivalent of a retroactive tax on the savings of a cooperative.

NCFC also supports reinstating the alternative fuel mixture credit, which expired on December 31, 2016. The credit incentivizes use of propane, a clean-burning, low-carbon, domestic, and economical alternative to gasoline and diesel.

Immigration Reform

As part of the Agriculture Workforce Coalition (AWC) Steering Committee, NCFC has long advocated for immigration reform that meets both the short- and long-term workforce requirements of all of agriculture. Our primary objective remains legislation that fully addresses agriculture's workforce crisis.

The economic health of farmers, and the rural communities in which they live, is currently being threatened by the lack of a reliable, stable, and legal workforce. Our farmers face growing shortages of legally authorized and experienced workers each year, which in turn results in millions of dollars in economic loss. A 2012 survey found that 71 percent of tree fruit growers, and nearly 80 percent of raisin and berry growers, were unable to find an adequate number of employees to prune trees or vines or pick the crop.

The current uncertainty and unpredictability is causing many American farmers to shift production away from labor intensive crops, which include many fruits and vegetables. In fact, Texas A&M reported that 77 percent of vegetable farmers reported scaling back operations and more than 80,000 acres of fresh produce that used to be grown in California have moved to other countries. These production shifts make America increasingly dependent on imported food which threatens both food safety and our national security.

Jobs in agriculture are not easy; they are physically demanding, conducted in all seasons, and are often transitory. Most U.S. residents seeking employment do not find these conditions attractive. In response to a lack of a domestic farmworker labor force, farmers have relied on workers admitted under a government sponsored temporary worker program known as H-2A and on workers who appear to have legal status to work in the United States.

The H-2A program contains significant and growing challenges. Capacity and infrastructure issues at the Departments of State (DOS), Homeland Security (DHS), and Labor (DOL) has led to greater processing delays than ever before. This means bureaucratic red tape and interruptions in the program seriously impact the viability and profitability of farmers and ranchers as workers show up to the farm well after the date they were needed, resulting with millions of dollars in agricultural production lost in the interim.

H-2A is the sole legal visa program available to production agriculture; however, it is limited to labor of a "temporary or seasonal nature." Thus, leaving industries such as dairy and livestock left without any legal channel to find workers. Employment of H-2A workers has nearly tripled in the past five years; yet, it still only accounts for less than 10 percent of all seasonal farmworkers. This growth has occurred despite the program's extreme regulatory hurdles, government inefficiencies, and high costs. In fact, an entire industry exists solely for helping farmers navigate the H-2A process. For many small farmers, accessing these services are financially out of reach, leaving them with limited options for hiring workers.

Despite farmers' best efforts, many if not most, of the agricultural workforce is in the U.S. without proper work authority. There is no other industry with greater workforce demographic challenges and foreign labor reliance than agriculture.

While many foreign-born workers hold farmworker jobs, each farmworker creates many American held jobs. In fact, every farmworker engaged in high-value, labor-intensive crop and livestock production sustains two to three off-farm, but farm dependent, jobs. The activities that occur on domestic farms support not only farmworkers, but also an entire supply chain of transportation providers, input suppliers, processors, and consumer retail functions.

It is important for the subcommittee to know that many of those American jobs will be lost if access to agriculture's current workforce is jeopardized. Based on a farm labor study conducted by the American Farm Bureau Federation in 2014, the impact of an enforcement-only approach to immigration that causes agriculture to lose access to its workforce would result in agricultural output falling by $30 to $60 billion. Therefore, we must work together to ensure our agricultural economy stays strong by ensuring immigration legislation provides farmers and ranchers, across all of agriculture, access to a legal and stable workforce.

In summary, instability in the agricultural labor force has reached critical levels. Farmers face a shortage of legally authorized and experienced workers each year, and the cumbersome H-2A visa program cannot serve as a safety net to meet the workforce demands. We can and must do better for our farmers, our economy and country by modernizing our immigration system to include work eligibility for our current existing workforce and farmer-friendly programs to provide future guest workers for all of agriculture. If not, the future of America's family farms is in jeopardy.

International Markets

The U.S. food and agriculture sector is heavily dependent on international markets, and trade is vital to the continued prosperity of cooperatives and their farmer and rancher members. While small farmers may not have access the international market directly, the prices they receive for their commodities are dependent on exports. For example, approximately half of the U.S. wheat, soybean, and rice crop is exported. The percentage is even higher for crops such as cotton and tree nuts. Over the past few years, foreign markets have also become increasingly important to supporting the dairy industry, with exports now accounting for one out of every seven days of U.S. milk production. Clearly, without those markets, commodity prices received by producers would suffer.

By their nature, cooperatives bring together groups of farmers and ranchers, many are operators of small and medium-sized operations structured as family farms. By banding together, members of cooperatives can accomplish what would be more difficult, if not impossible, to do individually. In this case, cooperatives offer farmers opportunities to market their products internationally, by providing services such as consolidating, branding, marketing, processing, and transportation. This allows farmers access to the global marketplace. The increased earnings of the cooperative due to international sales flow back to the farmer-owners in increased patronage dividends, boosting farmers' income from beyond the farm gate.

With over 95 percent of the world's population living outside of the United States, expanding access to international markets is essential for our future success. This includes maintaining and increasing access to markets through existing and future trade agreements, and leveraging export programs that serve as catalysts to increased market access.

Market Access Program

The Market Access Program (MAP) is of particular importance, both because it is a vital tool used by producers and their cooperatives to market products overseas, and because it represents such a good investment of taxpayer dollars with a 24 to 1 return on every dollar spent under the program.

Many specialty crop producers view MAP, above all other programs, as their "farm safety net" program. The ability of cooperatives to use MAP helps give individual farmers the opportunity to market their products overseas, which they otherwise would not be able to do on their own.

U.S. Department of Agriculture (USDA) Value Added Producer Grants (VAPG) and Cooperatives

As mentioned earlier, cooperatives by their nature bring many producers together who individually do not have the size, expertise, and resources to take advantage of the value chain beyond the farm gate and gives them the opportunity to profit from those down-stream activities. Value-Added Producer Grant (VAPG) funds empowers cooperatives to capitalize on new value-added business opportunities that would otherwise go unexplored. VAPG helps cooperatives differentiate and expand production, in turn helping them improve the value of their products through processing and marketing. Their successful, self-sustaining products have translated into greater and more stable income for producers from the marketplace. This also has served to promote economic development and create jobs.

The VAPG also assists independent producers at the farm level, many small and medium-sized, to market new and innovative products on a smaller scale. Of the 326 grants awarded in 2016, 287 were to independent producers (86 classified as small or medium-sized, 55 to beginning farmers, and 68 to socially disadvantaged farmers), and 21 to cooperatives. Based on information gleaned from cooperatives' applications, 5,890 farmer-members of cooperatives, many being small and medium-sized farmers, benefitted from the 21 grants to cooperatives in 2016.

The program is administered on a matching-fund basis, thereby doubling the impact of such grants and helping encourage investment in ventures that ultimately benefit rural America. As a cost-share program, it is as an excellent example of an effective public-private partnership bringing a number of self-sustaining products to market.

Other USDA Programs Assisting Small Farms

Funds provided by Rural Cooperative Development Grant (RCDG) program, helps fund non-profit groups, such as rural cooperative development centers to develop and expand cooperatives. These grants help provide the training and technical assistance rural cooperatives need to be sustainable. This helps strengthen the rural economy by creating jobs and building assets that create infrastructure, especially in low income rural communities.

The Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (2501 Program). The 2501 Program assists socially disadvantaged and veteran farmers and ranchers in owning and operating farms and ranches while increasing their participation in agricultural programs and services provided by USDA. The program assists community-based and non-profit organizations, higher education institutions, and tribal entities in providing outreach and technical assistance to socially disadvantaged and veteran farmers and ranchers.

Infrastructure

Improving our nation's transportation infrastructure must be a national priority that deserves urgent attention. Capacity constraints, structurally deficient bridges, deteriorating roads, and locks and dams long past their expected useful life require the necessary investment to efficiently move the country's freight now and into the future. As Congress prepares infrastructure investment legislation, we implore you to address the infrastructure needs in rural America.

Rural communities have seen their infrastructure deteriorate, jeopardizing jobs, our agricultural competitiveness, and the health of rural families. Past infrastructure initiatives often focused on urban and suburban infrastructure while not adequately addressing the unique needs of rural communities. We ask that you address this as part of any comprehensive infrastructure renewal efforts.

Our nation's ability to produce food and fiber and transport it efficiently across the globe is a critical factor in U.S. competitiveness internationally. Infrastructure that supports rural communities and links them to global markets has helped make the U.S. the unquestioned leader in agricultural production. Our deteriorating infrastructure threatens that leadership position.

Transportation infrastructure improvement is the most obvious need in rural communities, but not the only one. Highways, bridges, railways, locks and dams, harbors, and port facilities all need major investment to continue efficiently getting our agricultural products to market. For example, one-quarter of our road system's bridges require significant repair, or cannot efficiently handle today's traffic and many of the 240 locks and dams along the inland waterways need modernization. In addition, critical needs exist in providing clean water for rural families, expanding broadband to connect rural communities to the outside world, and enhancing the ability to supply affordable, reliable, and secure power for the rural economy.

The scope of the investment needed is staggering. Clearly the federal government must continue to play an important role in providing funding and those federal investments should increase. However, federal resources, likely cannot fill the need entirely. Creative solutions that pair federal investment with state/local government investment and private sources of capital hold promise for raising a portion of the funds necessary to do the job.

Regulatory Impacts on Cost of Production

We must also ensure that our public policy does not hurt the economic viability of farm and ranch families across the country. Often outside traditional farm policy, these issues come from corners of the federal government that may not understand production agriculture. Yet a broad range of regulatory actions—those pending at federal agencies or in the pipeline and coming soon to a farm near you—have the potential to increase the costs and reduce the margins of cooperatives and their farmer and rancher member-owners. Whether the regulations deal with the environment, immigration and labor, food safety, or financial reform, they can create an uncertainty that threatens to hold back investment and growth across the agricultural sector.

Over 20 million jobs across the country are directly or indirectly dependent on agriculture, and account for nearly $1 trillion or 13 percent of Gross National Product. If our agricultural sector can preserve its competitiveness in the global marketplace, we can grow this number and be a strong contributor to a growing economy.

Congress and the administration must ensure that the marketplace, not the federal government, determines the cost of production for America's farmers, ranchers, and the cooperatives that they own. If our farms, ranches, and cooperatives are weighed down with costs imposed by either regulatory actions or delays in the regulatory process, farm income will decrease and market share will be lost to our competitors.

Sustainability

I also want to highlight NCFC's effort to ensure farmer cooperatives are a part of the sustainability conversation happening in today's marketplace. Organizations ranging from Wal-Mart and Whole Foods to NASCAR and the United Nations have embraced sustainability over the past decade. In turn, the concepts, definitions, and terminology have also evolved and standard-setting programs have proliferated. In many cases, these efforts vary considerably in their approaches to sustainability. Individual companies face substantial challenges in this environment, and ultimately, the farmers and ranchers do as well.

Our membership consists of more than 60 farmer co-ops, and that results in just as many different definitions of sustainable agriculture. The truth is, sustainability means different things to different people. It may not even matter if everyone agrees on a single definition, but one thing we can all agree on, as owner-members and managers of the nation's cooperative system, is that sustainability is an important concept to a growing number of our customers, both at home and abroad.

Sustainability is a topic that has gained momentum among the many companies who buy our agricultural products and who are ultimately being pushed toward sustainable sourcing by their own customers.

When many of our farmer-members hear the word "sustainability," the conversation often turns to environmental issues and additional government regulation. As a cooperative organization, it's important to understand that protecting our natural resources is only one part of sustainable agriculture. As Merriam Webster reminds us, the word "sustainable" can and should apply to our financial, human, and community resources as well.

Farmers and ranchers have been working over generations to ensure their own family businesses are sustainable. Likewise, cooperatives have been part of the rural landscape for generations and provide a historical perspective on the farmer's legacy of stewardship of the land and involvement in the community.

Cooperatives have an intrinsic orientation toward engagement, shared economic participation, and community that provides a particularly strong foundation for conducting effective sustainability programs. In fact, our business model of farmer-ownership is inherently sustainable:

- The governance and ownership structure of cooperatives creates a strong foundation of stakeholder involvement among co-op members.
- Member participation fosters a shared economic interest in the cooperative's performance, through patronage and dividend distribution, that is further reflected in the shared stake that co-ops have in the sustainability of their local communities.
- Cooperative precepts also include a strong commitment to education and training for cooperative members and for sharing knowledge among cooperatives.

Taken together, cooperatives have an intrinsic orientation toward engagement, shared economic participation, and community that provides a particularly strong foundation for conducting effective sustainability programs

Sustainability also is in the soul of every good farmer and at the heart of co-op success, and it always will be. Cooperatives represent a connection to farmers that consumers value, and the close relationships with farmers help connect consumers to the farms that produce their food. In fact, because of their position in the food supply chain, cooperatives can help farmers and consumers better understand each other.

Our members believe that fostering collaboration among cooperatives and all segments of the supply chain is fundamental to furthering sustainability and continuous improvement in handling, processing, and marketing food, fiber, and fuel.

Cooperatives also offer a unique view of accountability, traceability, and transparency from farm to plate:

- ***Accountability*** – Cooperatives hold their members to high standards and can provide education and information on approved farming and animal care practices.
- ***Local Sourcing*** – Cooperatives serve as a conduit between the farm and the consumer and can offer transparency regarding food production by explaining sustainability practices their members use on their farms.

In order to be more productive, efficient and profitable, farmer cooperatives and their member-owners are continuously improving the ways they run their businesses. Cooperatives provide farmers and ranchers with the education, technology, innovative products, and services needed to help them continually improve the quality of the land they farm and the crops, produce, meat, milk, and eggs they produce. This continual progress is the driving component of sustainable agriculture.

NCFC's sustainability initiative is guided by principles fundamental to farmer-ownership that are integral to sustainably producing food, fiber, and fuel for America and the world. Our work is grounded in the core values on which farmer cooperatives were founded – shared economic participation, democratic member control, cooperation, and a lasting commitment to community. From those values, the work of NCFC and its member cooperatives, through their own individual commitments to sustainability, is based on the following principles:

- ***Economic viability*** – Providing safe and affordable food, goods, and services for our customers while supporting the long-term vitality of our members' family farms.
- ***Environmental stewardship*** – Managing our natural resources carefully and efficiently to help ensure the quality and integrity of the environment today and for future generations.
- ***Community well-being*** – Conducting our businesses responsibly, maintaining a safe, healthy, and respectful workplace for our employees, and fostering vibrant rural communities.

In conclusion, I realize this testimony covers a lot of ground, some of which may be outside the jurisdiction of the Subcommittee, but these issues are no less important and impactful to the future of America's family farms and are worthy of your attention. Especially at a time when farmers across the country face a touch economy and tight margins, we must identify ways for our agriculture sector to prosper.

Thank you again for the opportunity to testify today, and I look forward to your questions.