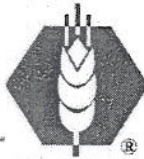

National Grain and Feed Association

Testimony

Before the

House Committee on Agriculture

Subcommittee on General Farm Commodities and Risk Management

"Review of the Commodity Title of the Farm Bill"

By Joseph Kapraun

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On behalf of

The National Grain and Feed Association

April 26, 2007

Chairman Etheridge, Ranking Member Moran and members of the subcommittee, thank you for the opportunity to appear before you today.

I am Joe Kapraun, Financial Planning Marketing Manager of the Grain Division for GROWMARK, Inc. based in Bloomington, Illinois. GROWMARK is a Regional Agricultural supply and grain marketing network of Cooperatives owned by nearly 50,000 farmers in the Midwest and Ontario, Canada. In my role, I provide administrative services to some of the most progressive and largest Grain Cooperatives in the Midwest. I am testifying today on behalf of the National Grain and Feed Association, on whose Board of Directors I serve and I also currently serve on the International Trade / Agricultural Policy Committee. The NGFA has a long history of leadership and involvement in agricultural policy issues, a testament to the importance these issues play in U.S. agricultural competitiveness and our industry's ability to serve domestic and world markets.

The NGFA is comprised of 900 grain, feed, processing, exporting and other grain-related companies that operate about 6,000 facilities that handle more than 70 percent of all U.S. grains and oilseeds. The NGFA's membership encompasses all sectors of the industry,

including country, terminal and export elevators; feed manufacturers; cash grain and feed merchants; end users of grain and grain products, including processors, flour millers, and livestock and poultry integrators; commodity futures brokers and commission merchants; biodiesel and ethanol manufacturers and allied industries. The NGFA also consists of 35 affiliated state and regional grain and feed associations, as well as two international affiliated associations. The NGFA has strategic alliances with the Pet Food Institute and the Grain Elevator and Processing Society, and has a joint operating and services agreement with the North American Export Grain Association (NAEGA).

The NGFA's market philosophy is derived from its Mission Statement, which commits our organization to: "*foster an efficient free market environment that achieves an abundant, safe, and high-quality food supply for domestic and world consumers.* Further, our Statement of Purpose notes that "association activities are focused on the *growth and economic performance* of U.S. agriculture." Bottom line: The NGFA advocates policies that enhance growth opportunities for U.S. agriculture.

To this end, the NGFA has identified four major priority areas for the next farm bill:

- Market Distortions: Developing programs that provide opportunities to take advantage of market potential and minimize further trade disruption brought about by litigation under the World Trade Organization (WTO);

- Biofuels: Understanding how big and how fast this market will grow, and to craft policies that foster production to meet this demand without sacrificing other markets, including livestock and poultry, feed and grain export markets;

- Conservation: Adjusting the Conservation Reserve Program (CRP) to provide opportunities for U.S. agricultural growth while continuing the protection of environmentally sensitive lands represents the association's single highest priority in the farm bill process; and

- Grain Reserves: Minimizing government involvement in grain stocks-holding, except for humanitarian purposes.

Minimizing Market Distortion in Farm Programs

The NGFA has held a long-standing position that Congress and farm organizations are in the best position to recommend the appropriate level of federal funding to allocate to farm program payments. However, the NGFA does have three specific concerns relative to farm program payments. First, such payments should minimize market-distorting signals and allow the competitive marketplace to drive efficient production decision-making by farmers. Second, we believe Congress should avoid major and abrupt shifts in funding levels and program implementation that create near-term disruptions. And third, we believe U.S. farm program payments should be structured and implemented in a way that minimizes exposure to World Trade Organization (WTO) challenges.

Minimizing market-distorting farm income supports contributes stability and predictability to the market. This stability gives the industry greater flexibility to pursue new opportunities for U.S. agricultural growth while improving U.S. competitiveness. The NGFA recognizes the need for government to provide a reasonable safety net for agricultural producers given the volatility associated with agricultural production and markets.

The NGFA also supports limiting dramatic swings in farm program funding levels and delivery that create short-term disruptions. A measured and incremental approach to implementation is preferred to give markets the opportunity to efficiently adjust to new programs and funding levels.

Finally, we remain concerned over U.S. agriculture's exposure to further litigation within the WTO. The NGFA strongly supports the administration's efforts to complete a comprehensive trade agreement under the WTO's Doha Round. Doing so would provide significant new market access for U.S. agricultural products, dramatically reduce trade-distorting domestic supports (particularly those in Europe, Japan and other countries) and eliminate export subsidies.

We believe the 2007 farm bill should focus on policy reforms that will bring U.S. farm programs into compliance with our WTO commitments. Absent changes, U.S. production and trade conditions will operate under a cloud of constant potential challenge. Moreover, any successful challenge could trigger sudden changes in the U.S. agricultural system. The NGFA also supports a "circuit breaker" provision that would give the Secretary of Agriculture some flexibility to bring programs under compliance with a future multilateral trade agreement.

The NGFA does not specifically support or oppose any of the recommendations proposed at earlier hearings by the major commodity and producer groups to alter the structure of farm program payments. We encourage the subcommittee, as it focuses on any potential changes, to ensure such programs minimize market distortions while providing a sufficient safety net to meet producer needs.

The USDA Farm Bill Commodity Title Proposal

The NGFA commends the U.S. Department of Agriculture (USDA) for issuing a thoughtful and comprehensive set of proposals for consideration by Congress as it writes the 2007 farm bill. However, among the serious concerns we have is the proposal to change the way posted county prices (PCPs) are calculated and utilized to determine marketing loan gains and loan deficiency payments (LDPs) under the marketing assistance loan program.

As we understand the concept as presented in USDA's ***2007 Farm Bill Proposals*** book, the administration is calling for legislation to change the current system by instead computing a monthly PCP rate based upon five daily PCPs selected in advance during the

previous month, discarding the high and low days. The monthly PCP rate would apply to all LDPs and marketing loan gains obtained during the following month. If the loan matures, the loan repayment rate would be the PCP in effect during the month the loan matures or during the last month of the commodity marketing year, whichever is earlier.

During and subsequent to its 111th annual convention in March, the NGFA's Country Elevator Committee and International Trade/Agricultural Policy Committee carefully reviewed and discussed the administration's proposal. While we appreciate the administration's efforts to explore creative alternatives for addressing this issue, the NGFA believes that the proposal would be highly disruptive to the efficient operation of the cash grain marketplace for the following reasons:

- The proposal could greatly disrupt cash grain movement and hedging efficiencies, particularly in inverse markets or during periods of significant flat price changes, by encouraging producers to delay marketing decisions until they are able to determine the applicable monthly PCP average at the start of each succeeding month. Both types of markets, particularly big flat price swings, have expanded well beyond traditional harvest periods, and appear to be in a sustained pattern. During harvest season, when the need is greatest for elevators to obtain ownership of grain for logistical and storage reasons, this change in the method for calculating PCPs would exacerbate already significant storage crunches and logistical challenges.

- The proposal likely would lead to a significant increase in LDP requests at the start of each month, as producers seek to capture beneficial LDP rates established using the previous month's PCP average. This, in turn, would impose additional pressure on working capital and create cash-flow pressures on country elevators needing to buy significant quantities of grain within a compressed time frame at the start of each month.

- The proposal would place additional demands on commercial grain storage by encouraging producers to "hold" onto grain for longer periods as they wait to learn what the monthly PCP rate will be once it's announced during the following month.

- During periods of volatile market price swings, USDA would be open to criticism if the five "predetermined" dates on which the monthly PCP is based do not yield the greatest possible LDP or marketing loan gain during the period for the producer.

- It is our judgment that such a change would not reduce the complaints USDA receives concerning anomalies in PCP values between state and county lines. In fact, it could increase the severity and frequency of such complaints, in large part because such anomalies would be in place for an entire month rather than being examined and corrected, if warranted, on a daily basis as occurs currently.

- It is highly unlikely that the change would reduce producers' ability to maximize LDP returns by capturing the lowest possible PCP.

- The new approach could be subject to market manipulation if persons determine which of the five days USDA plans to use in calculating the monthly PCP average.

- The proposal likely would impose significantly increased LDP documentation crunches at the start of each month for both country elevators (in terms of issuing warehouse receipts and other paperwork to producers to provide to FSA) and FSA county offices (in terms of processing LDP requests).

Instead, the NGFA believes USDA should continue to utilize its current method of calculating PCPs on a daily basis for purposes of determining LDPs and marketing loan gains. While less than perfect, the NGFA believes the current approach is far preferable to a monthly average PCP-based system or other possible alternatives that have been explored over the years. Indeed, in discussing alternative approaches, the NGFA believed that even a weekly average PCP could be disruptive to the market.

However, if it reduces USDA's staff workload by resulting in fewer numbers of daily PCPs that need to be posted, the NGFA would not necessarily oppose using less-frequent PCP postings for crops, such as oats, barley and minor oilseeds, that have less and liquid and volatile markets. But we question whether this workload reduction would, in fact, be realized – even for these crops – since USDA still calculates PCPs daily to determine county marketing assistance loan rates for subsequent crop years.

The NGFA does support a second aspect of the administration's proposal, under which producers would be eligible to obtain the LDP rate in effect on the day they lose beneficial interest (title and control) of the commodity. We believe this is an equitable change from current policy, under which producers are ineligible for LDPs if they "lose" beneficial interest before claiming the LDP. As such, the producer would obtain the price support benefit intended by Congress under the marketing assistance loan program. By the same token, we agree with the administration that establishing the LDP rate or loan repayment rate on the date the producer loses beneficial interest in the commodity would limit excessive LDPs and marketing loan gains that have occurred in the past.

The Biofuels Impacts on U.S. and Global Agricultural Markets

By far the single most important development that will affect supply-demand balance sheets, commodity prices and the pattern of growth in various U.S. agricultural sectors in the next five years will be the developmental rate of the biofuel industries.

For the NGFA, biofuels are not a food versus fuel issue. In fact, we count among our membership the largest ethanol producer, the largest biodiesel producer, the largest commercial feed manufacturer, the largest exporter and some of the largest poultry and

swine integrators in the United States. Each may have a different focus. But they share one important priority: ensuring optimal market conditions that allow for a sufficient supply of grains and oilseeds to meet demand. For the NGFA and its member companies, the biofuels issue is a resource-capacity issue, particularly with respect to land and transportation.

Because returns for corn-based ethanol plants likely will remain profitable over wide ranges of commodity prices, it is reasonable to project that not only will a substantially higher proportion of the corn crop be directed to ethanol during the life of the next farm bill, but that the ethanol industry could very well be in a position to bid bushels away from other uses, depending on the strength in crude oil and related fuel markets. To avoid supply disruptions to other users of corn, the market needs to have the opportunity to bid more acres into corn production.

While some uncertainty remains about how quickly ethanol production capacity will come on stream, it seems reasonable to expect 12 to 14 billion gallons of capacity to be operating within the next four years. Higher oil prices could drive ethanol production capacity to even higher levels, and at this stage, it seems most reasonable to expect corn-based ethanol to remain the dominant source of the fuel through this period. Obviously, U.S. resource capacity will be taxed to provide for grain supplies for both ethanol as well as traditional grain customers, and we need both yield growth as well as expanded land committed to corn production.

Recognizing there will be some annual improvement in yields, there are only two substantial ways to achieve greater corn plantings: 1) pull acres now used for other crops into corn production; or 2) implement policies flexible enough to permit the market to bid for productive, non-environmentally sensitive acres expiring from the CRP.

Over the life of the next farm bill, it is entirely conceivable that the United States will need annual corn plantings to meet or exceed 95 million acres to avoid triggering: 1) sharp declines in livestock profitability; 2) supply interruptions to long-term export markets; and 3) supply shortages that could hamper profitability. And there is a strong need for yield consistency. A short crop, resulting from drought or other weather anomalies, especially in the next 2-3 years, could be devastating as we expect season-ending grain stocks to remain at or barely above pipeline levels for several years.

The NGFA supports the development of public policy that facilitates opportunities for growth in grain and oilseed production to supply traditional (feed, export and grain processing) and new (ethanol and biodiesel) market demand. Achieving this objective will be a significant challenge for the industry, Congress and the administration as a new farm bill is written.

Concentration, Competition & Risk Management

The U.S. grain, feed and food processing industry has witnessed its share of consolidation, but not nearly on par with major industries such as auto manufacturers,

airlines, Class I railroads and other mature industries. Cost competition has an impact on consolidation within the industry but many other factors play a role, including: 1) fewer farmer customers; 2) fewer transportation options; 3) cost advantages in transportation for large shippers; and 4) high cost of compliance with government regulations. Integration in the industry has been a reaction to provide more uniformity and more customer choice at the retail customer level, which requires additional management control over production, marketing, delivery and packaging. Despite these challenges, the grain market continues to be vibrant, competitive and transparent.

Given the competitive and transparent nature of grain markets the NGFA supports giving producers the opportunity to engage in a wide array of risk-management techniques to supplement the income and price support received through government programs. In addition to the security afforded producers through government programs, the farm bill also should encourage managing market risk through the use of futures, options, cash forwards and crop insurance. We oppose any provision which would have the ultimate effect of limiting those options.

We oppose the inclusion of language restricting the terms of grain marketing contracts in any farm bill proposal that would add costs and create artificial impediments in grain markets for both buyers and farmers. These provisions appear to be targeting a lack of transparency in market pricing and a lack of economic alternative markets for farmers; neither of which is a significant issue in grain markets. Onerous contracting provisions would discourage producer participation in market-based risk management because they increase the grain buyer's costs and risks, thereby leading to a reduction in the type and scope of risk management tools offered by the grain buyers to producers.

Of particular concern are provisions that would limit the use of arbitration in marketing contracts. The NGFA arbitration system is a proven, fair, cost-effective means of settling conflicts without having to resort to the costly, time-consuming arena of the court system. We are concerned that this type of provision would deny producers and merchants an important means of resolving disputes, thereby reducing their independence and flexibility.

Conservation Impacts on Land Use and U.S. Competitiveness

As noted previously, adjusting the CRP is one potential tool to meet a portion of the anticipated land-capacity constraints. Given the acres currently enrolled in the CRP, this program is, in essence, the fourth largest crop in the United States. And if trends continue, CRP could one day surpass acres planted to wheat.

The NGFA recognizes the importance of conservation measures, but we encourage an approach that reflects a commitment to free enterprise and support for U.S. agricultural growth. As such, the NGFA supports conservation programs that foster sound farmland conservation and environmental-stewardship practices, while minimizing idling of productive land resources, thereby strengthening the economies of rural communities while achieving environmental and other policy goals.

Another important consideration for Congress when adjusting the CRP is to ensure that any acres that exit the program are on an even footing with other base acres with respect to farm program payment eligibility. Unless such equity is achieved, there will be a significant economic disincentive to restore non-environmentally sensitive CRP acres to production.

The NGFA believes that refinements to the CRP will be essential to obtain the increased number of corn and soybean acres likely to be needed to support a growing biofuels industry, particularly over the next two to five years, as well as during short crop years, while maintaining the demand for corn from export, livestock and poultry markets. Idling productive farmland runs counter to the support Congress and the administration have shown to biofuels and creating opportunities for growth.

The United States currently idles 36.7 million acres in the CRP, roughly 15 percent of available farmland. Congress has capped the CRP at 39.2 million acres. But enrolling still more acres in the CRP will hamper U.S. agriculture's ability to: 1) produce and compete in domestic and global markets; 2) provide opportunities to young farmers and ranchers and tenant farmers to enter production agriculture; 3) sustain economic growth in the domestic livestock and poultry sectors; and 4) minimize the negative impacts of the CRP on local rural economies. The size of the CRP has a direct impact on the availability of land to build and grow an economic foundation for agricultural producers, grain handlers, processors, exporters and other U.S. agribusiness sectors.

The 2002 farm bill contained unprecedented authorizations for conservation spending, particularly for working lands programs such as the Environmental Quality Incentives Program (EQIP) and Conservation Security Program (CSP). The NGFA strongly supports directing scarce conservation resources to programs like these that enhance conservation of working farmlands, coupled with a shift away from land-idling schemes.

Government-Controlled Reserves

Finally, given the potential demand pulls and market opportunities noted previously, the idea of resurrecting a government-controlled grain reserve is a worse idea today than it was when it failed in the 1980s.

Government-subsidized stock holding has proven to be bad policy for a number of reasons. First, government-controlled stocks distort market price signals and can adversely affect planting and marketing decisions. Second, such programs encourage uneconomically justified storage expansion decisions by the private sector. Third, they blur market signals – known as carrying charges – that provide incentives for producers and the industry to store grain. Fourth, they can – and have – undermined price rallies for producers created by market demand because those reserve stocks overhang the market. Finally, the government has shown in the past that once stored in a reserve, it is difficult to ever release such stocks even if price triggers are in place.

The NGFA also opposes government-subsidized programs that are designed to expand commercial or on-farm grain storage capacity. The market has – and will – provide the necessary economic incentives to encourage construction of storage where and when it is warranted.

The NGFA does recognize, and support, the need for government controlled reserves intended for humanitarian purposes, such as the Bill Emerson Humanitarian Trust.

Conclusion

The NGFA appreciates this opportunity to provide its views on the commodity title of the next farm bill as well as some general recommendations. These clearly are issues that have significant impacts on NGFA members and our farmer-customers. We are hopeful that as Congress considers the next farm bill that it also will focus on the growth and economic performance for all of U.S. agriculture.

Thank you, and I look forward to answering any questions you may have.

Bio for Joseph L. Kapraun

Joe Kapraun

Financial Planning/Marketing Manager
GROWMARK, Inc- Grain Division

Married to Lisa
Two children: Lauren 13 and Jeffrey 8
Reside in El Paso, IL
Hobbies include various family activities

- Financial Planning/Marketing Manager, GROWMARK, Inc.– Grain Division; provide administrative services for some of the most progressive and largest Grain Cooperatives in the Midwest
- 19 years in Management of Cooperative Country Elevators: General Manager-Stanford Grain Company, President/Administrator-AgRail LLC, Management roles at: Alliance Grain Company, Foosland Grain, Heritage Grain (Formerly Farmers' Grain of Dalton City),
- Experience in organizational structure, cooperative stock, commercial grain merchandising, operations management, financial analysis and strategic planning, new business development, start up/project management, crisis management, board Training, and management placement
- Bachelors in Agriculture Business/Economics 1987, Illinois State University, Normal, IL. Alumni of Alpha Gamma Rho Fraternity
- Illinois Ag Leadership Class of 2004; International Study in Canada, Hong Kong, India, and China
- Trade associations, social and service organizations:
  National Grain and Feed Association, Board Member
  Grain and Feed Association of Illinois, Convention Chairman
  Illinois Ag Leadership Foundation-Presidents Advisory Committee
  GROWMARK Inc, Grain Task Force
  Advisory Board Alternate, USDA/GIPSA
  Senator Dan Rutherford Round Table Member
  Agriculture Advisory Committee, State Representative Dan Brady
  Illinois Grain Code, Rules Committee
  Knights of Columbus (Chairman, Family activities)
  Kiwanis, President 1998, Director 2000-2002
  Finance Committee Chairman, St. Mary's Church

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Joseph L. Kapraun

Address: 801 N. Grant St. El Paso, IL 61738

Telephone: (309) 212-5395

Organization you represent (if any): NGFA

1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: none **Amount:** 0

Source: none **Amount:** 0

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: None **Amount:** 0

Source: none **Amount:** 0

Please check here if this form is NOT applicable to you: ________

Signature: Joseph L. Kapraun

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