REVIEW OF FEDERAL FARM POLICY

HEARINGS

BEFORE THE

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HOUSE OF REPRESENTATIVES

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WITNESSES

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REVIEW OF FEDERAL FARM POLICY
(Agricultural Processors and Suppliers)

WEDNESDAY, SEPTEMBER 13, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. Bob Goodlatte (chairman of the committee) presiding.

Present: Representatives Pombo, Lucas, Moran, Gutknecht, Johnson, Osborne, Bonner, King, Neugebauer, Boustany, Kuhl, Foxx, Fortenberry, Sodrel, Peterson, Holden, Etheridge, Baca, Marshall, Herseth, Cuellar, Melancon, Costa, Pomeroy, Boswell, Larsen, and Chandler.

Staff present: Kevin Kramp, Ben Anderson, Bryan Dierlam, Pelham Straughn, Callista Gingrich, clerk; Christy Birdsong, Nona Darrell, Chandler Goule, Clark Ogilvie, John Riley, and Anne Simmons.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

The CHAIRMAN. Good morning. This hearing of the House Committee on Agriculture to review Federal farm policy with agricultural processors and suppliers will come to order. I would like to thank all of you for joining us here today for the committee's 12th hearing albeit the first hearing convened in Washington to review the 2002 farm bill since February, the committee has traveled to 11 States in various regions of the country to gather feedback from producers about the future of farm policy.

We have also had a number of subcommittee hearings in other States. As well, we have heard from 116 producers at the full committee hearings through our series of field hearings, and today we are happy to hear from a variety of organizations that also have a stake in our farm policy.

Today's witnesses represent agricultural processors and suppliers throughout the country. These processors and suppliers play an important roll in our agriculture sector, and I will look forward to hearing what they have to say. As you know, our current farm policy is set to expire in September 2007. The new farm bill was written to cover 6 crop years and address the issues facing American agriculture at that time. There is little doubt that the 2002 farm bill has worked as it was intended and provided America's farmer and ranchers with a strong safety net.

However, today we find ourselves under new and different circumstances as we prepare to draft the next farm bill. In 2002, the Government was coming off of its first surplus in decades, so money was plentiful for agriculture as well as many other sectors. While the budget for next year won't be finalized until after the Congress convenes for the 110th Congress in January, we must be realistic in our planning and anticipate the likelihood that agriculture spending may remain the same, and it is entirely possible that it will decrease, though I will certainly be working with all of the members of this committee to make sure that agriculture is treated fairly in the budget process.

In addition, we need to recognize that the number of groups with a vested interest in those agriculture spending dollars is increasing daily. The result is that the pie, whether it be the same size or a bit smaller, will have to be divided up between a larger number of players. This means that we will have to be creative in how we approach the next farm bill to ensure that all involved in America's agriculture are equipped with what they need to continue their operations. There are many factors that influence agriculture from weather to trade agreements to Government regulations and input cost.

American agriculture is a dynamic sector that is constantly changing and evolving. Our farm policy needs to accommodate for the changes in the influencing factors and the evolution of our agriculture sector and the feedback we gather from those working within the agriculture industry will help us determine what issues need to be addressed and how to go about addressing them. I would like to thank all of the Members joining me here today, as many have over the last few months throughout our field hearing series.

I would especially like to thank the witnesses who will be testifying today. The information you provide to this committee will help us as we move forward with developing future farm policy, and I look forward to your input.

Speaking of input, let us get down to the business of the day which is to hear from our witnesses. I respectfully request Members to submit their opening statements for the record so we may proceed with our first panel of witnesses. I have, of course, one exception, and I would like to not only recognize, but also thank the ranking minority member, Collin Peterson, for his work with us on all of the field hearings that we held around the country, which I think were a great success and gathered a great deal of input from America's farmers and ranchers.

Without further adieu, the gentleman from Minnesota, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and I want to thank all of the witnesses for joining us, and as you have said, we have had a busy year so far on the Agriculture Committee traveling around the country, and I look forward to these hearings as we continue here in Washington and hearing from other groups as you say that have an interest in where we go with Federal farm policy. I look forward to hearing from those witnesses.

A couple of things, and it is probably too late at this point, but one of the big issues that we have in parts of my district in Minnesota, Mr. Pomeroy in North Dakota, Ms. Herseth in South Dakota and others is this disaster that is going on I would be interested in what impact that has had on your businesses in terms of people being in dire financial straits.

We are having testimony from places that 10, 15 percent of the producers are going to be put out of business. Concerns from bankers and so forth. So if we don't address that today, I would like some input from all of you about what is the impact. As you know, we are trying to figure out a way to get this ad hoc disaster bill through, and we will continue to work on that.

A couple of other things I am interested in going into the future. I have been spending more and more time looking in to cellulosic ethanol, and we are doing hopefully some significant work to try to get some commercialization of this going here shortly. And from everything I can tell we may be moving in a very much different direction in 10 years where we are going to have, we could have 20, 30 percent of our crop land in switch grass or similar kinds of crops, which are very much different than what we are doing today, and are very much different kind of farming practices, and not going to take near as much fertilizer and pesticides and other inputs that we are doing now, and I am interested, if any of you have thought about this and are looking out into the future, about how that is going to impact the whole infrastructure we have in agriculture.

I think there is a lot of positive things there, but like anything, there is going to be disruptions that are going to be caused if we move in that direction.

I look forward to hearing from the witnesses today and would appreciate any input on those two items. And I will yield to Mr. Pomeroy, if that is all right, Mr. Chairman.

Mr. POMEROY. I don't have an opening statement of any kind that I would make. I did want to inquire of the Chair whether the committee will have an opportunity to discuss the disaster issue. Many of us have come through a summer where our farmers have absolutely been devastated by drought, and I think it is going to be important that we have an opportunity to consider what has happened and the need for disaster response, even preliminary to action on the farm bill.

The CHAIRMAN. I thank the gentleman for his inquiry and the committee is working with a number of Members and looking at this very closely, and I certainly am committed to trying to find relief, what exact form that discussion might take at this point I do not know, but I will tell you that I have had many discussions, both in hearings and in meetings with individual Members in meetings of groups of members of the committee and that will continue until we find a solution.

Mr. POMEROY. I know the Chair was even involved in discussions directly with some of the producers from North Dakota last night that I appreciate, so you understand the urgency we feel in farm country to get a disaster response. I look forward to working closely with the Chair over the next few days on trying to pull a plan into place. Thank you.

The CHAIRMAN. I thank the gentleman.

We would now like to welcome our first panel. Mr. Robert Frazee, chairman of the Board of North American Equipment Dealers Association from Cazenovia, New York; Mr. Dennis Craig, executive vice president and chief operating officer of W.B. Johnston Grain Company on behalf of the Agricultural Retailers Association from Enid, Oklahoma; Mr. Jay Vroom, president and CEO of CropLife America from Washington, DC; and Mr. Alex McGregor, president of the McGregor Company on behalf of the Fertilizer Institute from Colfax, Washington.

Mr. Frazee, we will begin with you and we would remind each witness that their entire, no matter how long it is, statement will be made a part of the record but we ask that you limit your comment to 5 minutes and we will begin with you.

Mr. Frazee, welcome.

STATEMENT OF ROBERT FRAZEE, CHAIRMAN OF THE BOARD, NORTH AMERICAN EQUIPMENT DEALERS ASSOCIATION

Mr. FRAZEE. Good morning, and thank you, Mr. Chairman and members of the House Agriculture Committee.

My name is Bob Frazee, and I am president of Cazenovia Equipment Company, which is a family-owned multi-location John Deere dealership with eight locations in central New York. Myself, my wife and our three sons own and operate the business. We currently have over 120 employees in our business, and we just recently underwent an expansion with the addition of three of our locations within the last 15 months. Our customer mix is made up of large dairies, small and medium size dairies, some low crop farms, equine operation, hay growers, part-time farmers, large property owners, landscapers and small contractors, commercial mowing and landscaping companies, residential property owners, golf courses, schools, and municipalities.

Approximately 50 percent of our $45 million in annual sales is derived from our agricultural customers who are made up of almost entirely of family owned enterprises.

I also serve as chairman of the North American Equipment Dealers Association, NAEDA, which represents nearly 5,000 retail agricultural industrial and outdoor power equipment dealers throughout the U.S. and Canada which collectively employ about a hundred thousand people. NAEDA works with 15 regional affiliate associations in the U.S. and three in Canada. And it is on behalf of those associations and the dealers that they represent I am here to talk about the 2007 farm bill today.

In my own business and throughout the industry, one of our most pressing needs is finding and keeping qualified people. We anticipate adding 8 to 10 people within our organization within the next 6 months, and right now throughout the U.S. there is over 5,000 job openings in our industry with the likelihood of another 9 to 10,000 jobs becoming available within the next few years.

I would like to ask Congress to consider allocating funds in the farm bill to help educate our youth about the opportunities in agriculture, vocational education and other job retraining programs should also be considered and supported to train and enable individuals to work in rural areas in businesses such as my own.

I would also ask that the next farm bill support a national energy policy with realistic and achievable goals to make the U.S. more energy efficient and less dependent on foreign energy sources. This energy policy should promote conservation of all fuels, encourage universities and institutions to conduct research and provide education about energy and current development of alternate fuels renewable fuels the next generation technologies for wind biomass and coal, and should also oppose the use of Government incentives for any imported biofuels.

On the matter of conservation, we support balance from the needs of conservation with the needs of land use for feed, food and energy production. We suggest that the USDA reevaluate the criteria for re-enrolling under the conservation programs, particularly the conservation reserve program. More emphasis needs to be placed on authority given to each State agency to determine CRP payment rates and acreage qualifications. Dealers throughout the country have stated that too much land has been taken out of production at payment rates that exceed local market conditions. When this happens, rural areas and rural businesses have suffered because of the decline in overall economic activity.

The farm bill needs specific language in which the USDA is given leadership to establish conservation benchmarks. Benchmarks should be of sound science measurable and consistent with the best message practices for each State or region of the country. If we are to have public support and funding for conservation members, the public needs to know that progress is being made whether they deal with livestock, wildlife, dust, air or water quality.

Rural America depends on agriculture. And agriculture needs a farm bill that considers and incorporates fair trade roles and level playing field concepts if we are to expect agriculture to grow and expand and long term prosperity for agricultural businesses.

On behalf of North American Equipment Dealers, I would like to take this opportunity to thank you for appearing before this committee and I am confident that when this process is done, you will be able to develop a comprehensive bill that will meet the needs of the public, our producers agri businesses and rural America. Thank you.

[The prepared statement of Mr. Frazee appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Frazee.

Mr. Craig, welcome.

STATEMENT OF DENNIS CRAIG, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, W.B. JOHNSTON GRAIN COMPANY, ON BEHALF OF THE AGRICULTURAL RETAILERS ASSOCIATION

Mr. CRAIG. Chairman, Ranking Member Peterson, and other members of the House Committee, thank you for inviting me to testify today on behalf of the Agriculture Retailers Association. I am

Dennis Craig, vice president and chief operating officer of W.B. Johnston Grain Company based in Enid, Oklahoma. W.B. Johnston is an independent family-owned business that was founded in 1893. I am also chairman of the Agriculture Retailers Association Regulatory Policy Subcommittee and a member of the ARA board of directors. Agriculture retailers provide critical goods and services to farmers and ranchers. ARA is also the only national trade organization that exclusively represents the interests of agriculture retailers and distributors. As Congress reviews the current farm bill and prepares for drafting of new farm legislation in 2007, the focus must remain on the foreign policy that maintains our growing vibrant agriculture industry and rural communities they represent. Accordingly America's future farm bill policy should be framed by consideration and performance of the current farm bill. The viability of extension of the farm bill until WTO negotiations are completed and improvements to conservation environmental stewardship policies and growth opportunities for agriculture industry.

The commodity title of the farm bill is designed to provide a safety net for farmers that grow traditional crops. ARA recommends that Congress review whether to target direct commodity payments to farmers that remain involved actively in production agriculture rather than focus solely on production history and landowners. This will maximize the best use of taxpayers' dollars and prevent significant resources from going to landowners who do not farm and are not involved in production agriculture.

ARA also suggests that producers with land and rural farm bill programs should be required to consult with certified crop advisors, pest control advisors or equivalently licensed local professionals. Regarding a farm bill extension, ARA supports efforts in Congress to extend the 2002 farm bill until any WTO negotiations are completed. Conservation programs have focused largely on maintaining the productivity of cropland, as well as protecting watersheds, flood prevention activities and reducing soil erosion and run-off.

Significant portions of the conservation or green payments are distributed through the environmental quality incentives program, which was originally designed to primarily assist livestock producers with confined animal feeding operations, to reduce soil, water, air pollution and animal waste. In what appears to be "mission creep" funds are now commonly being used for the construction of both pesticides and storage facilities in environmentally sensitive areas. According to NRCS since 1999, there have been 406 farm sites that have received equip dollars for the construction of the existing or new agro chemical mixing and storage facilities. ARA believes that any built pesticides storage facilities funded through this program should be inspected periodically to ensure with all laws and regulations related to the proper storage and handling of agriculture chemicals including proper secondary containment to mitigate the risk of accidents or spills.

The 2002 farm bill also authorizes enrollment of up to 39.2 million acres under the conservation reserve program with almost 35 million acres enrolled in 2005, $1.6 billion in annual payment rents have been made. CRPs major target, soil erosion, has been reduced significantly. USDA reports CRP has erased soil erosion by 450 tons per year through 2005. However significantly down from 700 million reported in 1995. ARA believes that part of this results in the millions of acres in land being rolled that is not environmentally sensitive.

Another area of concern relates to Federal and State advocator standards which are governed by FFTA laws. ARA believes that professional applicators as well as private applicators should be held to the same standards.

The farm bill farm policy, future farm policy must work to foster increased financial opportunities for U.S. agriculture. The war on terror, uncertainty in the Middle East, and increased fuel energy prices has increased prompted interest in development of homegrown renewable energy. ARA encourages Congress to support ethanol and bioproduction facilities for the benefit of rural communities in our Nation's farmers. ARA is part of the 25 x '25 Agriculture Energy Coalition, and we support the goal of 25 percent of the energy being produced from renewable sources such as biofuels, wind and solar by the year 2025.

Thank you for considering ARA's views and for the opportunity to testify on this important issue.

[The prepared statement of Mr. Craig appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Craig.

Jay Vroom, welcome. Glad to have you back.

STATEMENT OF JAY VROOM, PRESIDENT AND CEO, CROPLIFE AMERICA

Mr. VROOM. Thank you, Mr. Chairman. And thank you for the opportunity to be here. My name is Jay Vroom. I am president of CropLife America, which is the trade association that represents the agricultural chemicals industry here in the United States. We appreciate your accepting our advance written testimony and including it in the record, and I will summarize quickly here.

We appreciate the invitation to provide input to the committee as you frame the 2007 farm bill. It is a credit to you, Mr. Chairman and of the committee, that you are reaching out to all segments of U.S. agriculture including agro business and gathering input for what is surely the most challenging and important farm bill ever.

The integral role of technology and specifically our CropLife members technology and the productivity of the American farmer and the added contributions that our technology makes to a wide range of conservation endeavors is our main theme for today's hearing. As most listening today have a working knowledge of the agriculture contributions of pesticides, I would like to focus more on the conservation contributions, but ask if you would consider including executive summaries of two reports that our CropLife foundation have done in the last year and a half on the value of herbicides and the value of fungicides for the production of crop reduction, and I will provide those to the clerk.

We understand that an agriculture subcommittee hearing will be scheduled for later this month to focus on a pesticide forum for specific pesticides regulatory topics. I will save comments and remarks for those critical issues for later.

To begin, our conservation technology story would be inappropriate without first noting the past farm bills, particularly the last three, have provided such as enormous environmental benefits to our country through the leadership of the House and Senate Agriculture Committees by making use of Federal foreign policy to encourage and require conservation.

It is under that policy umbrella that my industry's contribution to conservation has literally flourished. Working cooperatively with our farm customers, the Federal Government and a wide variety of other partners or stakeholders like Ducks Unlimited, for example.

Some examples of the integral role of crop protection technology and agriculture conservation accomplishments are in four broad areas. Number 1, the impact and contribution of herbicides to soil and water conservation. That is widely known and very much written into the fabric of the current farm bill and previous farm bills. We are proud of the contribution that herbicides really have made by use of our farm customers and enabling soil conservation to advance beyond the targets and requirements of current farm policy, and also the subsequent conservation elements of water conservation and water quality that have been achieved through of incredible penetration of reduced tillage and no tillage practices by American farmers, again, on the critical hinge point of the use of herbicides.

Herbicides have also contributed to energy conservation in American agriculture in a variety of ways. Again, back to soil conservation, the less trips that a farmer has to make over a field, the less diesel fuel and other fossil fuels that are required for tillage, hence, considerable improvements in energy conservation that are resulting. Also the use of modern pesticides technology contributing to the productivity gains of the American farmer have also allowed for greater availability of crops to be used in biofuels. Ethanol and biodiesel as examples.

Third category is labor conservation. One of the facts that is brought out by our herbicide study that our foundation has developed is the fact that without herbicides, if we had to rely on hand weeding it would probably require a labor equivalent of the available time of every teenager in the United States. We have yet to get a letter of thanks from the teenagers of America from saving them from that labor drudgery of weeding fields, but I expect one any moment.

The last category is in the area of wildlife conservation that I wanted to mention, Mr. Chairman. We think that it is significant that we have been able to demonstrate through Ducks Unlimited partnership with our member companies that indeed, the control of invasive species that make it difficult for wildlife to flourish by using herbicides to control those species is a really great example, among many, about the contribution of pesticides to wildlife conservation.

Trade is also an important issue which you are focused on, and we appreciate the delicate balance that you are faced with with regard to the sensation of progress in the Doha Round. We recognize the importance of trade for a wide variety of reasons, but going forward, we think it is so critical that America stay at the trade table because we need not only new trade agreements to expand our agricultural exports benefiting our farm customers, but also to enforce those rules that are on the books, like the protection of intellectual property. Simply stated, it is not fair for American farmers to operate in the United States where IP laws are enforced and their competitors in countries like Argentina and Brazil are literally allowed to steal technology while their governments look the other way.

Mr. Chairman, we appreciate the opportunity to be before you today. We look forward to entertaining questions from you and the other members of the committee and continuing to work with you as you frame and develop the 2007 farm bill with the objective of keeping the American farmer productive, profitable, competitive in an ever more challenging global market. Thank you.

[The prepared statement of Mr. Vroom appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Vroom.

Mr. McGregor, welcome.

STATEMENT OF ALEX McGREGOR, PRESIDENT, THE McGREGOR COMPANY, ON BEHALF OF THE FERTILIZER INSTITUTE

Mr. MCGREGOR. Mr. Chairman, committee members. I am president of a family business that provides crop inputs, agronomic advice and equipment for farm families who raise wheat, legumes and other crops in the inland Pacific Northwest. We have raised wheat and livestock ourselves for 125 years. My thanks to you, Mr. Chairman, for coming last fall to the Pacific Northwest to hear from farm families. My 350 McGregor colleagues and I serve growers in 43 farm communities. Businesses such as ours, schools and the future of rural towns all depend upon the survival of family farms. We hear of hardships faced by family farmers everyday. Cautious bankers reluctant to provide operating lines. Growers who have had to let go farm help, who have had to sell equipment or land to raise cash or who have decided to leave their farms. A grower told me that he has farmed here since 1952, and this is the worse emergency we have known in this lifetime. We truly need assistance and we need it now. Another spoke of his family having farmed for over 125 years, but over a century of sweat and hard work will be in vain without some form of immediate help.

Secretary Johann's comments last month, the wheat growers have really had a rather challenging time of it. You don't collect LDP in counter-cyclical payments with this current farm bill. There has been an unanticipated shock in the farm economy. Fuel prices have increased 113 percent and fertilizer costs 70 percent since 2002.

With the cost of natural gas increasing from the $3 range earlier to as high as $15 late last fall, farm families in the fertilizer industry have been crippled. We have lost 35 percent of domestic ammonia production. We urge you to pass consensus energy legislation before the recess. No other action could give us a better chance to provide affordable plant food for the American farmer for the next several years. We urge your support for energy disaster assistance, including relief from a brutal upward spiral in energy prices which growers could not pass along to their customers. By acting now, we will be able to assure farm families and their bankers that there is reason for hope. Maintaining full funding for agricultural programs is a tall order indeed, but necessary if farm families and communities are to persevere. Placing more emphasis on direct payments would provide the most reliable cash flow of all program components for us as growers and would greatly help us secure operating credit.

A target price more aligned to today's market conditions or a counter-cyclical payment based on revenue rates other than price alone would shore up some of the missing fibers in today's safety net. We support conservation programs, but if they are to reward the best and motivate the rest, they must be fully funded and efficiently administered.

Where our certified crop advisors can be of help and where growers wish us to, we can assist this technical service providers in providing practical guidance in meeting the objectives of conservation programs. Soil conservation requires adequate organic matter which can only come from decent yields and from the available nutrients available to produce them. Offering incentives for input reduction is a step backwards in these efforts. As any grower will tell you, fertilizers are plenty expensive. They aren't about to use any more than necessary. And what is needed in one area has little bearing on another.

We are committed to helping them develop site-specific nutrient management plan needed to produce good yields, adequate soil organic matter and improved water quality. As a grower wrote me last week, I have three farmers around me who hung it up this fall. Others are on the verge. If there was ever a time for a safety net, this is it. Without some help, it has been estimated regionally that more family farms will fail in the next 2 years than in the aggregate of the past 15. As one of my customers wrote Congress, we have had a severe economic storm hit us and we are running out of hope. We seek your help as house Agriculture Committee members in framing a new farm bill that fine tunes what we have with functioning safety net provisions.

I believe Homeland Security must encompass the ability to produce home grown fields that meet exacting regulatory standards. The ability to produce nutrients domestically, to nourish those crops and the use of the extraordinary human and technology resources we have that allow us to very efficiently field fellow Americans of people around the globe. We need to be able to offer some hope for young people for farm families and for the agricultural communities surrounded by amber waves of grain. Never has there been a more important time for us to be able to go home and tell our farm neighbors yes, there is hope for the future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McGregor appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, very much. I am going to begin the questioning with you and it will relate to amber waves of grain. I am aware that my colleague and friend from Washington, Congresswoman McMorris is planning to introduce a bill this week that would establish counter-cyclical payments for wheat by class.

Wheat counter-cyclical rates would be established consistent with the way wheat loan rates are established by wheat class. I would like to know what your views of this legislation are, and if it would improve safety need for producers in your area.

Mr. McGREGOR. The safety net has been set inadvertently so is low to the ground so if wheat growers qualify, they are likely to have suffered in the process reversible financial concussions from impact with the turf. The loan rate for Soft White wheat for instance, is far below production cost. The counter-cyclical calculation and average of all class is far beyond their reach. Proposed legislation action led by Congresswoman McMorris will help by allowing the Secretary discretionary authority to address counter-cyclical payments when severe imbalances occur among market prices of different classes of grain. We agree beyond that with the Secretary. Wheat growers across the Nation haven't been able to make use of safety net help when they have needed it.

The CHAIRMAN. Let me ask you another question. You suggest in your testimony that we place more emphasis on the direct payment program. Some would argue this has created incentives for landlords to no longer have farmers farm their lands, since payments are decoupled from production we can't require specific crops to be grown to collect the payment. Are you concerned that this problem would occur in wheat if we raised the direct payment to a level that landlords no longer need tenants because a direct payment has been increased?

Mr. McGREGOR. Well, I understand those concerns. I am concerned from day-to-day interaction with agricultural bankers who view something like DCP payment as a portion of the farmers' budget that can be counted upon and who view other variable assistance as something that doesn't carry as much weight. So one of the strong benefits is it provides something else to help bankers make positive designs about providing operating lines.

The CHAIRMAN. Mr. Craig, let me follow up with you because you said in your testimony direct payment should go directly to the farmers and not be based on production or landowner history. I am wondering, do you know what effect that would have on crop share renters and would this separate landowners from the risk of the crop in favor of cash rent to the disadvantage of renters?

Mr. CRAIG. That becomes a problem because it is an interaction between the landowner and the person that is actually farming the ground. And somehow or another, I am not going to suggest that we get in the middle of making up those contracts between the two. But it is a very touchy situation. And our view, I think we would be much better served that the person that is actually farming the ground be entitled to those payments. But that has got to be a contractual arrangement between the landowner and the person that is farming it, and when you get into cash rent payments, those are contracts on one hand.

The other hand, you have crop share input share arrangements. It is a tough question to really get into, to really delve right down into how it would affect the whole country, because I think it is going to obviously be different in different parts of the country.

The CHAIRMAN. Thank you. Let me flip another question in to Mr. Frazee. The 2003 tax bill enhanced section 179 expensing provisions for equipment purposes, and I would like you to tell us what impact section 179 expensing has had on your business and that on your customers. Did many farmers and ranchers take advantage of that?

Mr. FRAZEE. Yes, without doubt, it has had a big positive impact on our business and most of our agricultural producer operations. By being able to defer taxes as a result of the accelerated depreciation. It has brought forward purchases which have been beneficial and more than the obvious ways of increasing agribusiness activity. It also has had conservation and energy benefits, because the more rapidly we can replace aging machinery with more modern machinery that takes advantage of modern technology and is more productive, it is more energy efficient. It is cleaner burning. And technology also has enabled us to increase productivity further resulting in conserving more fuel by such new technologies as GPS, assisted steering, yield monitoring and yield management information systems which enable us to vary inputs in the crops based on the soils productivity capabilities.

So all we say the faster we can replace some of these aging equipment with more technically advanced products, there is huge benefits for us. So I would strongly support making that a permanent extension.

And I also would, with appreciation, currently there is a bill underway, H.R. 4236, which would also establish a 5-year depreciation cycle for agricultural equipment now as opposed to the current seven, and I think it would be that would also have a positive impact on our industry, and I would certainly encourage all of the members of this committee. I know several of you have cosponsored this bill, but I would certainly like to see that become enacted upon.

The CHAIRMAN. Thank you, Mr. Frazee. One last question, Mr. Vroom. In your testimony, you discussed the positive conservation role played by products manufactured by your members' companies. Are there any statutory or regulatory barriers to using your company's products when tackling conservation problems on both public and private lands?

Mr. VROOM. Yes.

The CHAIRMAN. Do you want to elaborate briefly?

Mr. VROOM. Certainly. In regard to the Endangered Species Act, I would think would be the No. 1 obstacle in that intersection between the use of our technologies and the ability to continue to advance and protect wildlife and wildlife habitat. Mr. Pombo, of course, has given great success on this side of the Hill to moving legislation that would make a lot of progress towards right aligning of the Endangered Species Act and reauthorizing it in a way that would modernize it to allow a lot of those problems to be dealt with in a more scientific and logical way.

We have concerns with regard to what we think is a mistake by the courts in enforcing the Clean Water Act with regard to regulation of pesticides and putting the users of pesticides in double jeopardy in regard to requiring pesticides. Some of these court decisions to be regulated as a point source pollutants when they always have been regulated at the point of use under FIFRA, and as non-points or water quality potential contaminants.

So that is another area again where there is legislation introduced in both the House and intended to address that. We would hope also that the administration would make final some regulations that would also seek to address this intersection of the Clean Water Act and FIFRA.

The CHAIRMAN. Thank you.

The gentleman from Minnesota is recognized.

Mr. PETERSON. Thank you, Mr. Chairman. And Mr. McGregor. I agree with you we need to do something about these wheat, the wheat situation or we are going to be in the same shape we are with oats and barley. We are not going to grow it in this country. That is where we are heading. So hopefully we with can work something out. Are you folks familiar with this study that was done, I think last week, or came out last week a number of brought up the CRP, and this study done by the Agriculture Policy Analysis Center at the University of Tennessee on the economic impacts on the agriculture sector elimination of the CRP, and apparently what they are looking at is allowing the CRP to kind of terminate as it goes along, so there would be maybe over the next number of years.

But, according to this study, if we allowed that to happen, crop market returns would decrease by $22 billion, net income would decrease by $9 billion. Government payments would increase by $31 billion, and if we allow the CRP to go back to 45 million acres, which it was originally, it would actually increase farm income by $10.6 billion and decrease Government payments by $12.7 billion.

So I just am asking, I guess, have you seen this study? What do you think about it? I think, bottom line, and I haven't had a lot of time to analyze this, but I would guess that what is driving a lot of these numbers is the fact that we are in the export market selling at below the cost of production with all commodities and we have been for some time, and it is going to be interesting to see what happens out there because my folks especially, the folks who grow corn have a different attitude. They are no longer very much interested in exporting corn. They are interested in putting it into ethanol because it is worth more money.

So there is going to be some interesting things happening here just because of the economics of what is going on with fuel and the interest in this country to get more energy independent.

Those of you who know anything about this, could you comment on what you think about this, starting with Mr. Frazee.

Mr. FRAZEE. Well, I am not at all familiar with the study that you just referred to. The CRP payment program, I think, needs to put more into the controls of the state farm service agencies, because they seem to have a better grip on what the local market conditions are, and I think they would be better served in a better position to keep the payments for land that is put into the program in line with local market conditions. How that impacts what the results of this study. I am not for obliterating the program, but I think if they had local control through the States then we would have better effectiveness.

Mr. PETERSON. Anybody else want to comment?

Mr. MCGREGOR. I have not seen that study. However, I have seen people in the Pacific Northwest make the painful decision to put their whole farm into CRP for lack of any other way they can maintain any financial integrity as a family. I have had people tell me I hate to put the place into CRP, but is there any hope? And I look at the No. 1 and No. 2 wheat producing counties in the United States, Whitman and Lincoln Counties, Washington, and the fact that there was such aggressive, even desperate move for people to sign up in CRP there, and worried that indeed something is amiss when our most productive areas have that kind of pressure. It is my hope that there can be more emphasis upon funding for continuous CRP for buffers and filter areas which would have environmental benefits and also would hopefully not lead those pioneer family farms in the position where the only way out is to put the whole place in the CRP.

Mr. PETERSON. Mr. Craig.

Mr. CRAIG. I am not familiar with the study. However, I do know that in our area, there has been a lot of acres go into CRP that basically has driven up land values in certain parts and certain parts of the State. We have had customers that have decided, retired people that have actually decided to sell their land. That people are interested in actually purchasing the land have gone to them and asked them to enroll those acres in CRP before actually sell the land.

I do agree with you that it is going to be very interesting down the road to see how energy policies, how ethanol and biofuels, what kind of effect they actually have on acres shifted from one crop to another. We feel that we will see corn acres buying acres away from CRP. We also think they will be buying them away from wheat and beans to a certain extent. So it is going to be interesting to see the shift. There are acres that definitely do need to stay in the CRP programs which relate to highly sensitive areas, those sort of things that Mr. McGregor just touched on.

Mr. PETERSON. Well, I would ask each of you to take a look at this study, and if you could get back to me after you have looked at it and tell me what you think. But I would have to say and I have people in my area that have put land in CRP because that was the only way they could survive and save the farm.

They are getting $50, $60 an acre. And that number is what is saving the farm. Now I wouldn't blame the CRP program for overpaying. I would blame the market place and the Government payments for underpaying because at 60 bucks an acre, nobody is getting rich. And I think that says something about the overall profitability of agriculture as opposed to criticizing CRP which has provided all kinds of other benefits. So I would appreciate you looking at the study and let me know what you think.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Nebraska is recognized.

Mr. OSBORNE. Thank you, Mr. Chairman. And thank you all of you for being here today. And I would like to start with Mr. McGregor. You indicated that you thought the safety net was inadequate, and I realize a lot of your comments have revolved around production of wheat, and I understand that concern. But I wondered if you could flush that out a little bit more as to exactly what you would like to see different in the farm bill if you want to enhance the safety net, how would you go about doing this.

Mr. McGREGOR. I will be pleased to comment on that additionally. As indicated before, and as I mentioned in passing, more emphasis upon the direct payment the DCP will provide the most reliable cash flow of all the program components for farmers, will help them secure operating credit, will help us comply with international trade obligations and will put more of a safety net in place than we have had in the past.

I also think a higher target price or counter-cyclical payment based upon revenue would really help. The factory organization has done studies of target revenue scenarios looking at county level revenue targets per acre based on historical prices, yields, payments under current programs and then would make payments when actual per acre county revenues fell below a targeted level. The hopeful we can build upon, the 2002 farm bill, and provide some safety net provisions that really will work as was intended before.

We had so many circumstances come upon us that were unforeseen in 2002. Certainly, the run up in energy cost to the degree that it occurred was unanticipated, at least by me, and I think by very many others. So the need for a safety net with a stronger DCP, I would suggest personally that moving from 52 cents to $1 with wheat would be significant enough so that would provide a valuable tool for a grower in securing operating credit. Tweaking the target price. Some things can be done like that that build on the strength of the current farm bill, and I would hope we would do that.

Mr. OSBORNE. Well, thank you very much. I appreciate your comments. I think the European Union is at least claiming that they are beefing up their direct payments and kind of patting themselves on the back as to how compliant they are now with world trade which would be a little bit suspect in many of our minds.

One thought that I have had. I think you have alluded to it at least briefly is the idea of revenue insurance. I think all of us sometimes cringe a little bit about base acres and how that gets people locked in to certain crops and decided to just throw it out to the panel in general. Let us say you had 500 acres, and you can show a revenue history of *X* number of dollars over the last 5 years. Providing a safety net maybe 90 percent of that, 85, it gets into insurance. We have some products out there like that now. Can any of you see the farm bill moving in that direction, or realize we have some concerns maybe with WTO compliance but that would be more compliant with LD pass and countercyclicals at the present time. So any thoughts you might have on that issue? Anybody.

Mr. McGREGOR. Of course, the devil is in the details, the devil is in the details on any revenue insurance program and they can become extraordinarily complex. But for me, as a farmer, to be able to receive some protection against wild swings in revenue would be a very good thing if we could figure out how to do that and make it workable across the broad geography and very different crops of the United States. That will be a tall order. But revenue protection conceptually would be an important plus.

Mr. OSBORNE. My time is up. I yield back.

The CHAIRMAN. The gentleman from North Carolina, Mr. Etheridge, is recognized.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. McGregor, in your testimony, you suggested payments to farmers for economic loss, due to high energy costs, and as these costs have tremendous impacts not only on fertilizer, but on really everything a farmer uses, particularly fuel costs, and right now at harvest time, that is a big issue, even though we are saying a little mitigation for those who use diesel fuel hasn't come down much. During August, I heard a lot from our farmers because in my part of the State, and really in the southeast, there is an awful lot of tobacco grown and they use a substantial amount of propane for curing and diesel fuel for moving it, and the same is true for those who wanted to harvest a little corner of the bins.

I think they will have second thoughts this year. But my question to you, and I would like to hear you elaborate on it because of the parts of the country and how it is divided it up and you realize how complicated it is, as we think about that, how could we implement it in a way that would be fair nationwide, considering the variety as I would appreciate here for that. Let me add one more piece while I am at it.

Because it is more than just natural gas, fertilizer because all of those are tied to agriculture particularly in a huge cost. It also adds all of the transportation chemicals upon the users and I have had a lot of farmers say to me some this year, this is my last year. I am out of here. Because every penny I make, I laid out my plan in the spring and now I am going to lose money and I can't keep doing this. I would be interested in that, because I think this is a critical piece maybe dealing with energy policy, but it is about a food policy and the security of this country.

Mr. MCGREGOR. Indeed that concern that growers have been sharing with you is one we hear 1,500 miles away. Very fearful people about what lies ahead. Part of this solution we hope is in addressing the energy bill with some legislation that will open up known reserves of natural gas that can be brought on line in less than a year where pipelines already exist in Lease Sale 181 area in the gulf. Hopefully, that will be of value. But it is a scary time for people when the price of hydrogen has improved somewhat and it will stay where it is until the next hurricane or calamity and that is not very firm footing.

I would hope that an energy component in a farm bill could provide assistance should average farm energy costs as calculated by national agricultural statistic service or USDA spike beyond 10 percent in a crop year that would require as you indicated information that would vary by crop and by region, but I think through our national agricultural statistic service resource, we could get there.

Mr. ETHERIDGE. Thank you, sir. Mr. Craig, in your testimony, you indicated that Congress shouldn't look at production history when directing commodity payments. However, given the WTO rules requiring us to right our commodity title programs to start basis period, or else we will wind up being sued. What do you suggest as an alternative, I guess is my question as we get ready to write a few farm bill.

Mr. CRAIG. What I was referring to, sir, was when we look at production history for example in Oklahoma because of the drought, we have 14 country elevators in west Elvina that did not originate what one of those elevators did a year ago.

And we have got a lot of folks out there who are in a lot of trouble. So low-yield histories, this year compared to previous years, obviously has resulted in higher prices for wheat, and the counter-cyclical payments and LDP payments are triggered by price, so higher prices; even though we had higher prices, our yields were so low, and that is what I was referring to.

Mr. ETHERIDGE. In effect, what you are saying is, you need to expand the number of years you are using as your basis. If you have several years of disasters, that will reduce a yield?

Mr. CRAIG. That, or possibly we should look at another direct payment or a higher direct payment, versus counter-cyclical payments and LD yield that are tied to price.

Mr. ETHERIDGE. I see. Thank you.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank the gentleman.

Gentleman from Texas, Mr. Neugebauer, is recognized.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

First of all, Mr. Vroom, were you there in 1964 and 1965 when I was hoeing as a high school student in the summertime?

Mr. VROOM. I was out there in a different field, same time.

Mr. NEUGEBAUER. Mr. McGregor, we hear a lot about, obviously, the impact of high natural gas prices on the fertilizer industry; and one of the things I hear is that we have lost a lot of fertilizer plants to other countries because of our natural gas prices and the volatility in the United States.

Can you elaborate a little bit on how many we have lost and the impact that that has had on your industry?

Mr. MCGREGOR. We have lost 24 nitrogen plants in the United States, plants that produce anhydrous ammonia which is, as you are aware, not only an important nitrogen product itself, but the feedstock for the other nitrogen products from which it is formulated.

In all, we have lost 35 percent of our ammonia production between 1999 and 2006; and I am fearful that that trend will continue if we don't take a more responsible position in finding the natural gas feedstocks needed to produce that nitrogen to replenish the soil.

Every time I see buses in Washington, DC that say fueled with clean natural gas, I think of the 3 percent of natural gas used for agriculture for drying corn and other crops and for producing nitrogen, and I think, what could be more valuable than us using that to produce foodstuffs for Americans and people overseas?

So I hope that we open the door some to allow us access to enough domestic natural gas so that that industry can endure and not go into a free fall, which would be harmful for all.

Mr. NEUGEBAUER. Thank you.

Mr. Frazee, I noticed the chairman mentioned 179 depreciation, bonus depreciation. There are some folks who think we ought to implement that throughout the industry and just go to the year that you make a capital expenditure, that you just deduct it and do away with depreciation schedules.

I know that you talked about moving from 7 years to 5 years for farm equipment. What would be the impact, do you think, on the industry if we went to a policy of when you buy it, you expense it?

Mr. FRAZEE. So, in all, what are currently capital expenditures would be expensed out the year purchased?

Mr. NEUGEBAUER. That's correct. So if I buy a John Deere tractor this year and it is $150,000, I just expense it. If I buy two of them, I expense $300,000 and that is the year. Now what that does is, there is no depreciation schedule obviously down the road, and so you may have a low-income year in the sense that you had a heavy capital expenditure year, and then the next year you don't have the depreciation expense.

Mr. FRAZEE. It would certainly give businesses the opportunity to adjust their purchases in relation to their income, and it would probably enable them to minimize their taxes to a greater extent than they would now. However, I would be little concerned about how the Government would run.

Looking at it from a small business, medium-size business of most of those that are involved in agribusiness and the producers, I can't see but what they would be able to take advantage of that to the point where they would reduce their tax liabilities to virtually zero every year.

Mr. NEUGEBAUER. It depends on when they bought it. In other words, some of those are expensing that over a 5-year period of time, or 7, depending. Obviously, giving the Government less money to spend is not necessarily a bad thing, but what I am afraid of with some of the current policy we are looking at, you say, well, this year you get the bonus, next year you might not get the bonus.

Sometimes I think we artificially stimulate the market in making people make tax decisions rather than business decisions; and I am for consistent policy in this country where we would make people make business decisions rather than tax decisions. And just going to a policy of the year that you buy it, because I am afraid the guy might buy two tractors this year because he is thinking—obviously, it doesn't cover the two tractors.

Do two things this year and do none next year, I would think for your business or some of the people you represent that is a difficult thing for them to plan around.

Mr. FRAZEE. Well, it is a difficult thing for them to plan around, and I think I would agree with you 100 percent, if we had a consistency in our policies long term, so that we weren't either moving purchases forward or postponing them just for tax purposes, then we could get back to making capital expenditure decisions based on sound business practices instead of on tax implications.

That would be a big benefit.

Mr. NEUGEBAUER. Think about that.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Gentleman from North Dakota, Mr. Pomeroy, is recognized.

Mr. POMEROY. I am having staff distribute to Members a couple of charts that would be basically a predicate for the comments and the questions that I will offer. They reflect the devastating dimensions of the drought that has plagued this production cycle.

You will note that the drought monitor, which is the one that has this coloration, reflects a broad-spread drought of extreme severity. This isn't going to be news to many of you because many of you, Republican or Democrat, represent some of the really torched areas reflected on this chart.

I will tell you that in North Dakota is our third-worst drought in recorded drought history, and it was truly sickening to walk around on pasture grass that literally snapped under your feet because it didn't have a speck of precipitation, to stand on ground that was utterly brown in early July, to see the impact on the harvest.

The second one shows here that this is a drought that continues. This is the drought severity index, and again many of you will not be surprised to see that this is a problem that isn't over. Indeed, it is projected to continue.

Mr. McGregor, I thought that you captured very effectively some of the emotion you are seeing in your customers as they are pushed right to the wall with this kind of devastating disaster loss.

Mr. Chairman, I appreciate the discussion we are having on the farm bill. I appreciate the efforts you have made to get all over the country, hearing directly from folks, but I think that we need to focus right now on the need for disaster response in agriculture and the need to do it in September before we break for the November elections.

Mr. McGregor, do you feel that you are on the brink of losing some customers?

Mr. MCGREGOR. Last year, we lost three to four customers in each one of the 43 farm communities we serve; this year, the pace is likely to be faster than that. I am very concerned that this is a watershed time where action must be taken if we are to preserve the family farm communities in anything resembling their current shape.

Evolution is an inevitable part of agriculture, but I hate to see conditions become so severe that it seems as if there is no choice but to race for the exit. I think action now on a disaster bill would make a huge difference for those who have suffered the calamity of drought, hail, all sorts of catastrophic circumstances that have hit around the country and for growers who have also suffered from the sudden onslaught of energy prices catapulting up, which of course—as you are well aware, they cannot pass along the cost increases, only receive the surcharges themselves.

Now is a crucial time and we hope that Congress will act.

Mr. POMEROY. I think you make an interesting point. It is vital to get the assistance out to those who need it, and it is vital to send hope that there is going to be some help on the way.

I think the message the Secretary of Agriculture was trying to send when he came to South Dakota and announced there was going to be a response, $800 million response, that is far short of what we need, but it is something. But upon inspection, it looked like $700 million of that package was simply advancing counter-cyclical payments and the commodities who are getting those are peanuts and cotton.

They don't grow peanuts and cotton in South Dakota. It isn't responsive to the hurt that we are seeing right in the heart of it. I don't mean to say that in any way critical of the Secretary. He acknowledged the problem, but now we need to work together to get a more meaningful solution.

Mr. Craig, those elevators you are talking about aren't getting any bushels hauled in. Does that also reflect in your part of the country a need for disaster response?

Mr. CRAIG. Yes. Yes, sir. Those elevators were our company-owned elevators. Our company, we have a very difficult time looking to the future trying to project budgets forward for this year. We are extremely concerned if this drought continues in our part of the country, we are extremely concerned about the health of agriculture as a whole and communities, rural communities, in those areas. We are talking about schools, hospitals, implement dealers, equipment dealers, the whole rural community itself.

The last couple of years we have lost customers. We are seeing herds liquidated because of not only pasture, but also because of no water.

People are changing cropping practices; they are trying something different. But it is very, very difficult to go into the banker and get the extended financing. There are fewer and fewer banks that are taking on larger agriculture portfolios today. That is decreasing.

Mr. POMEROY. I know my time is up.

Those are tough visits when you have higher input costs, higher fuel costs, uncertain production circumstances, and you are carrying service on debt because you just lost hundreds of thousands of dollars in the prior two crop years in the case of many North Dakota producers. We need to act.

There is an old saying—I will paraphrase it—"When you are up on your fanny in alligators, it is hard to remember you came to drain the swamp." now it is time for us to talk about the farm bill, but we have something even more urgent and imperative. We need to get a disaster response. And I call on my Members in this committee to join together and forge a bipartisan push. It has to come out of the House Agriculture Committee, a bipartisan push to get this disaster response and get it done in September.

I thank the chairman and I yield back.

The CHAIRMAN. I thank the gentleman for his comments, and as I said to him earlier, I am committed to continue to work with him and other members of the committee trying to address this problem, including working with the gentleman from Kansas, who is now recognized for 5 minutes.

Mr. POMEROY. May I have this added to the record. I guess I should formally request it.

The CHAIRMAN. It will be in.

Mr. MORAN. Mr. Chairman, thank you; and thank you for your offer to work with me and other Members of Congress. There is no question but what the urgent need in agriculture, at least on the High Plains and, I have discovered, in many places in the country is assistance related to weather-related losses.

I think there is a belief, a false belief in Congress, when we pass a farm bill, that takes care of farmers; or we have crop insurance, that takes care of farmers. And yet in both instances the farm bill is designed to help us meet the needs of farmers when there are economic problems due to price, to provide a safety net. Crop insurance serves its intended purpose in some fashions, but doesn't meet the needs of particularly farmers who raise crops not covered by crop insurance and by farmers and stockmen who raise cattle not covered by crop insurance.

And it doesn't work well when there are multiyear disasters as we have experienced on the High Plains year after year, the result being that premiums go up, coverage goes down and crop insurance fails to provide the necessary financial resources to keep farmers farming.

And so if we don't do something about disaster assistance in the near future, what we will be dealing with is fewer farmers and probably larger farmers, when we begin working on the farm bill again in the spring.

So, Mr. Pomeroy, I would tell you that I asked a number of Members of Congress to join me in my office, particularly Republican Members, before the August recess to talk about this issue. We look forward to working with you even later this week as we try to bring farm organizations and commodity groups together to demonstrate the need for assistance. And I appreciate the chairman's interest in this topic as well.

Just a couple of thoughts: I am interested from the—particularly the equipment side maybe—and maybe it is also true of the chemical side of agriculture—what do we see in the world economy? Are we selling more and more equipment abroad? Are we losing the growth of agriculture to foreign competitors? How is your market and what you sell; is it the domestic versus international?

Mr. FRAZEE. Well, in our case, it is. It has become a real worldwide market for farm equipment. As I stated earlier, we are a John Deere dealer. John Deere has worldwide production facilities and manufacturing facilities, and the products move back and forth; some of our product lines are built at Deere factories overseas, some of the domestic production of Deere and other manufacturers based in the U.S. is shipped overseas.

I am not on the manufacturing side of it, so I am not going to try to begin to tie that. I can explain why that has happened, but a lot of it has to do with the—as the company, as Deere wanted to become worldwide, a lot of countries had domestic requirements.

Mr. MORAN. What about the sale of agriculture equipment? Do you have a sense of whether a larger portion of what Deere is selling is sold abroad as compared to domestically?

Mr. FRAZEE. I don't have a sense for that, to be honest with you, except for certain product categories. I do know, for example, that self-propelled forage harvesters, there are a lot more of those products sold in Europe than there are in North America.

Combines, it is just reverse; there are a lot more combines sold in North America than there are in Europe, for example. But in total number of units or dollars I couldn't give you any percentages.

Mr. MORAN. Mr. Vroom, in the chemical world?

Mr. VROOM. Substantial shift toward agricultural chemical and manufacturing for export in China, as well as India. And some of the rules of the World Trade Organization, particularly with China's ascension into the WTO, are helping make sure that some of the intellectual property requirements are respected. But some were not.

The other thing, of course, when you are dealing with a country like China, 1,600 pesticide manufacturers hardly a one of those doesn't have some state ownership. That is an issue, but it is a factor that I think our industry is coping with.

And, frankly, the manufacturing quality in places like China and India has increased substantially and it has shifted the marketplace in the United States. A substantial amount of the crop protection products American farmers use today are coming from overseas. We still are net exporters of these products, but margin has narrowed.

Mr. MORAN. Mr. Craig, my time has expired, but perhaps you can answer this question in writing later.

I am interested in hearing your perspective about transportation, rail and truck in particular, short-line class 1 carriers. In our elevator world, transportation is a huge component of our ability to compete in the world. And I know that we have a significant difficult time in our rail, in particular, meeting our transportation needs.

So I would be glad to hear from you if that is something you would like to express on the record.

Mr. CRAIG. Well, I think transportation issues today are critical throughout the U.S., whether it be rail, roads, trucks, bridges, or water.

Today, when you go to the railroad and ask for their help, they are going to ask, What can you do for me? Railroads, along with all forms of transportation, are searching for efficiencies and at the same time trying to meet their customers' needs. They don't have enough equipment. They don't have enough power. They are not interested today in serving a short-line shipper. They want unit trains; they want 110-car unit trains, and they want that train to run both ways. And they want you to manage that train for them for a certain part of the year. That has been our experience, and that is where we have received our best rates. Today, we don't have any retail locations or grain facilities that are not unit train operators.

The short lines have gone out, and those facilities are operated by truck; and that puts a tremendous burden on the infrastructure as a whole.

Mr. MORAN. Thank you, Mr. Craig.

In addition to moving commodities, one of the things we try to bring to the rail industry is awareness and recognition that with biodiesel and ethanol plants, there is a whole new world of transportation needs in agriculture that are desperately going to need to be met.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Georgia, Mr. Marshall, is recognized.

Mr. MARSHALL. Thank you, Mr. Chairman.

I would like to associate myself with the remarks of both Mr. Pomeroy and Mr. Moran with regard to drought and disaster payments. I do think we need to address the long-term problem associated with the uncertainty associated with disaster payments.

I have got a number of farmers who have CRP lands and would like to gather pine straw. They contend that gathering pine straw does nothing that is contrary to the CRP program, and yet they can't do it because it is commercial activity; and if they were permitted to do it, they say that then they would be willing to take less money to put their lands in CRP.

It seems to me that with competition for land that will ushered in as a result of using a bunch of our crops for energy, it is going to become more and more expensive for us to maintain our CRP programs, and that those designing those programs in USDA and on this committee need to be thinking a lot about how do we design those programs in a way that furthers the conservation interests, at the same time permits some commercial use of the properties that is consistent with conservation interests, and so we will put some dollars behind—frankly, I think it is going to get too expensive for our CRP program to just put land aside and let it be totally useless commercially.

I would be delighted to have some comments from you all about how we might redesign our CRP program so that we can actually encourage conservation in critical places and, at the same time, permit commercial uses, which extends our dollars and gets more lands used for conservation purposes.

Mr. Craig, you talked about this in your written testimony. You might want to comment first.

Mr. CRAIG. I feel that class 3, class 4 land that is highly erodible today, I don't know that those acres will actually come out of CRP. They shouldn't, and we need to do what we need to do to make sure that they don't. Those are acres that shouldn't have been broken out in the first place.

That is a tough question to answer. Those acres need to stay in CRP, and they need to be used as filter strips and buffers.

Mr. MARSHALL. You do agree that as the competition for land not only to feed folks but to produce energy goes up, we are going to have to pay more? If we are going to pay market rates, we are going to have to pay more money to keep those class 3, class 4 lands in conservation reserve because people are going to want to use them?

Mr. CRAIG. That is exactly correct.

Mr. MARSHALL. So how can we introduce some value that the landowner can get out of that property and yet keep it in some sort of sort of conservation state so we are not eroding lands wildly? That is the question.

Mr. CRAIG. I totally understand the question. It is basically going to come down to economics, I think. I don't know. A landowner is going to look at what is the best economic value for the acre.

Mr. MARSHALL. I am not a farmer. But let's say we could get in particular lands the same kind of soil retention and restoration from switch grass that when it is cut is only cut off at two-foot high or something like that. Those are the sorts of things we need to be thinking about and encouraging. And I think you all are going to have to take the lead, because we are going to have a fair bureaucracy here that simply defends the conservation program.

"Let's keep it Eden-like and not have anything occur on that land that is at all commercial" is sort of where our mind-set is right now. Someone is going to have to bust through that mind-set if we are going to have a practical conservation reserve program, and you guys have to take the lead.

So any thoughts you have on that subject.

Mr. VROOM. Mr. Marshall, I think Congressman Peterson addressed this in his opening remarks that market opportunity for biofuels, coupled with the evolution of technological advancement for switch grass and maybe other crops that we haven't even heard about yet, will change these equations.

And I think you are exactly right that this committee and others that influence policy going forward, around how CRP can be maybe dual-use, both for conservation and renewable energy, is something critical to our ability to then capitalize on those kinds of opportunities.

And I think you are exactly right that being able to get an economic crop and still maintain the conservation objectives of CRP land ought to be something that is entirely doable and could enormously benefit our farm economy.

Mr. MARSHALL. I see my time is up, Mr. Chairman. I encourage the chairman in guiding staff here to get us thinking along those lines.

The CHAIRMAN. I thank the gentleman.

The gentleman from Oklahoma, Mr. Lucas is recognized.

Mr. LUCAS. Thank you, Mr. Chairman. I apologize for being away for a minute. When you have 20 members of the Oklahoma Farmers Union, attention has to be focused on them always.

Mr. Frazee, let's talk about CRP. You mentioned in your opening comments about how you indicated in certain situations in New York, perhaps that CRP rates were too high.

Is that a fair assessment of what you said? And if so, how does that impact agriculture and conservation in New York State?

Mr. FRAZEE. Yes, there are cases where CRP payments are higher than alternative land uses for agriculture. And when that has happened in any great degree, it has taken that land out of production. So that whole series of the revenue that we would be getting out of that land is turned over three or four times in the economy so that the agriculture business in the whole rural infrastructure is harmed. As a result of that land being put into a CRP program, that payment is higher than market rates.

Mr. LUCAS. So if we get the rates too high, then we change the fiber of the community, we move it from production agriculture, perhaps a tendency towards absentee land ownership at this point, and we disrupt the community and we disrupt the agriculture and the local community.

That is a very good point about what happens when the rates are too high.

Mr. Craig, you mentioned in your testimony, if I understood you correctly, the importance perhaps in the 2007 farm bill of making sure that nonfarmers do not benefit from some of these payments. And there have been a number of newspaper stories about land in parts of the country that were once in production, that qualified for the annual payments, that now because of different land uses have become housing developments or whatever; yet those payments come along.

Is that the kind of thing you were getting at when you were talking about making sure that money doesn't go to nonfarmers?

Mr. CRAIG. Along those lines, yes, sir; and also the fact that there is much acres today being used for recreational purposes, i.e., hunting, fishing, just to get out, a way just to get out of the city. We see a tremendous amount of influx today from nonagriculture use, nonagriculture producers driving land prices up for recreational usage.

I don't know that that is all a bad thing, necessarily. But those payments—when those agriculture lands are in the programs, and those payments—we need to make sure we send the payments to people that are actively involved in agriculture.

Mr. LUCAS. Along those lines, there have been discussions here about alternative energy uses and how that would affect CRP in a roundabout way in commodity prices.

You are very close to producers because they are making their decisions and buying your products and using your services. Is it fair to say that with the continued trends that we see in rural energy production, Oklahoma now having announced two 55-million-gallon ethanol plants in two different communities in the State, for example; do you think that if the renewable energy industry continues to take off—and we have a 7.5-billion-gallon requirement for ethanol, passed into law in the energy bill last year. Do you see the potential for some of this better land perhaps being pulled out of CRP and put back into production if the economics are there?

Mr. CRAIG. Definitely that will happen. We will see energy buy acres out of CRP. I think we will see energy buy land shifted from other crops. We will see a shift. There will be land taken out of CRP and put into growing production crops, that's correct, whether it be corn, wheat, beans, canola.

Mr. LUCAS. So farmers are like any other good economists; they respond to market conditions and adjust their decisions.

Mr. CRAIG. They are going to adjust to decisions based on contracts.

I think in a new farm bill we need to look at these CRP contracts. Maybe we should tighten them up a little bit, shorten up the years, give them opportunities to be more flexible.

Mr. LUCAS. Flexibility, of course, is a big component of the 1996 and the 2002 farm bill and hopefully something that will be, once again in a prominent way, in the 2007 farm bill.

Do you see those acres shifting in Oklahoma? Have there been adjustments in how much wheat is planted? Have you seen farmers responding to the market signals?

Mr. CRAIG. In north central Oklahoma, north of that corridor around the I–35 corridor, up to the Kansas border, that area seems to receive a little more moisture historically. Those acres are shifting acres from wheat, traditional wheat, into corn and some beans. Western Oklahoma, some of the better ground, the irrigated ground, they are growing corn. And we see that continuing and we see those acres of corn increasing.

Mr. LUCAS. Thank you.

Mr. KING [presiding]. The Chair recognizes the gentleman from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. And first of all, let me apologize to our witnesses. This is a very busy day here in Washington. We have lots of groups come in to see us, and it is not that this is not an important meeting. The attendance isn't as good as it really should be, and I have been in and out myself, because I have people who are coming to Washington to meet with me. Let me apologize for that.

I have caught part of your testimony and part of the questions. I don't have so much a question, but more of a comment and perhaps you will want to respond to it.

I have a gentleman who lives in my district who is now the president of the National Corn Growers Association; his name is Gerald Tumbleson. And Gerald Tumbleson made this observation; and I have spent a lot of time just thinking about this, and I would like to have you think about it, and if you care to respond, you can. But he says, there are only two things the world needs more of: One is energy and the other is protein. And I think as we begin to look long term at farm policy here in the United States, I think we have to have that almost as an underpinning.

As we look forward, as we sort of look over the horizon, we have to ask ourselves, how is it we can shape farm policy here in the United States so that we cannot only take advantage of what I think is that fact, but become the market leaders.

And, again, I don't expect you to have any brilliant answers to that question or that comment right now. But I would hope, on the plane on the way home you would think a little about bit about that, and how do we craft the next farm bill so that we are in a position that we become the world leaders in being a provider of both energy and of protein.

And so, with that, if you care to respond to it, you are more than welcome to. If you just want to take it home with you and think about it, because I think in the next several months we have to begin to think visionary in terms of, what kind of a agricultural program are we going to have in the United States that will encourage our producers to be the world's best in those two categories?

I yield. If you want to respond, you can.

Mr. VROOM. I think you have raised a very good point. And Mr. Tumbleson is correct in focusing on these two high priorities. If you think about another competitive country in contrast to the United States, from an agricultural production standpoint, think of Brazil and think of the expansion that they have enjoyed with regard to soybean production. But at what cost in how they achieve that?

Have they actually done everything according to WTO rules in expanding their soybean production or not? And are they playing fair with regard to the way they allow their farmers to pay their bills and the like?

Anothe big image that Brazil has is being so progressive with regard to the dependence on ethanol and the growth of their ethanol industry. But if you look at the facts, we already exceed Brazil in ethanol production in the United States. We just happen to burn a lot more gasoline than Brazil does. And if you add to that the number of ethanol plants that have already been announced for construction in the United States, Brazil will never catch us with regard to ethanol production.

So we need to protect what we have, make sure everybody is playing by the same rules and try to continue to advance with regard to trade as well as our domestic policy.

Mr. MCGREGOR. I would hope that we could continue to look at energy produced by agriculture in a broader way, as well as beyond foreign and ethanol. In the Pacific Northwest, we have opportunities, we think, to be able to produce biodiesel with canola. We cannot grow corn there in dry land agriculture, but canola has potential. The challenge is it is the old chicken or egg conundrum, if you will, a crushing plant would be put in if there were enough acres to make the crushing plant viable. Growers would put in enough acres if there was a viable market that would come from a crushing plant.

I think there are some things that can be done, and I hope you will consider.

We have focused upon canola research in our land grant universities on shoestring budgets; and more assistance to help us develop varieties suited to the growing conditions of our region would be very valuable.

Also, it is such a huge risk at such a perilous time for growers to move into a rotational crop like canola; with a 7 percent loan rate, that could mean failure. A stronger loan rate might give people an ability to take some risk.

We would like to have other rotational crops and be able to produce energy and hope you can help us.

Mr. KING. Gentleman yields back and the Chair would recognize himself for 5 minutes and direct his first question to Mr. Craig.

We are looking at a corn crop this year. I don't know if your testimony has stated. Are we going to be in the area of perhaps 11 billion bushels?

Mr. CRAIG. I don't recall. I don't recall actually saying that in my testimony.

Mr. KING. I am asking if you think that is in the area. Would you agree that we will raise perhaps 11 billion bushels of corn this year, just as a matter of judgment call from what we know?

Mr. CRAIG. Yes, sir. Yes, sir. I don't think that is out of the question at all.

Mr. KING. And we are looking to the potential to be able to raise perhaps 15 billion of bushels of corn.

And where I am going with this question—and I am watching you nod your head to that number—as we produce more and more ethanol, and the corn, the demand for more and more corn is going to take a higher and higher percentage of our corn production for ethanol, we think we can expand that production. But in the end, if we take this thing out by, say, the year 2015, if we raise 15 billion bushels of corn, and we commit perhaps a third of that to ethanol production, a lot of us hope that will be 15 billion gallons of ethanol.

Then what do we say to the feed grain consumers out there, particularly the swine industry and poultry industry? How do we meet that demand as we watch the demand grow for energy production out of our corn product, for example?

Mr. CRAIG. Well, the numbers that you quoted, I think they are definitely within reason; and I think that the possibility exists, through genetic technology, that corn yield number could even be higher, depending on the demand.

I do think that we are going to see a replacement from feed grains, i.e., corn and feeding operations, that some of that will be replaced with BDGs which will be a byproduct of an ethanol plant. I think it could also be replaced with canola meal, for example, out of a crusher or soybean meal out of a bean crusher. So there will be some trade-offs.

It is going to be extremely interesting to see what happens down the road, there is no doubt about that. Our hope, the agriculture industry's hope, is to see there will be some acres coming out of CRP, obviously for soybean production where there is water available.

I think, too, genetics, as I said, will see increases. And so hopefully we can fill that void and fill that demand.

Mr. KING. Let me submit that the same equation—I appreciate your response to the question—also exists for the soybean industry, and so where I am really going with this question is, then do you see our grain exports go up or down in the next 5 to 10 years?

Mr. CRAIG. They probably will not increase because of the demand at home. But a lot of that is going to depend on genetics, what kind of weather conditions we have foreign policy.

Mr. KING. In other words, you say if you anticipate a strong domestic market that might keep more of that grain at home, or be likely to?

Mr. CRAIG. Yes. Obviously when we ramp up our energy product, energy production, i.e., ethanol plants, more ethanol plants, more demand, that will hurt export demand until we catch up with genetics and land shift uses.

Mr. KING. Thank you, Mr. Craig.

And directing my next question then to Mr. McGregor, I listened to your response in one of our earlier questions with regard to nitrogen fertilizer industry. I'm not sure my ear was tuned accurately enough, but if I remember correctly, you said 25 nitrogen plants have been shut down since 1995 and perhaps 30—was that 39 percent of the production?

Mr. MCGREGOR. Thirty-five.

Mr. KING. Thirty-five percent of the production.

So then I would ask you, can you characterize for the committee what the nitrogen production fertilizer industry in America looks like today? How many plants have we left? And how long do you expect them to hang on at these current natural gas prices that we have?

Mr. MCGREGOR. There are still a few U.S.-based manufacturers of nitrogen. We certainly hope they will continue.

We have gone from being a nitrogen-exporting country to a country that imports close to 50 percent of its needs. New production plants are going on line in countries of the Caribbean, in countries around the Red Sea. We are not seeing new production plants going on line in the United States.

I do think, with the availability of pipelines and infrastructure already in place, out in a portion of the Gulf of Mexico that there could be a chance to provide a major boost for what remains of the domestic nitrogen industry by providing us access to affordably priced natural gas. And I hope that occurs.

Mr. KING. And Mr. McGregor, I asked the question because my reaction earlier was that as essential as this is to our food production in America, as essential as I know you know it is, it seems to me that your response was just a bit tepid given the urgency of this.

And so I wanted to emphasize this point: That the numbers that I hear out of the industry are that there are perhaps 406 trillion cubic feet of natural gas on the Outer Continental shelf. Why would we not want to open that whole thing up and immediately, in one fell swoop, save the natural gas and fertilizer industry in America?

Mr. MCGREGOR. I will replace my tepid comment with a passionate one.

We need to protect and enhance what remains of our ability to produce nutrients needed to grow foodstuffs for Americans and people overseas. There could be little else that would be as urgent as that. We need help and we need it soon.

Mr. KING. The Chair thanks the gentleman for his passion and all the witnesses for their testimony. We appreciate the record that you have helped build here today and your contribution to this future policy that we will be developing out of this Agriculture Committee.

And, again, I thank you and dismiss you and ask the next set of panelists to please step forward and be seated.

Thank you, gentlemen.

Now that the second panel is seated, I welcome you as witnesses before this committee and make the introductions of the witnesses.

First, Ms. Audrae Erickson, who is president of the Corn Refiners Association from Washington, DC; Mr. Mike Malecha, senior vice president of US Bioenergy on behalf of the National Grain and Feed Association from Inver Grove, Minnesota; Mr. Rick Schwein, senior vice president of Grain Millers, Inc., on behalf of the North American Millers Association from Eden Prairie, Minnesota; Ms. Sharon Clark, vice president of the transportation, Grain, and Oilseed Division of Perdue Farms, Incorporated, on behalf of the Alliance for Agricultural Growth and Competitiveness, from Salisbury, Maryland; Mr. Paul Palmby, executive vice president and chief operating officer of Seneca Foods Corporation, on behalf of the Canned-Frozen Food and Growers Coalition, from Janesville, Wisconsin; and Mr. Fred Hensler, commercial director of Mars, Inc., on behalf of the Sweetener Users Association, from Hackettstown, New Jersey.

Initially, I would recognize Ms. Erickson and please begin when you are ready, Ms. Erickson.

STATEMENT OF AUDRAE ERICKSON, PRESIDENT, CORN REFINERS ASSOCIATION

Ms. ERICKSON. Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to share the views of the Corn Refiners Association.

The Corn Refiners Association, or CRA, represents the corn wet milling industry and has done so since 1913. Our members produce a number of products for food use—highly specialized corn starches, corn oil, corn sweeteners, to name a few, among others—as well as animal feed products like corn gluten feed and corn glutenmeal and a number of products for industrial use such as ethanol and bioplastics. We process up to 17 percent of the annual corn crop for nonethanol products alone each year.

Our industry has formulated a position for the 2007 farm bill, a position that stems largely from being a victim of a long-standing trade dispute that has cost our industry more than $4 billion over the past 10 years. In specifics, the CRA has no higher priority than the long-term, permanent resolution of the decade-long high fructose corn dispute with Mexico; and the permanent resolution of this issue is linked to the operation of the U.S. Sugar Program, an issue of key consideration for the next farm bill.

Specifically, the long-term resolution of the dispute rests on two-way free trade in sweeteners between the United States and Mexico, as envisioned by the NAFTA, effective January 1, 2008. How the U.S. Sugar Program is structured under the next farm bill is crucial to ensuring that the free trade promise under the NAFTA is realized in 2008 not only for our industry, but many others as well.

If any element of the Sugar Program restricts or otherwise negates free trade in sugar between the United States and Mexico, then corn sweeteners will be taken hostage yet again. Mexico will simply stop imports of our high-quality sweetener at cost and loss of jobs to our industry.

It is imperative that the next farm bill not limit imports of sugar from Mexico through marketing allotment provisions or some other mechanism. To do so would be in strict violation of U.S. commitments under the NAFTA, an agreement that has been highly beneficial for U.S. agriculture exports including beef, pork, poultry, dairy, corn, soybean meal, apples, dryable beans and rice.

If the U.S. does not live up to its NAFTA commitments for sugar, we can be certain that Mexico will be under intense political pressure to nullify its NAFTA free trade commitments for these high-value U.S. exports, because these are Mexico's import sensitivities. Net farm income will drop precipitously if the Mexican market, a top export destination for many of these exports, is shut off.

As you know, the 1.532 million short-term import trigger established under the marketing allotments in the 2002 farm bill currently enables only about 276,000 short terms of imports of sugar, and that would encompass not only imports from Mexico, but other bilateral free trade partners as well; and that would be above and beyond what we owe to the WTO. In short, the existing market allotment trigger for sugar imports from Mexico would be incompatible with our NAFTA obligations if continued in the next farm bill.

No sugar provision should stand in the way or act as a limit to full implementation of two-way trade in sweeteners, as I mentioned. The CRA will not be in a position to support the U.S. Sugar Program in the next farm bill if imports of Mexican sugar are subjected to or limited by marketing allotments or any other aspect of the Sugar Program.

For further consideration by this committee, it is clear that the Sugar Program as is currently constructed will no longer be a no-net-cost program beginning in 2008. As forecasted by the Congressional Budget Office, the program will begin to incur taxpayer costs in 2008 with annual costs averaging $248 million from the years 2008 through 2016, and reaching $340 million annually by 2016. These projected costs are a direct result of the anticipated imports of sugar from Mexico.

Finally, the corn gluten milling industry is very supportive of the efforts of the Sweetener Users Association, who will testify momentarily, to reach out to the broader sweetener industry, including sugar growers and refiners, to formulate a sugar policy that maintains a viable sweetener economy and is beneficial for all aspects of the sweetener industry, including the corn refiners.

We thank you for the opportunity to testify before this committee, and hope that our comments concerning the need to ensure full implementation of U.S. commitments for free trade in sugar with Mexico will be fully incorporated in the sugar provision of the next farm bill.

Thank you.

[The prepared statement of Ms. Erickson appears at the conclusion of the hearing.]

Mr. KING. Thank you Ms. Erickson.

The Chair recognizes Mr. Malecha for his testimony.

STATEMENT OF MIKE MALECHA, SENIOR VICE PRESIDENT, US BIOENERGY CORPORATION

Mr. MALECHA. Thank you, Mr. Chairman. I am Mike Malecha, and I am senior vice president of US Bioenergy Corporation, based in Inver Grove Heights, Minnesota. I have over 30 years' experience in the food, feed and industrial agriculture industry. US Bioenergy is a producer-marketer of ethanol and distillers grains.

I am on the board of the NGFA, National Grain and Feed Association, and my background in both the traditional agriculture business and the expanding ethanol business gives me a perspective on the biofuels revolution that may shape the needs and the revision of farm policy.

The NGFA has a long history of leadership and involvement in agricultural policy issues, a testament to the importance of these issues that play in U.S. agricultural competitiveness and our industry's ability to grow its economic base and serve domestic and world markets.

To continue to have opportunities to expand in all sectors of agriculture and remain globally competitive, NGFA has identified four major priorities for the next farm bill:

First, understanding how large and how fast the biofuels market will grow, and to craft policies that foster production to meet this demand to serve all grain-dependent sectors;

Second, adjusting the conservation reserve program to provide opportunities for U.S. agricultural growth, while enhancing protection of environmentally sensitive lands;

Third, developing farm programs that provide opportunities to take advantage of market potential and minimize further trade disruption brought about by litigation under the World Trade Organization; and

Fourth, minimizing Government involvement in grain stocksholding to avoid price depressing impacts on agriculture 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 5 years will be the development rate of the biofuels industry.

For the NGFA, biofuels is 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 manufacturers, the largest grain exporters and some of the largest poultry integrators in the United States, as well as several very large food companies. Each may have a different focus, but they share one important priority: ensuring 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 the land and to transportation. Forecasts regarding the ethanol industry's likely expansion rate in coming years range from USDA's most recent estimate of 10 billion gallons of capacity achieved by 2012 to some private estimates that forecast production will exceed 10 billion gallons in less than 3 years.

Estimates suggest that 35 percent or more of the corn crop could be utilized for ethanol during the life of the next 5-year farm bill. Today, provided projected ethanol returns remain reasonably healthy, the market has the capacity and the financial backing to add roughly 2 billion gallons of ethanol capacity every year, representing more than 700 million bushels of new corn demand each and every year. And the bottom line is that impacts could be huge.

To avoid supply disruptions to all users of corn, the market needs to have the opportunity to bid more acres into corn production. Recognizing that there will be some annual improvements in yield, there are only two substantial ways to accomplish that: one, to pull acres now used for other crops into corn production; or implement policies flexible enough to permit the market to bid for productive, nonenvironmentally sensitive land expiring from CRP.

Over the life of the next farm bill, it is entirely conceivable that the United States will require an additional 8 million to 10 million planted acres of corn to avoid triggering sharp declines in livestock profitability, supply interruptions and long-term export market issues. Without some reductions to idle CRP acres, other crops could lose substantial planted acres.

NGFA certainly recognizes the importance of conservation measures; however, there is also a need to support U.S. agricultural growth and a healthy rural economy. As such, the NGFA supports conservation programs that foster sound farmland conservation and environmental stewardship practices while reducing the idling of productive land resources.

In context, we believe several CRP policy options merit consideration, such as reducing the current statutory cap on CRP enrollments, placing a statutory limit on annualized authorized funding levels and/or altering rental rates that are established to ensure Government does not overpay for subsidized item programs. Government bidding for productive CRP acres in competition with the private sector hampers efficiency and dampens U.S. agricultural growth.

Regardless of the method, it is critical for the long-term viability of the U.S. grain and oilseed industry to provide sufficient flexibility to bring idle cropland back into production when market conditions warrant.

Another consideration for Congress is adjusting CRP to ensure that any acres that exist exit the program on an even footing with other base acres with respect to farm program payment eligibility. Unless such equity is achieved, there will be significant economic disincentive to restore nonenvironmentally 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 while meeting the demand for corn from export, livestock and poultry markets as well as food processors.

Hiring protective farm land runs counter to the support Congress and the administration has shown to biofuels and creating opportunities for growth. NGFA is not alone in expressing concerns about CRP. The message is a wide range for U.S. agriculture is clear.

Thank you.

[The prepared statement of Mr. Malecha appears at the conclusion of the hearing.]

Mr. KING. I thank the gentleman and recognize Mr. Schwein for his testimony.

STATEMENT OF RICK L. SCHWEIN, SENIOR VICE PRESIDENT, GRAIN MILLERS, INC., EDEN PRAIRIE, MN, ON BEHALF OF THE NORTH AMERICAN MILLERS' ASSOCIATION

Mr. SCHWEIN. Thank you, Mr. Chairman and other members of the committee.

I am Rick Schwein. I am senior vice president with Grain Millers, Incorporated. We are a privately owned processor headquartered near Minneapolis.

We employ about 350 people in our mills and packaging plants in the United States. We operate oat mills in St. Ansgar, Iowa and Oregon as well as a mill in Canada. We pack private label and branded hot cereals and process and blend wheat, barley and rye and other grains to meet the growing demand for whole grain products.

I have been in the grain and milling industry for more than 30 years and am here today representing the North American Millers' Association. NAMA's members produce more than 160 million pounds of mill grain products from wheat, oat and dry meal corn products every day, over 95 percent of the industry capacity.

The food millers of oats in the country will use about 120 million bushels of oats this year, over 90 percent of which are imported. Last year, in 2006, the crop was merely 107 million bushels. That is the lowest level of oat production in the country since the USDA has been keeping records just shortly after the Civil War when President Lincoln created the department.

Over the last 20 years, we have seen planted oat acreage collapse. Mills have shut down. Hundreds of jobs have been lost in the oat industry. And we see—as Congressman Peterson mentioned earlier, we see the dilemma in this industry in oats today is exactly where the wheat industry is headed if the crisis—the developing crisis in wheat isn't addressed. The area planted to wheat has dropped by 18 million acres, or 24 percent, in just the last 10 years.

Not too many years ago—certainly when I got started in the industry and much more recently than that—the thought that the Unites States would import cereal grains was simply unthinkable. Now, however, we are all eating imported oatmeal every day and in most years U.S. millers are importing hardwood Spring wheat for bread and bin wheat for pasta to supplement the shortage in the U.S. crop.

There are a lot of reasons for this precipitous decline in wheat and oats, but today I focus on two factors: the farm program and the conservation reserve program.

If we look at the Federal farm program, it is clearly telling our producers around the country, Uncle Sam is saying don't plant wheat. Don't plan oats. Plant corn. Plant beans. Plant other minor crops with high support prices, but don't plants wheat or oats.

We think what we need is to look at the situation and develop a farm program that doesn't discourage production of one crop but rather supports multiple decisions by the producers.

In addition to the problems with the farm program, we have heard it said this morning, since 1986, the CRP has idled as much as 36 million acres of land, and that is principally concentrated in wheat- and oat-growing regions. Now absolutely some of that land is highly erodible, never should have been planted to crops in the first place and should remain in some conservation program. However, a big share of that acreage could be farmed today in environmentally sustainable ways.

As we look ahead, NAMA believes that, with courageous action in the new farm bill, Congress has an opportunity to breathe life into this vital food-strategic industry for whatever amount of money Congress deems appropriate to provide as a safety net for growers. We implore you to look for mechanisms for distributing that money in ways that do not distort or influence producer or planting decisions. We must end up with a farm bill that allows the markets to determine what needs to be planted. My colleagues, the wheat and oat millers, are more than willing to compete with processors of competing crops to encourage farmers to plant more of the grains that we need through higher prices, but we can't compete with the deep pockets of the U.S. Treasury.

We support retaining truly environmentally sustainable land. We believe environmental goals can best be met by focusing conservation dollars on waterway filter strips and similar areas which provide the best return on that investment. But retiring entire wheat farms doesn't seem to make a lot of sense.

Another benefit or possible direction for the release of some of these CRP acreage is to look at converting that land into organic grain production. It is the largest growing segment in the demand for processed grains that we have, and that acreage would be ideally situated to moving into organic production.

We also need to look at the CRP rules to add flexibility so growers can respond to the market signals like higher prices without extreme penalties, as currently is the case.

There should be little doubt that the U.S. is going to need these extra acres. Mike just mentioned we are going to need over 10 million acres of corn over the next 3 or 4 years. That is an increase of about 13 percent, but where will these acres come from? Oats have nothing left to give. That is all gone already, and wheat is headed for the same crisis.

Failure to significantly reform the CRP could mean that reducing our dependence on foreign oil may result in an increased demand for dependence on foreign grain. I find it the height of irony that the U.S. Government through the Food and Drug Administration in the U.S. 2005 dietary guidelines were encouraging consumers to eat more grains, but, at the same time, we are very directly discouraging growers from producing those very same grains.

We believe Congress has a major opportunity to improve conditions for the entire wheat and oat value chain from producer through the end consumer. This can be achieved, we believe, by reforming the farm program to reduce the Government-caused distortions of production decisions and by reforming the CRP to allow sustainable acres back into production.

Mr. Chairman, thank you very much. I am delighted to have the opportunity to address the committee today.

Mr. KING. Thank you, Mr. Schwein.

[The prepared statement of Mr. Schwein appears at the conclusion of the hearing.]

Mr. KING. Ms. Clark.

STATEMENT OF SHARON CLARK, VICE PRESIDENT, TRANSPORTATION, GRAIN AND OILSEED DIVISION, PERDUE FARMS INCORPORATED, SALISBURY, MD, ON BEHALF OF THE ALLIANCE FOR AGRICULTURAL GROWTH AND COMPETITIVENESS

Ms. CLARK. Thank you, Mr. Chairman, for the opportunity to participate in this important and very timely hearing regarding a new farm bill. On behalf of the Alliance for Agricultural Growth and Competitiveness, or the AAGC, I appreciate your invitation to share the Alliance's recommendations to help enhance U.S. agriculture's ability to meet the demands of expanding markets at home and abroad.

My name is Sharon Clark, and I am vice president of transportation for Perdue Farm's Grain and Oilseed Division. Headquartered in Salisbury, Maryland, Perdue Farms is a major producer of agricultural products, from refined soybean oil to feed ingredients to poultry.

Agriculture is in a period of dramatic change, becoming a source of energy as well as food and fiber for global consumers. During the years ahead, the growth and demand for agricultural products is expected to be strong. Hundreds of millions of people in the large population countries of Asia are earning more income and upgrading their diet to include more meat, poultry and dairy products. Around the world, the high cost of energy is pushing agriculture toward ethanol and biodiesel production. Within the U.S., the demand for corn for ethanol use is expected to grow by 30 percent a year over the next couple of years, with a likely doubling of corn use for ethanol to nearly 3 billion bushels to 2010 or shortly thereafter. U.S. biodiesel production from vegetable oils and soybean oils and other oils is expected to grow even faster, although from a smaller base.

The AAGC respectfully reminds policymakers of the tremendous importance of the domestic livestock and poultry sector when foreign policy changes are being considered. The period ahead offers great opportunities for growth in U.S. agriculture so long as our agricultural base remains competitive and U.S. farm policies and programs that market base choices decide the future balance among users and allows full production on productive U.S. farm land.

One of the most important elements of a new farm bill is to successfully address the increasing demands on agriculture for food and energy. The AAGC respectfully submits the following recommendations:

First, the Congress should allow some of the non-erodible, non-environmentally sensitive land in the CRP to respond to market signals to return to agricultural production. This is critical to U.S. agriculture because there could come a time in the years ahead, especially if unfavorable weather should occur, when U.S. agriculture may not be able to meet the increased demands for ethanol and biodiesel while meeting the needs of U.S. production of poultry, livestock products and exports. We are entering an era where fuel will be competing with food for U.S. agriculture products, and it is vital that all viable acreage be available to come into production to ensure adequate supply of grain and field for fuel and food.

Second, the Congress should proceed on schedule to draft and enact a new multi-year year farm bill in 2007. The U.S. needs a new farm bill that modifies current programs to assure the U.S. remains competitive and can take advantage of the growth opportunities ahead. Further, a new farm bill is necessary to address World Trade Organization obligations. Addressing those obligations now in a positive manner through a new farm bill will allow the U.S. to advance an aggressive international trade agenda that will improve the outlook for growth in the agriculture growth sector. Otherwise, in the years ahead major crops will be subject to the uncertainty of trade litigation in the WTO and we may be faced with a need to alter farm programs mid-stream or, worse, face trade litigation.

Third, the Congress should continue its current policy of not supporting Government storage programs. Programs which pay for storage of grains and oil seeds compete with and replace storage that is normally provided by producers commercials to carrying charges in the market. In addition, Government-controlled stocks want the price signals needed by the producers to react to changing market conditions.

Fourth and finally, the Congress should move towards less market-distorting income support programs. Direct income support payments tend to be the least market distorting, allowing producers to react to the rapidly changing markets expected in the period just ahead.

Mr. Chairman, I have submitted written copies of my testimony and request that they be accepted into the record. Thank you for the opportunity to speak.

Mr. KING. Your documents will be accepted into the record without objection.

[The prepared statement of Ms. Clark appears at the conclusion of the hearing.]

Mr. KING. The Chair recognizes Mr. Palmby.

STATEMENT OF PAUL PALMBY, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, SENECA FOODS CORPORATION, JANESVILLE, WI, ON BEHALF OF THE CANNED-FROZEN FOOD AND GROWERS COALITION

Mr. PALMBY. Thank you, Mr. Chairman and members of the committee. I am Paul Palmby, executive vice president and chief operating officer of Seneca Foods Corporation.

Seneca Foods is the largest food and vegetable processor in the country, with 22 plants located in New York, Wisconsin, Minnesota, Illinois, Idaho and California. We contract directly with over 3,000 producers for over 300,000 acres to supply our plants with raw product.

Mr. Chairman, I would like to thank you and Mr. Peterson for the opportunity to testify today on behalf of Seneca's 12,000-plus full-time and seasonal employees as well as the Canned, Frozen Food and Grower Coalition. CFFGC is a coalition of food and vegetable farmers, processors, trade associations and others from across the Midwest which seeks flexibility for farmers to diversify by producing fruits and vegetables for processing. The principal vegetables at issue are tomatoes, sweet corn, green beans, peas, pumpkins, lima beans, cabbage and red beets, all grown under contract for processing.

I would like to emphasize that the 2002 farm bill FAV production restrictions are not a processor problem so much as a problem for agriculture in the Midwest. The most direct and substantial damage caused by the FAV restrictions is borne by producers seeking to diversify. When Charlotte Ousley's husband was killed in a farming accident, the Farm Service Agency wrote her to say that she and her children would not be allowed to continue vegetable production under her late husband's grower history.

Each year, as growers across the Midwest are forced out of the vegetable production or choose to stop growing fruit and vegetables for processing, the supply of fruits and vegetable for processors is reduced. The accumulating loss of growers poses a long-term threat to the processing industry, creating a substantial opportunity for our primary competition: foreign producers of processed fruits and vegetables.

Seneca foods is currently the largest exporter of canned vegetables, with nearly 10 percent of our revenues derived from sales to over 60 countries. Having traveled in the last 24 months to both Thailand and Brazil, I can report firsthand that their quality is improving, their productive capacity is expanding, and their efficiency is increasing. There is simply no question as to whether they will match our domestic quality and consistency. It is merely a question of when.

The factors limiting U.S. competitiveness, like the restrictions on fruit and vegetable production, are a serious threat to our U.S. vegetable processing industry.

Mr. Chairman, the 2002 farm bill FAV restrictions have hurt U.S. vegetable processing for three basic reasons:

First, when soybeans became a program crop under the 2002 farm bill, practically all of the quality farmland in the Midwest came under the FAV production restrictions.

Second, restrictions on FAV production have proven to be unworkable. Allowances for fruit and vegetable production due to farm history do not provide for reasonable crop rotation. Restrictions on the use of producer history by family members have proven unreasonable.

Third, many landlords in the Midwest now refuse to allow FAV production on their land out of concern that a future recalculation of base acreage may result in a loss of base.

In combination, these restrictions reduce the availability of land for FAV production. Fortunately, there is a very good solution: Farm Flex. Mr. Pence's legislation, H.R. 2045, would permit production of vegetables for processing on program acres provided that an acre-for-acre reduction in program grant payments occurs. In addition, Farm Flex would clarify that Congress intends any future recalculation of base acreage to treat FAV grown for processing on base acreage the same as production of a program crop.

Farm Flex would allow farmers greater flexibility, reinforce family farm policies, remove an encumbrance on the international competitiveness of the U.S. vegetable process industry an even reduce Government expenditures. Farm Flex would not harm fresh vegetable producers.

Prior to the 2002 farm bill, there was abundant land available for production of fruits and vegetables without restrictions. If Midwest-grown produce were a threat to take over the fresh market, it certainly would have occurred prior to 2002 when land was readily available for that purpose. It did not happen. Under Farm Flex, there would be far less potential for Midwest production of fresh vegetables than prior to the 2002 farm bill. After all, Farm Flex only permits production of fruits and vegetables for processing.

Mr. Chairman, if competitiveness issues like FAV restrictions remain in place, it will only be a matter of time before American canned corn is replaced by corn from Thailand, Brazil and China.

Mr. Chairman and the members of the committee, thank you. I appreciate your consideration of our concern and will be pleased to answer any questions you might have.

[The prepared statement of Mr. Palmby appears at the conclusion of the hearing.]

Mr. KING. Thank you, Mr. Palmby.

The Chair would recognize Mr. Hensler for his testimony.

STATEMENT OF FRED HENSLER, COMMERCIAL DIRECTOR, MARS, INC., HACKETTSTOWN, NJ, ON BEHALF OF THE SWEETENER USERS ASSOCIATION

Mr. HENSLER. Mr. Chairman and members of the committee, thank you for the opportunity to testify at this hearing on the 2007 farm bill.

I am the commercial director for raw materials for Mars, Incorporated. I am testifying today in my capacity as first vice chairman of the Sweetener Users Association.

As sugar users, we want and need a strong and healthy domestic sugar industry that commands beet and cane producers, processors and independent cane refiners.

We see some real problems with the current Sugar Program. That doesn't mean we advocate that the United States eliminate its policy. Instead, we should come together as an industry—growers, processors, refiners and users alike—to arrive at a consensus on the best Government policy.

The Sugar Program is different from the Government support policies of other commodities in several aspects. Two of the most important differences are import quotas and marketing allotments. Few other commodity programs rely on import quotas, and none rely on marketing allotments.

The turbulent sugar markets of the past year have highlighted some deficiencies in the current program. Obviously, the Sugar Program did not cause last year's hurricanes; and the markets would have reacted no matter what the policies were that were in place at the time.

The question is whether the current Sugar Program reacted well to sudden shocks; and, unfortunately, it did not. For example, even after the hurricanes had done significant damage to the Louisiana sugar crop and it closed a major cane refinery, there was still perfectly good sugar that processors were willing to sell and industrial users were more than willing to buy but which could not be legally sold because of the allotment system. Eventually, the USDA did free up the sugar; and I want to commend them for many acts that they took in the wake of the hurricanes. But it should not be necessary for the Federal Government to give buyers and sellers permission to enter into commercial transactions.

One of the fundamental problems with the current sugar policy is that it puts the Government in between buyers and sellers, often to the detriment of the market needs. In my testimony, I have cited other problems that occur in a tight market. I don't want to leave the impression that the Sugar Program works fine in tight markets. It doesn't. In fact, the history of the Sugar Program over the past 25 years has more often been a history of surplus domestic production rather than shortages. Surplus domestic production is not in the long-term interest of the industry and should not be a policy goal any more than a short-term market should be.

Looking briefly towards the future, Mr. Chairman, we believe that there are compelling reasons to revise the Sugar Program. Domestic sugar use is flat, and close to 10 percent of the domestic sugar demand is being filled by imported sugar-containing products. The incentives to expand these products is directly related to the typically wide spread between the U.S. and world sugar price.

The structure of the current Sugar Program has been associated with the loss of thousands of manufacturing jobs. This was documented in a recent Commerce Department study. Unfortunately, the situation has gotten worse. From 1997 through 2004, Government statistics now show that food and beverage sectors using sugar actually lost 70,000 jobs—almost a 10 percent decline—even as food and beverage sectors that do not use sugar saw job growth of 4 percent, or about 35,000 jobs.

Finally, trade policies factor including an open border with Mexico in less than 2 years; and the prospect of increased export obligations under trade agreements strongly suggest the need to think about alternative sugar policies. The current program is not sustainable in the face of trade realities.

Mr. Chairman, we believe that future Sugar Programs should be redesigned to be more closely aligned with the realities of world trade while still protecting producer income and promoting greater market orientation. A variety of programs could be consistent with these principles. For example, the committee might decide to make the Sugar Program like other farm programs with marketing loans, direct payments, counter-cyclical payments. That is exactly what this committee did with the peanut program in 2002 when the program faced challenges that were quite similar to those now facing the Sugar Program. SUA could support a range of alternatives if they achieved our reform goals.

Let me also emphasize there might be acceptable reform options that do not involve direct payments to producers or processors.

We believe change is coming and that all of us will be better advised to work together towards a sustainable policy that will meet the needs of all stakeholders. We believe those goals are also shared by this committee, and we look forward to working with you as you develop your next farm bill.

Thank you for this opportunity.

[The prepared statement of Mr. Hensler appears at the conclusion of the hearing.]

The CHAIRMAN [presiding]. Thank you, Mr. Hensler.

Let me start by asking as many members of the panel as care to answer the question. Several have discussed the negative impact that CRP has had on local communities. Young and new farmers and of specific crops and witnesses have suggested this problem may become more pronounced as the need for corn acres increased; and I wonder if, starting with you, Ms. Erickson, you might talk about your perspective on that and what recommendations the committee could consider to solve this problem.

Ms. ERICKSON. I am going to yield my time to others on the panel to answer that specific question.

Mr. MALECHA. Let me take a stab at it.

What we have seen in rural areas, of course, is that, with CRP, land that entered the program over the last few years—a lot of the land—the very good land goes in with some of the power land or the more marginal land. So what we would like to see is readdressing the program to make sure that the highly productive land can come out of the program economically when that drives the issue.

The other is we are going to see filter strips being added to protect our inland waters, and we support that, but that land tends to be very productive land. So the whole program, if it could be revisited, would help make good land available for production when it is needed and when the economics allow.

Because it has taken time over the last 15 years or so with the program—a lot of the small towns have seen brain drain and people leave the area, economics leave the area. It is part of why the biofuels industry has moved to put plants in those areas, to help bring back that production.

The CHAIRMAN. Thank you.

Mr. Schwein.

Mr. SCHWEIN. Mr. Chairman, in the oat industry, we have seen such huge drops in production over the last 15 to 18 years. A lot of that decrease occurred as a direct result of the implementation of CRP in 1986.

While it is true that there are a number of acres in the CRP that are environmentally sensitive, it is also equally true that oats tended to be planted on some of the less productive acreage on a farm. While we fully support the environmentally sensitive land being in CRP, if it is truly environmentally sensitive, we need to find a way to bring the other productive acreage back out into production. More flexibility for producers as they respond to market signals, lower penalties as they look back at decisions that might have been made a decade ago with new farming practices, those decisions seem correct in hindsight. So we would like to revisit the entire process to see if some of that needed acreage can be brought back to meet the demand for acreage in the future.

With 10 billion more corn acres needed in the next few years, it needs to come from somewhere. Tillable land is a finite resource. They only have so many crop acres. Figuring how to allocate that land is a significant challenge.

The CHAIRMAN. Thank you.

Anybody else.

Ms. CLARK. Mr. Chairman, if the AAC's mission is to promote agricultural growth and competitiveness overseas and with the tsunami of biofuels growth that we are going to be encountering, we think it is vital that viable land comes back into production. We understand that there was testimony provided to a committee last week by Dr. Keith Collins, Chief Economist of the USDA, who indicated that there is somewhere between 4.3 and 7.2 million acres currently enrolled in the CRP that could be used to grow corn and beans in a sustainable way, and we would strongly encourage that.

The CHAIRMAN. Thank you.

Mr. PALMBY. From the processing and the canned food grower coalition perspective, I think we would also like to see as much as possible productive land brought in and growers given the flexibility to be able to grow crops on those acres and let the economics dictate what they should do.

The CHAIRMAN. Very good.

Ms. Erickson, let me try again. What are the ramifications of an open sugar market with Mexico?

Ms. ERICKSON. I can tell you, Mr. Chairman, that for the corn refining industry it is a very positive picture. We anticipate that we could capture a very sizable amount of the sweetener market in Mexico, given our highly competitive corn sweetener; and we would have done so, had we not been shut out of the market for this period of time. In fact, we have had an economic analysis that shows that full implementation of the NAFTA for corn sweeteners could increase the price per bushel of corn by $0.06 nationally and up to $0.10 in key corn States.

The CHAIRMAN. And lead back into the last question. Do you have any concerns about the corn refining industry's ability to obtain enough corn to profit and supply both the U.S. and Mexican sweetener markets?

Ms. ERICKSON. Well, as long as the margin is there to produce the market, we will make it. And, of course, there will be, as we see, some supply considerations. We are counting on a number of factors, not the least of which biotechnology, to assist our industry in the coming years.

The CHAIRMAN. My time has expired. We will turn now to the gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you.

A lot of our discussions about farm policy are predicated on the growing—one of you used the word bioenergy—a growing demand for ethanol, soy diesel and other renewable fuels. Do any of your associations or business plans include predictions based upon the current price of oil and the declining price as compared to what we had just even several months ago? Is there something we ought to be aware of that is happening in regard to the demand for bioenergy as a result of declining oil prices?

Mr. MALECHA. Congressman, that is a wide open question, but I think most of the models, if you look at for the expansion of biofuels industry, has been based on oil levels significantly below current levels; and yet we have seen the lower end of that market move north as well.

So to not go around the question, I think it is a combination. We are going to see grain supply, and we support all forms of feed stocks to produce biofuels, whether it is ethanol or biodiesel or anything else that would be feasible. But a lot of those products take more time and research to get the enzymatic action to be efficient in corn right now, along with sugarcane or sugar products would be the most effective to date. So everything we have seen in terms of global energy pricing is still significantly capable of protecting the industry. Now, in 5 years, 10 years, those ratios change, but, overall, the forecast is in range.

Mr. MORAN. Good to hear. I see bioenergy as a huge opportunity for agriculture, but I wanted to make sure that we all are operating within the models that suggest it is a viable industry into the future. Anyone else?

Mr. SCHWEIN. Congressman, I think I have two comments. We have been looking at ethanol internally for months and months and months, and two things are true in our examination of the opportunities.

One is that the price models for construction of production capacity have risen maybe as much as 50 cents a gallon, or a third, in the 10 months we have been looking at it, while the recommendations on the long-term price for ethanol have—in the last 60 days or 90 days have begun to drift lower. So while the economics certainly look very, very good for ethanol production, the change in the model would seem to suggest that the next 4 years will not see 100 percent of the plants being built that are currently being discussed today.

In the same breath, as an oat miller, about 40 percent of our raw material, the inbound oats is a byproduct. In wheat milling, it is

24, 25 percent. In oat milling, it pushes 40 percent. It is very high. It is about 7,500 BTUs per pound, which is high. We see the value of the byproduct for use as fuel to be roughly five times its value for use as a feed ingredient.

So we are exploring aggressively use as a byproduct for energy production, and with starch conversion today so easy we are not seeing too much effort on the cellulitic front. But while we talk switch grass planted on some of these acreage, that has to be collected and shipped to a processing center. Every oat mill in the United States has 40–80,000 tons of by-products that is already gathered in one spot, 80,000 tons of those by-products that support about a 35 million gallon ethanol plan.

Mr. MORAN. I have one second question, sir.

Mr. MALECHA. Let me add one comment. I know the city of Minneapolis has burned oat hulls for fuel for a long time, and we are seeing corn stover as a possible fuel source as well as long as it is managed with a certain amount of product left on the field for the industry to offset natural gas costs or other energy sources.

Mr. MORAN. So there is still a lot of innovation that will occur at a variety of price levels for our competing source of energy, an extension of the farm bill that many commodity groups, farm organizations, including many Members of Congress, have proposed and support. I am not yet one of those but could be.

I wondered, if we do something as a simple extension of the farm bill, are there things that we need to correct or so-called "tweak" before we simply would extend to the current farm bill? Much of the conversation is what the next farm bill should look like. Is there something we should correct in the current one if the movement in the current farm bill is successful?

Mr. PALMBY. One of our concerns on the fruit andvegetable restrictions on program acres has been something that is a progressively worse problem every year as growers go out of production. While we respect all of the issues around farm bill implementation and the debate on whether to extend it or not extend it, we are certainly interested in seeing that problem fixed sooner rather than later.

Mr. MORAN. Thank you.

Yes, ma'am.

Ms. ERICKSON. Congressman Moran, the Corn Refiners Association believes that in order to be compliant with our NAFTA obligations, which is just 3 months, of course, after the next farm bill must be written, that we need to look seriously at altering the marketing allotment aspects of the U.S. Sugar Program to allow for unlimited free trade in sugar with Mexico.

Mr. MALECHA. Just one comment to add; and that is, the sense of urgency if we do even bring acres out of CRP, a lot of that ends up being in CRP long enough to be totally productive. It will take 1 to 2 years to get it back to full production. We don't want to wait overly long for future programs to come in and engage that.

Mr. MORAN. Thank you.

Mr. SCHWEIN. Congressman, we believe that course would lead us down a path of tremendously missed opportunity. We are seeing such huge declines in weed acreage, with a quarter of the crop now over the last 10 years, that the infrastructure is starting to erode.

And as we know from what oats have been over the last 15 years, once we lose the infrastructure in the country, the country elevators to handle the crop, the transportation infrastructure to move the crop, once we lose that in a county, in a region of the country, it is very difficult to bring it back even when the producers are ready to grow the crop again. So we think extending the farm bill would be a big missed opportunity.

Ms. CLARK. On behalf of the AAGP, we believe we would like to see a new farm bill promoted both in order to get addressment of the CRP issues to ensure production to meet our export, our livestock, poultry as well as biofuel demand. Also, we would like to take that opportunity to address WTO issues so that our major farm programs are not subject to potential litigation or trade disputes in future years.

Thank you.

Mr. MORAN. Mr. Chairman, thank you very much.

The CHAIRMAN. I thank the gentleman.

The gentleman from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you.

Once again my colleague from Kansas has asked very insightful questions, questions that I wanted to ask; and I wish that more of my colleagues had been here to hear the questions and answers. Because there has been sort of a chorus of folks who say, just extend the farm bill. We really haven't heard that many folks who have expressed a somewhat different point of view, and I think that was helpful. As I say, I wish more of my colleagues had heard it.

Let me say, first of all, welcome to the two gentlemen from Minnesota. We are happy to have you here today. I was intrigued by your responses talking about renewable energy and the use of what might be described as waste products. Are either one of you familiar with some of the research that is being done with the University of Minnesota on some of those kind of things?

Mr. MALECHA. I am fairly aware; and if some of that research takes off, the next series of energy products will be significant. So the hydrogen conversion, many different things, our land grant university, I think that is an area we need to see pushed to get research timely and with aggressive input. Your help would be greatly appreciated.

Mr. GUTKNECHT. I am sorry. Mr. Schwein, one of the things we are trying to do and hopefully will be incorporated into the next farm bill is essentially trying to deal with the way we deal with research money in a more professional way. I want to be diplomatic here. But the truth of the matter is, if we compare how we handle research within the agriculture budget compared to how research is handled at NIH, for example, my own view is it needs to be much more peer-review-driven research. It has become in some respects a honey pot for certain powerful legislators here in Washington; and without being critical and trying to remain diplomatic, that is one of the things I want to see in the next farm bill.

The other thing I want to see—and, Mr. Palmby, I want to thank you for coming. You and your members have done a marvelous job in educating me. I have not only become a cosponsor in your Flex Act, I have been a real salesman. And, again, I wish more Members were here to hear this testimony about what we are doing with the vegetable crops in the United States.

Vegetable crops are extremely, important in my district. I appreciate the education that I received—that we grow over 51,000 acres of vegetable crops in my district. We are one of the largest producers of sweet corn; and, of course, I knew that. We grow the best sweet corn in the United States of America, because the genetics that they have developed is just incredibly sweet corn.

But we also produce a lot of amounts of peas and beans and other vegetable crops that ultimately wind up in cans. We have made it incredibly difficult for our processors to get the acreage they need, and the net result is we are now trucking these vegetable crops very long distances to get them to the canning facilities which we have scanning out throughout the upper, upper Midwest.

So I want to thank you, Mr. Palmby, for what you and your team has done; and it is one of the areas that, if we do extend the farm bill, I will insist that we make some kind of accommodation along the lines of the Flex Act so we can get the acreage and we don't penalize farmers who wanted to look at these kinds of crops that they could grow on their grounds.

So I don't particularly have a question. As I say, my colleague from Kansas always asks the best questions. But I want to thank you all for coming; and again, hopefully, we can share some of this information with our colleagues who weren't here.

Mr. PALMBY. We very much appreciate your leadership on this issue, and I couldn't have stated our case better than you just did. So very much thank you.

[Mr. Schwein responded for the record as follows:]

Publicly funded research for oats and wheat is critical to developing varieties that offer farmers a good return on their investment that will enable farmers to compete with other crops that enjoy vastly greater levels of federal support.

The National Institute of Food and Agriculture Act of 2006 that has been introduced in the Senate proposes to address inadequate funding levels for U.S. agriculture research through a competitive funding process. NAMA's position is that any competitive funding process has to be in addition to current formula funding. If competitive funding comes at the expense of formula funding, it will be extremely detrimental to the applied research being conducted in oats and wheat.

Furthermore, in a competitive funding process, oats and wheat can be hampered by their comparatively lower profile and the extended timeframes for research to result in commercial varieties.

The CHAIRMAN. Let me follow up on that and ask you, Mr. Palmby, we have been looking at this issue in legislation for quite some time. What is causing the acreage of fruits and vegetable processing to go down? Is it reduction in payment to the producer, or is it the producer or landowner apprehension about losing base?

Mr. PALMBY. I think the overall acreage of fruits and vegetables is declining because there has been consolidation in the industry and driving down inventories overall. That can't go unrecognized.

There certainly has been a dramatic increase over the last few years in imports from Canada, Thailand, Brazil, a couple of years ago, not so much in the last couple of years, because of large corn crops driving down market pricing over the last 2 years. But the import problem has been a significant issue.

I think, to answer the question that you referred to in regards to growers protecting base, the growers are very concerned after the last farm bill and the revision of base acreage that they are in a position in the future to maximize potential recalculations of base acreage. We are seeing landlords not interested in renting land to growers and producers that are going to produce vegetable crops providing hardships for some producers that wish to diversify into vegetable crops.

The whole rotation issue, for example, as Congressman Gutknecht alluded to one of our facility pea acreage, is an interesting thing. You need to rotate peas on a very regimented basis; and even after three or four crops of peas on the same acre you may not be ever, ever be able to grow peas back on that crop again. So it is imperative that you are able to have new acreage coming in that is able to be used for production.

So I hope I answered your question.

The CHAIRMAN. I thank you very much.

Mr. Hensler, let me ask you, you mentioned in your testimony that your organization has hosted industry-wide discussions regarding the future of U.S. sugar policy. I would appreciate knowing, if you plan to continue those future meetings plans, what results do you anticipate?

Mr. HENSLER. We had an industry-wide meeting about 6 weeks ago in Chicago where the entire sugar industry as well as users and processors and growers were there. We are continuing our discussions with several large cane and beet growers in the United States as we speak. So we are still continuing those discussions.

The CHAIRMAN. Is it your hope that you can develop a unified industry-wide position on your policy?

Mr. HENSLER. At this point, I don't think there is consensus, but we are continuing to work on that.

The CHAIRMAN. We want to encourage you to work on those discussions.

Let me ask either of the other two members of the committee, who have been very good about remaining right here to the end, if they have any additional questions.

If not, I want to thank all of you for your contribution today as well as the members of the previous panel. This has been a very good discussion, and we have got into some specifics about some areas of the farm bill that are of concern to many of us.

As chairman of the committee, I understand the significant challenges facing the agriculture sector in today's environment. Unfortunately, we have little control over the—as to weather, market prices and so on. However, there is one thing we can change, the public misperception of farm programs and various other aspects of farm programs plaguing other areas of the country.

While my colleagues on the committee and I realize the vital role farm policy plays in sustaining the national economy as well as our national security, many of our urban and suburban colleagues do not. While you can be sure that we do our best to educate our colleagues, we need your help.

I recognize and encourage you and the members of your organizations and hope that you will continue to voice your concerns to Members of the Congress outside the Agriculture Committee, to the media and your local communities and spread the message about the importance of U.S. agriculture beyond rural America.

A farm bill not only has to win the favors of this committee but also win the majority of the entire Congress. Agriculture is important to every Member, no matter where they live; and that is a message that we need to continue to drive home. We look forward to maintaining an open dialogue with you and your fellow suppliers and processors as we consider the next farm bill. Thank you very much.

I have some very important language we need to put into play here. Without objection, the record for today's hearing will remain open for 10 days to receive additional material and supplement any written responses from witnesses to any questions posed by members of the panel.

This hearing of the House Committee on Agriculture is adjourned.

[Whereupon, at 12:47 p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

Statement of Dennis L. Craig

Thank you Chairman Goodlatte, Ranking Member Peterson, and other members of the committee for holding this hearing today to review Federal farm bill policy.

I am Dennis Craig, executive vice president and chief operating officer of W B Johnston Grain Company, based in Enid, Oklahoma. I am also Chairman of the Agricultural Retailers Association's (ARA) Regulatory Policy Subcommittee and member of the ARA Board of Directors. Johnston Enterprises is an independent family owned business founded in 1893 that has diversified its operations to include agricultural retail outlets, 21 grain elevators, a cotton gin, a seed company, water ports in two states, a trucking company, five seed cleaning facilities and an agricultural experimental research farm.

ARA members are made up of independent family-held businesses such as W B Johnston Grain Co., farmer cooperatives and large national companies. A typical retail outlet may have 3 to 5 year-round employees with additional temporary employees added during the busy planting and harvesting seasons. Many of these facilities are located in small, rural communities. Agricultural retailers proudly provide critical goods and services to farmers and ranchers such as seed, crop protection chemicals, fertilizer, fuel, crop scouting, soil testing, custom application of pesticides and fertilizers and development of comprehensive nutrient management plans, and state of the art integrated pest management (IPM) programs. Farmers and ranchers are an important part of a strong rural economy. Many retailers are also farmers and land owners so they understand their farmer customers' needs. Certified crop advisors (CCA's) who are tested and licensed are retained on many retailers' staff to provide professional guidance on agronomy and crop input recommendations to their farmer customers. ARA is the only national trade organization that exclusively represents the interests of our nation's agricultural retailers and distributors.

Key Questions for Congress to Consider. This hearing today provides us an opportunity to review current farm bill policy and ways to make improvements as a 2007 farm bill is crafted beginning next year. There are several key questions that ARA believes this committee and Congress as a whole need to consider in order to ascertain the right direction America's future farm bill policy should take.

- Is the current farm bill policy working?
- Should Congress pass an extension of the current farm bill programs in light of the recent breakdown in the WTO trade negotiations?
- What improvements should be made to conservation and environmental stewardship policies?
- What opportunities can farm bill policy help foster for America's agricultural industry?

Is the Current Farm Policy Working?

The commodity title of the farm bill is designed to provide a "safety net" and level of stability for farmers that grow traditional program crops, which are largely used as feed, food grains, fibers, and oilseeds. Generally these commodity payments are tied to the amount of cropland enrolled in the programs and yield histories. As a whole, we believe the current farm bill commodity programs seem to be working well. The economic success of agricultural retailers is directly connected to the profitability and financial well-being of their farmer customers. The U.S. agricultural industry continues to be an efficient producer of food and fiber, consistently meeting the needs of the nation's consumers as well as consumers around the world with the safest, most abundant and affordable food supply in the world. An income safety net for farmers should be maintained but it must be price and production neutral.A recent example would include the wheat producers in Oklahoma and surrounding states. The current drought produced the smallest wheat crop in the past 60 plus years in Oklahoma. Low production causes higher prices. Counter-Cyclical and Loan Disaster are triggered by lower average prices. Therefore, these two safety net merchandising did not work. They are not price and production neutral.

ARA recommends Congress review whether to target direct commodity payments to the activity of the farmer rather than to production history and landowners. This could help ensure that government payments go only to those individuals that actually stay involved in production agriculture. Commodity payments going to landowners, recently highlighted in the news, who do not farm is not an efficient use of taxpayer dollars and only hurts the industry's image with the general public. ARA supports continuing to providing flexibility on cropping farm land and policies that support the efficient use of crop inputs. However, as an industry we strongly oppose any requirements that would prevent the judicious use of plant nutrients and crop protection chemicals as part of a requirement for participation in any farm bill program. Nutrient and pest management should be based on precise plant and soil needs rather than any government policy that arbitrarily proposes reduced used of inputs as an overall environmental objective, without any scientific basis or consensus.

ARA recommends that farmers and ranchers enrolled in conservation or environmental protection farm programs be required to consult with a Certified Crop Advisor (CCA), Pest Control Advisor (PCA), or an equivalently licensed local professional before applying crop production materials on their environmentally sensitive fields. CCAs are highly educated and extensively trained in four major competency areas: nutrient management, soil and water management, integrated pest management and crop management. A primary focus of these licensed professionals is grower profitability while helping protect natural resources and the surrounding environment.

As members of this committee well know, over 50 percent of all U.S. counties have been declared primary or contiguous disaster areas by the United States Department of Agriculture (USDA) this year. These designations are in addition to the nearly 80 percent of counties declared disasters in 2005. The economic impact of these disasters has a resounding effect on our rural communities. ARA has joined a number of commodity and farm organizations in urging Congress to enact emergency agricultural disaster legislation for fiscal years 2005–06. The August 29 announcement by USDA of $720 million in new, unused and accelerated disaster assistance funding will provide much needed help to many producers, their creditors, and rural communities that are facing financial uncertainty and need Congress to act soon. However, additional emergency assistance is likely needed to alleviate the serious problem facing the industry. To prevent the necessity for future ad hoc disaster programs, the new farm bill should try to address this serious and ongoing problem through revisions to current crop insurance and disaster assistance programs.

Should Congress Pass a Farm Bill Extension?

America's agricultural industry is increasingly being impacted by a changing global marketplace. The passage of the North American Free Trade Agreement (NAFTA) and Uruguay Round GATT Agreement were beginning efforts to help level the playing field with our foreign competitors by reducing both tariff and non-tariff trade barriers. A major issue now before this committee is whether to extend the 2002 farm bill until the World Trade Organization's (WTO) Doha Round negotiations are completed, which is supposed to be the next major step in reducing global trade barriers. Unfortunately this past July we saw a breakdown in these WTO negotiations with no sign that any real progress can be made anytime soon. This primary obstacle remains a central issue related to increased market access for farm products.

ARA agrees with U.S. Trade Representative Susan Schwab's comments that the United States should continue to seek a successful outcome to the WTO's Doha Round as long as any final deal resulted in a real opening of trade. ARA supports efforts in Congress to extend the 2002 farm bill until these WTO negotiations are completed. Major changes to current U.S. farm policy should not take place until there is a clearer picture on the final outcome of these trade discussions and its true impact on the nation's agricultural policy.

What improvements should be made to conservation and environmental stewardship policies? Conservation programs have focused largely on maintaining the productivity of cropland as well as protecting watersheds, flood prevention activities, reducing soil erosion and runoff. If American agriculture intends to continue to be productive and prosperous, it will need to promote environmental stewardship along with the need to produce a marketable crop in an increasingly competitive global marketplace. The 2002 farm bill saw a substantial increase in funding for conservation programs. According to USDA, funding for conservation programs amounted to $4.7 billion in fiscal year 2005, an increase of $1.7 billion from 2001. Given the current trade disputes such as Brazil's ongoing WTO case against U.S. cotton programs and potential future cases against other commodities, it is highly likely that even more farm bill funding will be shifted into so-called "green payments" under the conservation title.

Environmental Quality Incentives Program (EQIP) and Conservation Security Program (CSP). The original intent of the Environmental Quality Incentives Program (EQIP) was to primarily assist livestock producers with CAFO operations who had to manage threats to soil, water and air from animal waste. A stated USDA-NRSC national policy priority is the reduction of non-point source pollution such as excessive nutrients, pesticides, sediment or excess salinity in impaired watersheds. It has been brought to ARA's attention that EQIP funding is being provided to farmers to install enhanced pesticide loading and storage facilities in order to protect against spills from bulk handling systems. According to the NRCS, since 1999 there have been 406 farm sites that have received EQIP dollars for the construction of existing or new agrochemical mixing and storage facilities. USDA states that this "NRCS cost-share funding allows farmers to install measures that might impact drinking water wells and other sources of water." USDA seems to indicate that as farm sizes increase the agency will encourage farmers to build bulk pesticide storage facilities on environmentally sensitive land using scarce taxpayer resources. While ARA strongly supports environmental stewardship and proper secondary containment for bulk pesticides and fertilizers in environmentally sensitive areas, we do not believe that providing EQIP dollars to assist farmers in the building of these facilities is the most effective use of the limited funding available under this program.

Why would the Federal Government through the use of large taxpayer subsidies encourage the construction of bulk pesticide on farmland in environmentally sensitive areas and help increase the risk of spills and the contamination of drinking water wells and other sources of water? Such a policy seems inconsistent with USDA's stated national policy priority of reducing non-point source pollution of pesticides and nutrients. Under the current EQIP program, individuals were eligible to receive up to $450,000 during the life of the 2002 farm bill. ARA believes that the most effective and efficient use of these EQIP dollars is livestock operations required to meet EPA's CAFO regulations through the use of methods such as buffer strips and waste management systems. Agricultural retailers have already spent tens of thousands of dollars of their own money to build state of the art bulk pesticide storage and handling facilities. At these facilities our industry has highly trained employees that are required to comply with countless Federal and state environmental and safety regulations. To our knowledge these bulk pesticide and fertilizer facilities being built on farming operations with EQIP funds are not being properly inspected and regulated by Federal or state officials, do not have spill insurance or workers adequately trained or supervised to handle these bulk products. ARA believes these facilities funded through the EQIP program should be periodically inspected by appropriate local, state or Federal officials to ensure compliance with all laws and regulations related to the proper storage, handling, repackaging and labeling of agricultural chemicals. The current policies are a potential recipe for serious environmental problems if not properly addressed.

ARA also believes that a pesticide storage facility should not be located in an environmentally sensitive areas watershed area covered by the Conservation Security Program (CSP), a voluntary conservation program that supports ongoing stewardship.

Conservation Reserve Program. The 2002 farm bill authorizes the enrollment of up to 39.2 million acres under the Conservation Reserve Program (CRP). According to USDA, through fiscal year 2005 over 34.9 million acres have been enrolled, providing $1.6 billion in annual rental payments to landowners and operators. CRP has been successful in meeting its primary objective of reducing soil erosion. A recent USDA report states that CRP has reduced soil erosion by 450 million tons per year. However, this is down significantly from the 700 million tons per year in reduced soil erosion or 19 tons per acre on average reported in 1995. ARA believes that this diminishing return is the result of millions of acres of productive farmland that is not environmentally sensitive being enrolled in the CRP only for the guaranteed revenue. Much of the currently enrolled CRP acreage could meet conservation compliance requirements or objectives without costing taxpayers millions of dollars in program payments.

Between 2007 and 2010 there are 26 million CRP acres under contracts expiring, including 16 million acres in 2007. In light of the budgetary pressures and scarce fiscal resources, ARA believes that any future CRP enrollment should be limited only to highly erodible, environmentally sensitive land and the inclusion of land that can be used as filter strips, trees or vegetative cover along streams, rivers or other waterways. Productive land should be allowed to return to crop production or provide grazing areas for livestock. In the July 2006 issue of USDA's Amber Waves, it found that "by retiring productive farmland, CRP may have reduced demand for certain farm services, undermining the strength of local economies in farm-dependant areas. And by making it easier for farm operations to retire from farming, CRP may have facilitated population outmigration from farming communities." ARA strongly agrees with this assessment. Agricultural retailers have been directly impacted as a result of the expansion of the CRP from its original purpose to protect highly erodible land. CRP encourages resource idling and land retirement policies that hurt rural economies and help undermine U.S. farm export opportunities, reduce pastureland for livestock, and could undermine the nation's ability to increase renewable energy production.

ARA supports the use of economic and environmental impact analysis, including county specific analysis, in the consideration on enrollment of land in the CRP or other Federal land management and conservation programs. ARA recommends Congress consider the following:

- Significantly reduce the overall authorized acreage allowed to go into CRP;
- Allow for haying and grazing to take place on CRP enrolled land in all participating counties without having to be listed as a level "D3 Drought- Extreme" or suffered at least a 40 percent loss of normal moisture and forage for the pre-ceding four-month period. CRP participants after providing notification to their local FSA office should have the flexibility in any given CRP enrollment year to open their lands for haying and grazing. However, doing so would result in a 25 percent reduction in their CRP payment;
- CRP participants should also be allowed to opt out early from part or all of their contracts to produce biomass crops for the production of renewable fuels. 10-year CRP contracts are too long and do not provide the flexibility for landowners to properly take advantage of new market opportunities in the production of corn, soybeans or other biomass crops that can be used in ethanol production, biodiesel or other forms of renewable energy such as solar and wind to help meet the fuel and energy needs of rural communities. In recent congressional testimony, USDA Chief Economist Keith Collins, stated that domestic ethanol production "appears on a path that exceeds USDA's long-term projections" and that "the U.S. will require substantial increases in corn acreage to prevent exports from declining and livestock profitability from falling."

Technical Service Providers (TSP)The current farm bill allows public/private partnerships in the delivery of technical expertise to farmers and ranchers, including the development of nutrient management plans, the development of conservation plans, and design and certification of conservation practices. Third-party providers may include producers, retailers, certified crop advisers (CCA's), certified professional crop consultants (CPCC's), Professional Crop Advisor (PCA) and other individuals meeting the training and education criteria.

- Certified crop advisers (CCA's) have extensive expertise and local knowledge in nutrient management, resource stewardship, and custom application of crop protection products and fertilizers.
- Agriculture retailers and other CCA's already have working relationships with producers and understand their specific needs. Producers turn to their retailer or CCA for soil testing, fertilizer, seed, farm inputs, and for resource management advice.
- The new farm bill is likely to establish an increased emphasis on conservation, ramping up funding for EQIP, CRP, and other conservation programs. The new conservation workload can best be met by supplementing traditional delivery methods with retailers and CCA's already trained and equipped for the job.
- Producers should have an option to choose local technical service providers to help develop and implement natural resource conservation plans.

ARA supports the continuation of the TSP program. However, we believe there should be a greater cooperative effort between USDA and agricultural retailers on program flexibility and payments.

Pesticide Applicator Standards. Agricultural pesticides are applied in a wide array of agricultural lands, including those enrolled in farm bill programs. ARA believes that Congress should establish the same competency standards for both commercial and private pesticide applicators through valid exams, education and training requirements. Unless the pesticides are listed as a "restricted use pesticides" (RUPs), there is no Federal requirement for competency by a private applicator. Only commercial applicators of RUPs or non-RUPs are required to take a written exam to demonstrate competency as well as under go extensive training and education. According to the EPA, in 2004 there were over 650,000 certified private applicators (i.e. farmers) and over 420 certified commercial applicators. It is common industry knowledge that 25 percent of the new applicator equipment and 80 percent of used applicator equipment is being purchased by farmers. In addition, it is estimated that as much as 30 percent to 40 percent of all pesticide applications are now being conducted by farmers or other private ground applicators. Crop inputs such as pesticides are applied with large application equipment with boom widths of 18.2 to 36.5 meters or larger. An average cost for a new self-propelled, boom sprayer with precision guided equipment can be well over $200,000. To help cover the cost of this equipment, many private pesticide applicators are doing a significant amount of custom farm work on other farming operations. Private applicators tend to use older non-precision equipment and are less experienced and more prone to make errors which lead to higher instances of spray drift and less accuracy in regards to the application of product on the crops.

The absence of minimum testing standards for non-commercial applicators of pesticides on agricultural lands makes users with inadequate knowledge an increased risk to human health and the environment as it relates to the use of applicator equipment, spray drift, and overall safety. Technology, equipment, risk assessments, labels, and other important information related to the proper application and use of pesticides is constantly changing and all applicators need to maintain knowledge and minimal levels of competency in order to ensure strong environmental stewardship and safety to human health. Private pesticide applicators have access to the same products as certified commercial applicators and should be required to meet the same standards of competency. Currently there is a wide variation of exams from state to state; standardization of exam requirements would help facilitate reciprocity between states.

What opportunities can farm bill policy foster for U.S. agriculture? Promote the Increased Production of Home Grown Biofuels

The biggest growth opportunity for America's agricultural industry probably rests with the nation's increased production of renewable fuels such as ethanol and biodiesel. Due to the ongoing war against terrorism, uncertainty in the Middle East, rising fuel and fertilizer prices, there is an increased interest in the development of home grown, renewable energy. According to USDA, U.S. energy consumption is expected to increase by 30 percent by 2030, so the supply would need to grow at least that much just to keep its current market share. Increased demand for renewable fuels helps increase the price a farmer receives for their crops, whether it is corn, sorghum, soybeans and other crops.

USDA's Rural Development Office currently provides financial assistance in the form of grants and loans to improve the economy and quality of life in rural America. Several USDA programs can provide funding as well as technical assistance in the development of ethanol facilities. ARA supports efforts to increase funding for programs such as the Business and Industry (B&I) Guaranteed Loan Program, Rural Business Opportunity Grants, and Rural Business Enterprise Grants to help in the construction of new ethanol production facilities, which can produce more fuel and increase jobs and economic opportunities in rural communities. There is also the Commodity Credit Corporation (CC) Bioenergy Program that has been providing $150 million annually in incentive payments to bioenergy producers in the U.S. that increase their purchase of agricultural commodities over the previous fiscal year and use that product to increase bioenergy production at the facility. ARA is a part of the 25 x '25 Agriculture Energy Coalition, which supports the goal of 25 percent of our energy be produced from renewable resources such as biofuels, wind and solar by the year 2025 and urges Congress adopt H. Con. Res. 424 and S. Con Res. 97, which supports this new national energy goal.

Develop Private-Public Research on Economic Impact of Changing Transportation Systems. ARA believes that the next farm bill should authorize funding that would support the development of private-public research that will determine the economic impacts of the changing transportation systems on agricultural retailers and distributors. This research effort should provide long-term recommendations to Congress on Federal transportation policies to address chronic concerns impacting the nation's agricultural industry. ARA recommends the Secretary of Agriculture establish a formal Agricultural Transportation Advisory Council to address issues related to all major modes of transportation (railroad, trucking, waterways and air). This transportation advisory council would be similar in function to USDA's Air Quality Task Force that was created in the 2002 farm bill.

Increase Hours of Service Agricultural Exemption from 100 to 150 Miles. ARA recommends Congress increase the hours of service agricultural exemption from the current 100-air mile radius to 150-air miles. Agricultural retailers heavily depend on this specific HOS exemption in order to ensure that essential crop inputs can be delivered to their farmer customers during peak times of the year. This proposed air mile radius modification would better reflect the change and consolidation that has taken place the last several years within American farming operations and the retail industry that provides all their farm supply needs. This proposal, if enacted, would also make this exemption for the agricultural industry similar to the U.S. Department of Transportation's (DOT) 150 mile radius for short haul drivers.

Mr. Chairman, thank you for the opportunity to express our views today. These issues should be fully and thoroughly discussed as this committee writes the 2007 farm bill. America's agricultural industry faces many challenges ahead. It is only if we continue to work together on important issues such as conservation, proper environmental stewardship, and increased renewable energy production can we hope to maintain a growing and vibrant agricultural industry and the rural communities they represent. Thank you!

Statement of Jay Vroom

Mr. Chairman and members of the committee: I am Jay Vroom, president of CropLife America (CLA). CLA is a national trade association representing the manufacturers, distributors and formulators of virtually all crop protection chemicals used in the United States. I appreciate the opportunity to testify before you today.

I want to begin by commending this committee and the entire Congress for the tremendous success of the previous farm bills in achieving unparalleled environmental benefits, particularly in the area of soil and water conservation. Previous farm bills have arguably had the greatest positive environmental impact of any legislation in the history of the United States Congress. At the same time, recent farm bills have also provided an important safety net for American farmers and ranchers who are committed to providing a safe and abundant food supply for this country and beyond. These farmers are our customers and we call on Congress to continue to adopt policies in the next farm bill that maintain a level of predictability in an industry that is marked with tremendous volatility and uncertainty.

We also believe that increased international trade has already significantly aided the U.S. farm economy, and there is even more potential for even greater farm exports-hence we commend the Committee's careful consideration of farm policy components that can serve to encourage more trade opportunities. It is clear from the work that you have already done that the House Committee on Agriculture will maintain the careful balance between the necessary safety net and trade agreement compliance.

Today, I will primarily emphasize the crop protection industry's role in contributing to agricultural conservation. I will also mention a few other major policy challenges on the horizon.

Producing and marketing crop protection products involves a complex matrix of factors, including crops, competitive chemicals, soil/climate conditions, geographic region, patent life and data protection, liability costs, minor use considerations, regulatory compliance, transition to and reinvestment in "safer" products, research and development costs, and a multitude of other considerations. We are pleased that our member company investments in research and development have provided a vast arsenal of insect, disease and weed control tools for American farmers. Yields of many crops in the U.S. have doubled and tripled since the introduction of modern pesticides and much of this increase is due to the effectiveness of these tools in controlling crop pests.

Soil Conservation

Herbicides have been used on more than 90 percent of US acreage of most crops for the past forty years. The use of herbicides has greatly reduced soil erosion, decreased the need for millions of hours of difficult labor by workers in the field, and has helped keep American agriculture competitive due to their low cost and high degree of effectiveness. The performance bar is very high for herbicides. Farmers expect more than 95 percent season long control of all key weed species in their fields with one or two applications and without injury to their crops. No other weed control technology is remotely close to delivering these benefits.

The USDA has reported that cropland soil erosion declined by 700 million tons per year between 1982 and 2003. This reduction has coincided with adoption of practices that conserve soil. No-till crop production, in which the soil is left undisturbed by tillage, is the most effective soil-conserving system. Elimination of tillage means that the grower must rely on herbicides to control weeds. No-till acres increased to 62 million in 2004.

The external costs of soil erosion include higher susceptibility to flood damage, lost reservoir capacity, increased water treatment costs, and cost impacts to waterway navigation and recreational activities. Research from the CropLife Foundation indicates that by reducing erosion from cropland, no-till reduces these external damages by $1.5 billion per year. Of course, the farmer benefits too. With more soil staying on his land, those farms remain more productive and profitable.

Labor and Energy Conservation

The use of herbicides greatly reduces the need for both fuel and laborers on U.S. farms. Without herbicides, the need for fuel would increase by 337 million gallons, since twice as many cultivation trips would be needed to replace herbicide spray trips. Furthermore, cultivators use four times more fuel per trip than herbicide sprayers.

Herbicides also play a key role in the U.S. ethanol production, a sector which is projected to expand to seven billion gallons in 2010. Corn is the primary raw material for US ethanol production. On average, herbicides increase U.S. corn production by 20 percent. If corn growers did not use herbicides, the decline in corn production would be equivalent to the total projected ethanol capacity of seven billion gallons.

If farmers did not use herbicides, the alternatives for weed control would be increased mechanical cultivation and increased hand labor to pull weeds. Research from the CropLife Foundation indicates that a minimum of 1.1 billion hours of hand labor would be required at peak season for hand weeding necessitating the employment of seven million more agricultural workers. Even with the increased cultivation and hand weeding, crop yields would be 20 percent lower. Approximately 70 million workers would be needed to prevent any yield loss without herbicides.

Organic growers do not use herbicides to control weed populations. Organic farms rely on laborers with hoes and numerous cultivation trips to remove weeds from their fields. Growers of organic vegetable crops spend close to $1,000 per acre for weed control in comparison to the $50 per acre spent by growers who use herbicides. 50–100 hours of labor are required for each organic vegetable acre. Each hour of labor is budgeted at $10 which covers a minimum wage, plus administrative, supervisory, transportation and benefit costs. It should come as no surprise that the production of organic crops is being outsourced to countries such as Mexico and China where the cost of farm labor is $1 per hour or less.

Water Conservation and Quality

CropLife America's member companies' know that protecting water quality and conserving scarce water resources in agriculture must often start in the laboratory, where products are developed, tested, evaluated and approved for use. Their efforts start with using the best science available to develop good products that can provide the needed results. This attitude and approach has led to major water conservation and water quality benefits in the U.S. and worldwide.

One excellent strategy to successfully conserve scarce supplies of water for agricultural and other critical uses is to develop crop varieties that are uniquely adapted to drought and other forms of weather stress. Our member companies have created plant varieties that are drought resistant or tolerant, allowing a crop to be produced with less irrigation and thereby conserving scarce water resources. We have also created plant varieties that have resulted in innovative crop production practices, like the use of pre-germinated rice seeds that require 15 to 20 percent less total water to produce a crop relative to more traditional rice production practices. Our science has also led to a crop protection product that can control weeds in rice production that previously could only be controlled through flooding rice land, thereby avoiding the use of water that could be better dedicated to other critical purposes. Of course, all herbicides for all crops are designed to control weeds that would otherwise grow and use precious water.

Crop protection science and water quality protection go hand-in-hand. Over the 10-year process of developing and bringing a crop protection product to the market, our companies ask three primary questions related to water quality considerations:

- Does the compound reach water and how?
- How does the compound behave when it reaches water, if ever?
- How does the compound affect water quality and the health of living organisms?

Numerous rigorous scientific tests are conducted on a candidate compound and its metabolites to answer these questions. We also use the same science to determine if sound, reasonable and practical management strategies are available to ensure that the products can be used without unreasonable adverse water quality risks. The studies conducted involve identifying the compound's decomposition pathways within different crops, soils and water circumstances. Once the degradation patterns have been established, analysis methods are developed for measuring residues.

Other studies analyze the effects of the compound and its major metabolites on living organisms such as non-target insects, birds, soil and aquatic animals, and soil micro-organisms. Such trials are run not only during product development but also after their market launch. In fact, products are subject to continued monitoring and re-evaluation, taking into account the latest state of the art developments. As far as aquatic organisms are concerned, compounds are tested not only on fish, but also on algae and water-fleas. Overall great efforts are made to constantly improve the testing methods for the protection of even the smallest organism in natural water bodies.

Our companies are also continuously engaged in research and development to find ways to minimize the amount of water needed to spray crop protection products while maintaining their efficiency and efficacy. New spray nozzles, for example, can reduce water consumption by approximately 80 percent, from 530 gallons per acre to 105 gallons. The use of low volume water-based sprays combined with application nozzles that target each crop row can decrease water use by 95 percent or more, from 210 gallons of water per acre to only 7 or 8.

Even after our products reach the market and are being used in the field, our member companies continue to pursue innovative and practical crop protection product management strategies. We have been leaders in the marketing and use of streamside buffer zones and filter strips as a way to improve water quality, reduce soil erosion, and increase wildlife habitat.

Likewise, our products also help conserve water in non-agricultural settings. One critical example is their use as part of an integrated program to control noxious and invasive plant species. For example the Salt Cedar tree was originally introduced into the US from Central Asia to prevent soil erosion near rivers and lakes. But Salt Cedar is often able to thoroughly out-compete native plant species and in the process absorb and transpire enormous quantities of water. One mature Salt Cedar plant may withdraw up to 198 gallons of water per day. Where these trees have become established, water levels in rivers and streams and groundwater tables have lowered, and water supplies for urban, agricultural, wildlife and recreational uses become threatened or diminished. Our crop protection products have been used in public initiatives as part of an overall management strategy in key areas of the US to control Salt Cedar. In the case of one prominent project in Texas and New Mexico, this has resulted in an estimated increase of over 15 billion gallons of river flow during a year long season.

Our aquatic products also preserve and protect water quality through the elimination or control of noxious or exotic aquatic plant species in rivers, streams, lakes and estuaries. Like Salt Cedar, these alien, invasive plants out-compete the native aquatic plants, and in the process diminish or eliminate plant biodiversity and degrade or destroy fish habitat. These invasive aquatic plants include species like Eurasian Water Milfoil, Water Hyacinth, Hydrilla, Purple Loosestrife and Melaleucca. Used as part of an overall aquatic invasive plant management strategy, aquatic herbicides can selectively control populations of invasive plants and support the restoration of native plant communities and quality aquatic wildlife habitat. Control of these invasive plants can have substantial water conservation benefits because their sheer mass can impede or stop the flow of water and increase rates of evaporation and other pathways of water loss that would otherwise be used for irrigation.

Wildlife Conservation

One often over-looked contribution that pesticides make is in the area of wildlife habitat restoration and conservation. Conservation scientists rank habitat destruction and nuisance plants as the two most serious threats to endangered species, both plant and animal, and many of our pesticides provide significant benefits for endangered species by reducing the amount of land needed to produce crops, thereby preserving critical wildlife habitat.

Equally important, pesticides increase the diversity and quality of natural habitat through the effective control of non-native or nuisance plants that seriously threaten endangered species as well as damage lakes and streams, farms and natural areas.

Two years ago, CropLife joined forces with one of the country's leading conservation organizations, Ducks Unlimited (DU), and established a Conservation/Technology Initiative. This unique partnership harnessed the power of crop science technology in conjunction with wildlife biologists' expertise to reduce the abundance of exotic grasses and other weeds at wildlife refuges and other sites where DU seeks to restore native grasslands. The key here is to use herbicides and fungicides to suppress the weed production long enough for native grasses to reestablish. Because many native plants are perennials, once reestablished, they can flourish for decades under proper management.

Another one of this initiative's specific projects was a demonstration pilot to show how the use of certain pesticides could enable farmers to economically switch to winter wheat from spring wheat in the northern plains-again to the benefit of duck populations.

CropLife member companies are in the second year of this five-year partnership with DU and the results are already very encouraging. Habitat restoration is well underway at 20 sites nationwide and the benefits to waterfowl and other wildlife are being recorded. Beyond the contributions being realized for wildlife conservation efforts, these projects are also having a beneficial ripple effect for outdoor enthusiasts. At a number of the areas, control of nuisance plants and weeds is helping aquaculture, water-related recreational activities, hunting and fishing, bird watching and natural scenic restoration.

STEWARDSHIP

CLA strongly believes in the power of public/private partnerships to steward pesticides. Over the past 5 years, more than 35 million pounds of pesticide plastic containers were recycled because industry, extension offices, and state governments have worked together to provide farmers the opportunity to voluntarily recycle containers. Eleven states lead the way in promoting recycling and have worked hand-in-hand with our industry program called the Ag Container Recycling Council (ACRC).

CLA would very much like to see the expansion of voluntarily recycling; however, only the member companies of CLA are currently underwriting the costs of ACRC. In order to sustain this program and increase pesticide container recycling rates in the U.S., we have asked the Environmental Protection Agency (EPA) to develop a rule to require all registrants to financially support recycling initiatives such as ACRC. The rule could be based upon a recent pesticide container recycling standard developed in conjunction with the American Society of Agricultural and Biological Engineers and approved by the American National Standards Institute. The House Interior/EPA Appropriations bill this year clearly acknowledges the importance of such a regulatory step and would instruct EPA to proceed expeditiously.

We are also seeking ways to expand industry stewardship efforts in the area of facility safety. Over the past three years, CLA member companies have sponsored a program called the American Agronomic Stewardship Alliance (AASA) to inspect all pesticide bulk facilities in the country. Through an electronic database, CLA members can obtain inspection reports to ensure that facilities they do business with can properly store and handle their products in bulk quantities. This program will become an important tool in helping agricultural retailers and distributors meet and exceed the requirements recently finalized by EPA in the agency's Container and Containment Rule.

ENDANGERED SPECIES ACT

One of our industry's most significant policy objectives is the modernization of the Endangered Species Act (ESA). CLA supports practical, balanced and scientifically-sound amendments to the ESA to make it effective in recovering and saving species at risk. We believe Congress needs to amend the ESA to improve the availability of new technology and crop protection products for species habitat recovery. A huge step was taken last fall when the House passed H.R. 3824, the "Threatened and Endangered Species Recovery Act." We call on the Senate to pass similar legislation.

When the ESA was enacted in 1973, there were 109 species listed for protection. Today there are roughly 1,000 U.S. species listed as threatened or endangered, nearly 300 species considered as "candidates" for listing, and nearly 4,000 "species of concern." The authorization for Federal funding of ESA activities expired on October 1, 1992, though the U.S. Congress has appropriated funds in each succeeding year to keep the program active.

On August 5, 2004, following coordination with EPA and the United State Department of Agriculture (USDA), the Fish and Wildlife Service and the National Marine Fisheries Service published joint counterpart regulations, which streamlined the interagency consultation process for endangered species risk assessments for pesticides. These new regulations intended to marry the effects analyses requirement of ESA with the scientific-based, data-intensive environmental analyses required by the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA).

The need for such regulations had been highlighted by a string of ESA citizen suits alleging that EPA failed to consult with FWS and NMFS when registering pesticides. The concerns about current court decisions and threats of additional litigation have created piecemeal regulatory process, as well as unnecessary restrictions for pesticide products. These lawsuits have cost taxpayers millions of dollars as EPA defends itself against a process that does nothing to improve protections for endangered species. Just in the Pacific Northwest states, USDA estimates that the impact of one of the major ESA/pesticides court decisions on agriculture is approximately $583 million annually. There are approximately 10 similar lawsuit filings across the country. Furthermore, just last month, a Federal judge in Washington State found portions of the ESA counterpart regulation to be invalid, thus increasing the uncertainty surrounding the pesticide registration process and threatening farmer's access to important crop protection products. Congressional action is needed so these products, which are so critical for food and fiber production, will not be terminated or compromised in the interim by further court orders or settlement agreements.

FQPA 10-Year Deadline

EPA deserves recognition for its accomplishment mandated by the Food Quality Protection Act (FQPA) to reassess pesticide residue tolerances by August 3, 2006.

EPA's work over the past 10 years has resulted in the reassessment of nearly 10,000 residue limits. CLA and our members have worked with the Agency in the administration of FQPA, but we continue to have certain on-going concerns with its implementation. Continuing political pressure has been directed at EPA to push FQPA beyond its original, science-based intent while growers, food companies and the crop protection industry have worked for a more reasoned regulatory policy.

During this 10-year process, many decisions that negatively affected pesticide products were shaped by political pressures. Some of these matters are still open today, such as the battle over the use of ethically produced human clinical and worker exposure data in regulatory decisions. It is important that EPA applies transparency and good science policy to allow statutory standards to be clearly applied to pesticide regulations.

Congress passed FQPA in 1996 and the act went into effect immediately. As a result of the new law, better scientific methodology was developed and implemented, such as reviews of the Environmental Fate model updates. Throughout the reassessment procedure, a wealth of valuable data was generated, including Market Basket residue surveys, exposure data, crop profiles, biomonitoring information, and water monitoring data. At the same time, risk assessment methodology was carried out in a much more transparent fashion.

Industry developments during this period focused on bringing newer, more effective pesticides to the market. Through the Pesticide Registration Improvement Act (PRIA), industry fees allowed EPA to maintain and accelerate its pace on tolerance reassessment and provide improved time lines and predictability for registration of new pesticide products. PRIA will need to be reauthorized rather soon and we and the rest of the pesticides community stand ready to work with the House Agriculture Committee to accomplish this on a timely and informed bases.

As a result of FQPA and the contributions of EPA, the food chain and the crop protection industry, Americans continue to reap benefits from a rigorous and thorough regulatory program and to enjoy the safest food supply in the world.

Pesticide Registration Improvement Act

PRIA was enacted on January 23, 2004. It requires pesticide registrants and applicants to pay specific service fees to EPA for the registration applications that it handles. This law also establishes specific timelines for EPA to accomplish the various registration actions and prohibits certain other extraneous user fees.

The intent of the law is to provide additional resources for EPA's registration efforts and a more predictable evaluation process. As enacted, PRIA will be effective for five years and it continues the prohibition on the collection of pesticide registration fees (40 CFR Part 152.400), which has been in effect since FIFRA was amended in 1988. PRIA also suspends collection of tolerance fees authorized by the Federal Food Drug and Cosmetic Act (FFDCA) (40 CFR Part 180.33).

CLA has successfully helped lead an Industry Fees Coalition that included all trade associations representing pesticide registrants and worked closely with environmental and labor groups in lobbying Congress for passage of PRIA, in defending PRIA since its enactment, and in implementing PRIA with EPA.

In addition to the new registration service fees, PRIA retained and increased the product maintenance fees that support reregistration and tolerance reassessment under FQPA. Industry is projected to pay a total of more than $200 million over a five year period. The registration service fees and increased maintenance fees went into effect in the spring of 2004.

The amount of the pesticide registration service fees and the timetables for the review periods vary somewhat from year to year to provide for phasing in the new timelines. Since 1989, Federal budget proposals by various administrations have repeatedly sought to reinstate the original pesticide registration fees for new products (40 CFR Part 152.400) through modification of FIFRA. For FY 2007, OMB has proposed in the President's Budget increasing pesticide user fees from anticipated revenues of $31 million in PRIA and maintenance fees to a total of $87 million by increasing both PRIA and maintenance fees, reinstating tolerance fees and creating a new "registration review fee."

Fortunately, Congress has repeatedly barred collection of these other fees and ignored Administration proposals to modify FIFRA and FFDCA accordingly. Proposals for additional registration and tolerance fees would violate the spirit of the compromise that resulted in the passage of PRIA.

PRIA has been successful in improving the predictability and speed of the pesticide registration process, and CLA calls on Congress and specifically this committee to reauthorize this important law.

NPDES Clean Water Act Permits

In 1972, Congress enacted the Clean Water Act and the FIFRA. The Clean Water Act authorized EPA to protect the nation's waterways by regulating discharges of large industrial operations and wastewater facilities through the National Pollutant Discharge Elimination System (NPDES). FIFRA provided EPA with the authority to regulate the sale and use of pesticides through a comprehensive registration and labeling protocol.

Although CWA and its NPDES permit requirements have been in effect for over thirty years, no government agency has ever concluded that the application of pesticides in accordance with label directions requires an NPDES "point source" permit, including aquatic mosquito and weed control, as well as terrestrial uses that may result in incidental spray drift entering water. FIFRA already requires strict testing of pesticides to ensure water quality and aquatic species preservation; therefore, an NPDES permit for pesticide applications has always been considered unnecessary and duplicative.

However, in March of 2001, the U.S. Ninth Circuit Court of Appeals ruled in Headwaters, Inc. v. Talent Irrigation District that NPDES permits were required for the use of aquatic herbicides to control weeds in waterways. In November 2002, the Ninth Circuit ruled in League of Wilderness Defenders v. Forsgren that an airplane used for the application of moth control products in the forest canopy was a "point source" pollutant and therefore aerial spraying of pesticides required an NPDES permit under the Clean Water Act. Other similar cases are pending, and activist groups are now using this unfortunate precedent to threaten lawsuits against American farmers who must make millions of pesticide applications every year in order to maintain viable crops.

Furthermore, since NPDES permits were never intended to be used for pesticide applications, Federal and state agencies are not prepared to handle the massive rise in permit requests from farmers who must spray regularly throughout the growing season. In many states, obtaining an NPDES permit is very costly, time consuming and bureaucratic. It is not practical to expect American farmers to bear such a major expense and delay urgent applications in the event of a fast developing pest infestation.

EPA has issued several interpretive statements over the past two years reiterating its position that NPDES permits are not required for pesticide applications directly to or near waters of the United States. A proposed rule is currently pending at EPA, which would codify the agency's position.

While EPA's proposed rule is certainly a positive development, the agriculture industry believes that nothing short of legislation will remove the threat of lawsuits against farmers. EPA has also acknowledged that a rule will not alleviate the threat of litigation. Farmers, irrigators, mosquito abatement districts, fire fighters, Federal and state agencies, pest control operators and foresters will all benefit if Congress chooses to clarify current law. We commend Congressmen Butch Otter and Dennis Cardoza and a total of 76 other bipartisan cosponsors for introducing H.R. 1749, "The Pest Management and Fire Suppression Flexibility Act." We encourage Congress swiftly adopt this legislation to resolve this important issue.

Organic Agriculture

While CLA respects the right of consumers to have a variety of options in the grocery store, there are countless misperceptions about organic agriculture. It has often been said that organic crop production is the fastest growing segment in US agriculture. That is not the case. Organic crop production increased from 400,000 acres in 1992 to 1.4 million acres in 2003. Rather, the fastest growing segments of U.S. agriculture have been those reliant on herbicides. No till crop growing increased from 15 million acres in 1989 to 62 million acres in 2004. The number of biotech herbicide tolerant acres where herbicides are used with crops that have been genetically engineered for tolerance increased from less than 100,000 acres in 1995 to over 90 million acres by 2005. Organic acres account for less than 1 percent of total US crop acreage largely because these growers are not permitted the use of chemical herbicides to control weeds.

The difficulties that organic growers have with controlling weeds without herbicides is well illustrated by a recent exemption from farm worker safety rules granted to organic growers in California. The organic growers were granted an exemption from a rule that banned the practice of having workers pull weeds by hand. The California Occupational Safety and Health Standards Board concluded that hand weeding results in a substantial risk of permanent back injury to workers. Organic growers claimed that they would incur severe profit losses if they could not use hand weeding and they were granted an exemption to the state law.

While we acknowledge that a small segment of American consumers may prefer to purchase organic produce, CLA does not believe organic agriculture should be preferentially subsidized or promoted by Congress during the upcoming farm bill.

Economic Benefits of Pesticides

The importance of pesticides in protecting American crop production can easily be understood by looking at the value of fungicides in the growing of fruit and vegetables. Most of the nation's fruit and vegetable acres are sprayed with fungicides every year to prevent the crops from being infected with fungi and bacteria that cause crops to rot. These fungi are ubiquitous in the environment. We have never had widespread commercial production of fruit and vegetables in this country without the spraying of fungicides. For more than one hundred years, close to 100 percent of the apples, potatoes, peaches and grapes have been treated with fungicides. Without fungicide use, yields of most crops would decline by more than 50 percent while it would be impossible for widespread commercial production of certain crops like apples and grapes. Fungicides are extremely economical for US growers. A recent study from the CropLife Foundation calculated that U.S. growers receive a net benefit of $15 for every $1 that is spent on fungicides and their application. There aren't many technologies in the U.S. economy that can match that rate of economic return.

Thank you again for the opportunity to share our views with the committee. When writing the next farm bill, we encourage you to consider the numerous benefits of pesticides for conservation and crop production, and the ultimate benefit to food consumers here in our country and the fantastic earnings the U.S. enjoys from having food and fiber surplus available to export to consumers around the world.

Statement of Paul Palmby

Good morning, Mr. Chairman and members of the committee. I am Paul Palmby, executive vice president and chief operating officer of Seneca Foods Corporation.

Seneca Foods is the largest fruit and vegetable processor in the country with 22 plants located in New York, Wisconsin, Minnesota, Illinois, Idaho, Washington, and California. We are vertically integrated with large vegetable seed production capability in Washington, a 10,000 acre farming operation in Wisconsin, and two state of the art can manufacturing facilities in Wisconsin and New York. We employ approximately 3,200 full time and 9,200 seasonal workers with an annual payroll of over $260,000,000 and contract for raw product with approximately 3,000 growers on over 300,000 acres with nearly $150,000,000 being paid to those producers in the small rural communities where many of our plants are located.

I appreciate the opportunity to testify today on behalf of the Canned, Frozen Food and Grower Coalition (CFFGC). CFFGC is a coalition of food and vegetable farmers, processors, trade associations, and others from across the Midwest, which seeks flexibility for farmers to remove some of their acres from program participation in order to diversify by producing fruits and vegetables for processing.

Mr. Chairman, late in the process of writing the 2002 farm bill, soybeans were added to the program crops, and a restriction on growing fruits and vegetables on program crop acreage was by default extended to soybean acres. While that decision was made in a very purposeful way, several of its consequences were not clearly anticipated. As a result, farmers in the Midwest are denied reasonable access to land for the production of fruits and vegetables for processing. Of course, the principal vegetables at issue are tomatoes, sweet corn, green beans, peas, pumpkins, lima beans, cabbage and red beets—all grown under contract for processing.

I would like to emphasize that this problem is not a processor problem so much as it is a problem for agriculture in the Midwest. Previous witnesses on behalf of our coalition have been producers, because the most direct and substantial damage caused by this problem is borne by producers. For example, Glenn Abbett previously testified before this Committee about the barriers to continue his family farm's traditional fruit and vegetable production because the grower history was in his father's name and because Glenn has generally been unable to rent land for vegetable production. The Senate Agriculture Committee recently heard from Charlotte Ousley, a widow, who was informed by the Farm Service Agency upon the death of her husband in a farming accident, that she and her children would not be allowed to continue fruit and vegetable production under her late husband's grower history.

Each year as growers across the Midwest are forced out of production or choose to stop growing fruit and vegetables for processing, the supply of fruits and vegetables for processors is reduced. With the current restrictions on growing fruits and vegetables, new and otherwise willing producers are prohibited from replacing those who are no longer producing. In addition, the current restrictions prohibit current growers from increasing their acreage in production. The accumulating loss of growers poses a long-term threat to the processing industry, creating a substantial opportunity for foreign producers of processed fruits and vegetables. In fact, foreign processors already are making inroads.

Seneca Foods is currently the largest exporter of canned vegetables with nearly 10 percent of our revenues being generated from sales to over 60 countries. Recent and dramatic growth in primarily canned sweet corn in Thailand, China and Brazil are direct threats to our export business. Add to that increasing imports from those countries, as well as Canada, and it is clear that declining exports are not our only concern. While imports of corn have flattened over the last year, as a result of huge domestic crops driving down pricing, an expanding import threat is equally as great.

Having traveled in the last 24 months to both Thailand and Brazil, I can report first hand that their quality is improving, their productive capacity is expanding, and their efficiency is increasing. There are now over 30 processors in Thailand, where enhanced agricultural practices and focus on new varieties by major seed companies are resulting in rapid improvements in yield and quality. There is simply no question as to whether they will match our domestic quality and consistency; it is merely a question of when. Any factors limiting U.S. competitiveness, such as the restrictions on fruit and vegetable production, will contribute to lost exports, allow growing imports, and, ultimately, capacity adjustments and job losses.

Mr. Chairman, I would like to explain why the 2002 farm bill fruit and vegetable restrictions have had such an adverse effect and why Farm Flex is a reasonable correction.

Since 1996, our farm laws have generally prohibited the production of fruits and vegetables on base acreage. However, this was not a significant problem for Midwestern fruit and vegetable production until the 2002 farm bill made soybeans a program crop. Including soybeans as a program crop resulted in practically all of the quality farm land in Midwestern states acquiring a program base. Since the farm bill generally prohibits planting fruits and vegetables for processing on program acres, the availability of farm ground for fruit and vegetable production in the Midwest has been dramatically reduced. For example, in Illinois, a state with almost 22 million acres of crop land, 8.5 million acres were added to the program base by the 2002 farm bill, leaving just 300,000 acres outside of farm bill restrictions. In some counties in southern Minnesota, as much as 98 percent of the tillable acreage is program acres. Thus, a dramatic change occurred in the availability of land for production of fruits and vegetables. So, the farm program restrictions on fruit and vegetable production for the first time came into sharp focus, and two clear problems became apparent.

First, restrictions on fruit and vegetable production were simply unworkable. Allowances for fruit and vegetable production due to farm history did not provide for reasonable crop rotation, and restrictions on the use of producer history by family members has proven to be not only unreasonable, but heartless. Second, fear of base acreage loss has made it extremely difficult for producers to rent quality crop land for fruit and vegetable production. In the Midwest, most family farms rely on rented acres to grow a substantial percentage of their crops. In the 2002 farm bill recalculation of base acreage, fruit and vegetable production caused a loss of base acreage. As a result, landlords in the Midwest now generally refuse to allow fruit and vegetable production on their land, out of concern that a future recalculation of base acreage may result in a further loss of base.

In combination, these restrictions not only reduced the availability of land for fruit and vegetable production but significantly undercut the ability to rotate crops, which is essential for integrated pest management purposes and to preserve crop quality and disease control in susceptible fruit and vegetable crops.

Fortunately, Mr. Chairman, an easy answer, without adverse effect, is available—Farm Flex. Farm Flex, as described in Mr. Pence's legislation H.R. 2045, would permit production of fruits and vegetables for processing on program acres provided that an acre-for-acre reduction in program participation occurs. In addition, Farm Flex would clarify that Congress intends that, for any future recalculation, base acreage would treat fruits and vegetables grown for processing on base acreage the same as production of a program crop.

This two step approach would have several benefits. It would:

• Enable farmers to diversify their operations by producing a higher value crop on land that otherwise would be locked into the farm program;

• Make it easier for farmers to stop producing fruits and vegetables for processing if they choose. Under the current scheme, farmers who do not have base on vegetable ground must either grow crops outside of the program or be forced, for economic reasons, to continue in fruit and vegetable production; and

• Reduce government expenditures by allowing farmers to forego government payments on program acreage that is in production of fruit and vegetables for processing.

So, Farm Flex would allow farmers greater flexibility, reinforce family farm policies, remove an encumbrance on the international competitiveness of the U.S. processed vegetable industry, and even reduce government expenditures.

Permit me to take a few minutes to address the arguments that have been advanced in opposition to Farm Flex.

It is asserted that Farm Flex would allow for subsidized competition for unsubsidized U.S. fruit and vegetable producers. That is wrong. Farm Flex specifically provides that fruit and vegetable production may only occur on acres that opt out of the farm program. By electing to produce fruit or vegetables for processing under Farm Flex, the producer would elect to STOP receiving subsidy on acres in fruit or vegetable production. That is why the Congressional Budget Office says that Farm Flex saves taxpayer dollars, and why it would not allow subsidy for fruit or vegetable production.

Mr. Chairman, this Committee also has heard complaints that Farm Flex could threaten fragile fresh produce markets because production on Farm Flex acres may illegally move into fresh markets with devastating effects on fresh produce markets. That is absurd. First, nearly all of the crops grown for processing are of a different variety than used in fresh markets and are not suitable for fresh markets. Second, such sales into fresh markets would become illegal and easily detected when the produce is presented for sale at a fresh produce market. Third, production in the Midwest consistently lags behind the premium early market prices of the fresh industry because Midwest harvest dates are simply later and shorter in duration than harvest dates in traditional fresh production areas.

Finally, and most notably, there is absolutely no history of such problems occurring in the past. Prior to the enactment of the 2002 farm bill, there was abundant land available for production of fruits and vegetables without restrictions. Had there been such an opportunity for Midwest-grown fresh produce to take over the fresh market, it certainly would have occurred prior to 2002 when land was readily available for that to occur legally. Since there is no history of such practices, it is silly to think they would suddenly occur since moving Farm Flex production to fresh markets would be illegal and subject to substantial penalties. Farm Flex simply allows producers some of the flexibility to produce fruit and vegetables for processing that they had prior to the 2002 farm bill changes. Under Farm Flex, there would be far less potential for Midwest production of fresh fruit and vegetable production to move into fresh markets than was present prior to the 2002 farm bill. After all, Farm Flex only permits production of fruit and vegetables for processing.

Mr. Chairman, if the current restrictions on fruit and vegetable production remain in place, the continuing decline in the availability of quality acreage close to processing facilities will continue to erode the competitiveness of the U.S. processed fruit and vegetable industry with its foreign competitors. Without your help, it will only be a matter of time before American canned corn is replaced by corn from Thailand, Brazil, and China.

Mr. Chairman and Members of the Committee, I appreciate your consideration of our comments and would be pleased to answer any questions you might have.

STATEMENT OF MIKE MALECHA

Chairman Goodlatte, Ranking Member Peterson and members of the committee, thank you for the opportunity to appear before you today.

I am Mike Malecha, senior vice president for US Bioenergy Corporation based in Inver Grove, Minnesota. I have 30 years of experience in the food, feed and industrial agriculture industry. US BioEnergy is a producer and marketer of ethanol and distillers grains. The company currently operates one ethanol plant, which is in the process of expansion, and has three additional ethanol plants under construction. Upon completion of these initiatives, the company will own and operate four plants with combined expected ethanol production capacity of 300 million gallons per year. I am testifying today on behalf of the National Grain and Feed Association, on whose Board of Directors I serve. 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 maximize growth opportunities for U.S. agriculture.

To this end, the NGFA has identified four major priority areas that we believe need to be addressed in the next farm bill:

- 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 enhancing protection of environmentally sensitive lands;
- 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); and
- Grain Reserves: Minimizing government involvement in grain stocks-holding, except for humanitarian purposes.

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 one of the largest poultry 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.

No one can predict with precise certainty how quickly the biofuels industry will grow or how large it may become. But here is what we are observing: ethanol prices are retreating from summertime highs, but corn-based ethanol production remains highly profitable and will remain so under a wide range of potential future corn- and ethanol- price scenarios.

Forecasts regarding the ethanol industry's likely expansion rate in coming years range from USDA's most recent estimate of 10 billion gallons of capacity achieved by 2012 to some private estimates that forecast production will exceed 10 billion gallons in less than three years. Coincidently, in testimony presented Sept. 6 before the U.S. Senate Committee on Environment and Public Works, USDA Chief Economist Keith Collins noted USDA will release a new analysis of biofuel demand for corn and soybeans "this winter" and stated that USDA's February estimates "while...comforting, are out of date, as ethanol production appears to be on a path to exceed USDA's long-term projections released last winter." Collins stated that "with expected market incentives, ethanol production may reach 7.5 billion gallons over the next couple of years and could reach in excess of 10 billion gallons by 2010–11."

Estimates suggest that 35 percent or more of the corn crop could be utilized for ethanol during the life of the next five-year farm bill. While the range of ethanol-production forecasts indicates a degree of uncertainty, the most important takeaway is how rapidly assumptions are changing about its potential growth. Indeed, some private estimates of ethanol production expansion have increased by as much as 50 percent in just the last six months. Driving this are the public and private forecasts of relatively firm energy prices in the face of continuing uncertainty in the Middle East and, importantly, the entry into the U.S. market over the last year of several new ethanol plant development and construction firms from Europe and from other industries. Today, provided projected ethanol returns remain reasonably healthy, the market has the capacity and the financial backing to add roughly 2 billion gallons of ethanol capacity every year, representing more than 700 million bushels of new corn demand each and every year.

The potential for significant increases in biodiesel production also will contribute to potentially dramatic changes in the grain, feed and processing industry. Some private industry estimates are that at current capacity-plus-investment trends, soy oil use for industrial purposes could increase from 82 million gallons in 2005–06 to 685 million gallons in 2010–11.

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. To avoid supply disruptions to other users of corn, the market needs to have the opportunity to bid more acres into corn production. Recognizing there will be some annual improvement in yields, there are only two substantial ways to accomplish that: (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.

Make no mistake, if current biofuel investment trends continue, the United States will experience lower average stocks for grain and comparatively higher prices for corn and for other grains as crops compete for available resources. This scenario could develop very quickly. Grain futures markets already reflect such expectations. Over the life of the next farm bill, it is entirely conceivable that the United States will require an additional 8 million to 10 million planted acres of corn to avoid triggering: (1) sharp declines in livestock profitability; (2) supply interruptions to long-term export markets; and (3) supply shortages that could hamper ethanol profitability.

In his September 6 statement, Dr. Collins also noted that key factors that could help manage risk from ethanol growth are corn yield increases and acreage withdrawals from the CRP. Concerning the CRP, he stated that USDA analyzed all CRP land enrolled during general signups in counties where 25 percent or more of harvested cropland was producing non-irrigated corn and soybeans. Looking at only those CRP acres in this category, Collins stated that 4.3 million to 7.2 million CRP acres could be used to grow corn or soybeans "in a sustainable way."

The National Grain and Feed Foundation (NGFF) is in the process of commissioning an independent study to assess scenarios for the "most likely outcome" for biofuel production each year—including the lowest and greatest growth rates that can reasonably be expected, given both incentives and practical constraints on adding biofuel capacity. In addition, the NGFF has asked researchers to focus on two factors we believe could have the greatest potential to limit future growth in both traditional U.S. agricultural markets and in the biofuels market: (1) land-use restrictions imposed by government, the most significant of which is the CRP; and (2) limitations on the United States' near-term ability to expand transportation capacity and services adequately, particularly rail freight.

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.

Conservation Impacts on Land Use and U.S. Competitiveness

As noted previously, adjusting the CRP is one significant potential solution to anticipated land-capacity constraints. Acres currently enrolled in the CRP represent the fourth largest crop in the United States. And if current trends continue, CRP will 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.

We submit that the CRP should be balanced, productive and not work at cross-purposes to a healthy commercial U.S. agriculture sector. Congress can assist by enacting a conservation policy worthy of continued taxpayer support that does not undermine U.S. agriculture's competitiveness by idling productive land assets.

What policies should be considered to accomplish this objective? As Congress is aware, the U.S. Department of Agriculture (USDA) developed and implemented a plan to reenroll or extend many of the acres under CRP contracts that are set to expire between 2006 and 2010. While the NGFA does not support automatic CRP reenrollments or extensions, we understood the need to ease potential market impacts of so many acres expiring in such a short time frame. In our view, the large numbers of acres reenrolled or extended is unfortunate. But USDA's plan does provide the flexibility for Congress to redesign the CRP over the life of the next farm bill.

Under USDA's plan, all acres enrolled in expiring 2006–10 CRP contracts are to be evaluated based upon their Environmental Benefits Index (EBI) percentile scores in effect at the time the acres originally were enrolled in the program. The percentile scores then are grouped into one of five EBI tiers. Acres with an EBI ranking in the 80 to 100 percentile range are eligible for enrollment under new 10-year contracts (15 years for acres with wetlands). Remaining expiring CRP contract acres are eligible for extensions ranging from two to five years at their previous CRP rental rates, based upon their EBI rankings.

The NGFA supports USDA's utilization of the EBI to determine which lands are most environmentally sensitive and should be idled. However, we remain concerned that contracts extended two to five years then will be offered reenrollments in the future, which could lock up these productive land resources for an additional 10 to 15 years. Thus, we encourage USDA to allow current CRP contract extensions to expire once the extension date is reached. This would accomplish the intended effect of minimizing distortions of mass CRP contract expirations in any one year, while allowing U.S. agriculture the flexibility to bid these acres back into production to meet demand as biofuels production continues to expand at a significant pace. Further, the NGFA believes future enrollments of previous or new CRP contract acres should be based upon updated EBI scores and current rental rates, and USDA should enroll only those acres that are most environmentally beneficial. We recognize that environmental benefits are limited when acres are not enrolled under long-term CRP contracts; that's precisely why we believe only those acres within the top range of EBI scores should be idled.

While the NGFA still is evaluating other specific policy recommendations for the CRP to be addressed in the next farm bill, we believe several options merit consideration. These include: (1) reducing the current statutory cap on CRP enrollments; (2) placing a statutory limit on the annual authorized funding level; and/or (3) altering how rental rates are established to ensure that government does not overly subsidize land-idling programs to the detriment of economically viable land-use options. Government bidding for productive CRP acres in competition with the private sector hampers efficiency and dampens U.S. agricultural growth. Regardless of the method, it is critical for the long-term viability of the U.S. grain and oilseed industry to provide sufficient flexibility to bring idled cropland back into production and limit idling of productive land when market conditions warrant.

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 while maintaining the demand for corn from export and 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.

OTHER NEGATIVE IMPACTS OF THE CRP

The negative impacts of the CRP extend beyond concerns over having sufficient grain and oilseed supplies to meet market demand.

The NGFA regularly hears from members whose businesses and rural communities have been devastated by excessive idling of large tracts of productive farmland under the CRP. The economic damage is very real. From Idaho, the local coop manager in Moscow, as he was resigning from the NGFA for financial reasons, stated, "the CRP program is a major reason for the downfall of our company. Over 45,000 acres in our service area are now in CRP." From the state of Washington, the elevator manager from Lind, in Adams County, reports that about one-third of the acres in his marketing area are out of production, much of it in CRP, while the population has dropped nearly 30 percent and school enrollment has declined nearly 40 percent. Lind, WA, has lost two farm equipment dealerships, a bank, an insurance broker and a hardware store. In a neighboring town in the same county, the school has half the enrollment it had a dozen years ago.

The CRP program's main financial benefits flow to landowners. What is sometimes forgotten is that the unintended side effects probably do the most economic damage to the producers that many policymakers would most like to help—beginning farmers and tenant farmers trying to earn a reasonable income from active farming. CRP rental rates inflate land values, which reduce the profitability of tenant farming. Reducing available farm rental acreage also makes it more difficult for beginning and tenant farmers to put together an efficiently sized production unit that will provide for a reasonable income. USDA's own Beginning Farmer and Rancher Advisory Committee has recommended that the secretary of agriculture "direct ERS, FSA and NRCS to research policy options for the CRP program to enhance beginning farmer and rancher opportunities as the next big wave of CRP contract expirations begin in FY 2006–2008." This recommendation was made in March 2004, but we have yet to see any USDA statements that this proposal is under active consideration.

Another concern for the NGFA involves the validity of the current 25-percent county cap on CRP enrollments. It appears that because USDA is using outdated cropland data to determine the per-county cap acreage, total acreage being enrolled far exceeds 25 percent of a modern-day "normal cultivated acreage" (in the absence of a CRP program) for a given county. A couple of examples are illustrative: (1) Harmon County, OK, has 51,000 acres enrolled in the CRP, but only harvests 84,000 acres of cropland; (2) Ellis County, OK, has 63,000 acres in the CRP with current plantings of crops of 97,000 acres. Both of these examples suggest the 25 percent cap, as being administered by USDA, has not successfully limited the potential economic damage to rural areas. In addition, as noted previously, because so many counties already have reached or exceeded the 25 percent limit as now being administered, USDA is being prevented from enrolling valuable filter strips in such counties that could contribute meaningfully to water-quality objectives. The NGFA recommends that Congress take a renewed look at the 25 percent cap and make adjustments to ensure its usefulness in reducing the potential negative impacts of the CRP, while maintaining flexibility to enroll the most appropriate acres.

The wheat industry has been affected most adversely by the CRP, particularly the buyout of whole, productive farms. A majority of the CRP ground has been concentrated in wheat states. The large number of acres in the CRP in the Northern

Plains has adversely affected U.S. agriculture's ability to produce adequate quantities of oats and certain classes of wheat, and imports have become critical. Predictably, U.S. wheat imports have accelerated and the United States has struggled to grow enough for our domestic mills. In addition, as ethanol production increases, corn acres will move west, further pressuring the competitive position of U.S. wheat. The NGFA continues to oppose the enrollment, reenrollment or extension of whole farms or large tracts of productive land into the CRP.

The NGFA is not alone in expressing concerns about CRP. Fourteen agricultural trade associations representing agricultural businesses, suppliers and end users endorsed testimony presented last year by NGFA President Kendell Keith before the Senate Agriculture Committee on the CRP. More recently, the Iowa Farm Bureau Federation announced its support for eliminating the CRP. Commenting on the proposal, Iowa Farm Bureau President Craig Lang stated, "I think it was the loss of community activity and economic viability, and our farmers today said we want to send a message." The National Association of Wheat Growers, in a joint paper with the North American Millers' Association, indicated "idling productive resources raises production costs and has a detrimental impact on competitiveness." The American Soybean Association has said it "supports restricting the CRP to environmentally sensitive lands, and returning productive farmland currently enrolled in the CRP to production." The message from a wide range of U.S. agriculture is clear: American agriculture is poised to take advantage of significant growth opportunities and U.S. government programs should facilitate, not hinder, its ability to compete.

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.

Minimizing Market Distortion in Farm Programs

The NGFA also wishes to reiterate its long-standing position that Congress and farm organizations are in the best position to determine 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. Second, we believe Congress should avoid major and immediate shifts in funding levels and program implementation that create near-term disruptions. And third, we support the statements from the leadership of this committee that U.S. farm program payments should be structured and implemented in a way that minimize 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 support agricultural producers given the volatility associated with agricultural production and supports programs that meet this goal while minimizing market distortions.

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. The current "freeze" in negotiations is unfortunate, and we recognize the uncertainty of completing a comprehensive global trade agreement within a reasonable time frame. We believe the 2007 farm bill is the right place to enact 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 potential challenge. Moreover, any successful challenge could impart sudden changes in the U.S. agricultural system.

The Folly of 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 1980's.

Government-subsidized stocks 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.

General Recommendations for the 2007 Farm Bill

In closing, the NGFA offers the following general recommendations for consideration by Congress in developing the 2007 farm bill.

(1)Provide access to sufficient acres to meet demand growth from energy and biofuels without shorting supplies necessary to grow other important demand sectors, such as export and domestic livestock and poultry markets.

(2) Authorize conservation programs that minimize reliance on idling of productive land resources and strengthen the economies of rural communities, while achieving environmental and other policy goals.

(3) Limit acres idled under the CRP. The CRP should shift away from the enrollment of whole farms and should focus on the most environmentally sensitive acres and on filter strips and other areas that do the most to enhance water quality.

(4) Provide flexibility for acres to leave the CRP and ensure once acres exit or expire that they are fully eligible for farm program benefits as established by the next farm bill.

(5) Craft farm program payments that minimize market distortions and volatile swings in funding availability.

(6) Devise farm income supports in a way that minimize risk for potential challenges in the World Trade Organization (WTO).

(7) Reject proposals to establish government- controlled or managed grain reserves or government-subsidized storage programs.

The NGFA appreciates this opportunity to provide an outline of its major concerns, as well as some general recommendations, for the next farm bill. We intend to provide more specific recommendations as soon as the study to be conducted by the National Grain and Feed Foundation is completed and our industry representatives have time to analyze and discuss its findings.

These clearly are issues that have significant impacts on NGFA members and our farmer-customers. In closing, I would leave you again with a line from the NGFA Statement of Purpose: The association is "focused on the growth and economic performance of U.S. agriculture." 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.

Additional Statement for the Record

Re: Questions regarding CRP reduction impacts raised in September 13 hearing

Ranking Member Collin Peterson, in questioning the first panel at the September 13 hearing, referenced a study conducted by the economists at the University of

Tennessee that estimated the “elimination” of the Conservation Reserve Program would result in substantially lower commodity prices, higher Government payments and lower farm income. As the witness for National Grain and Feed Association, I was not on the first panel, so I was not able to respond at the hearing, but would like to submit this response for the record.

The University of Tennessee study was based upon data from USDA’s February 2006 baseline, which according to September 6, 2006 testimony by USDA Chief Economist, Keith Collins, before the Senate Committee on Environment and Public Works, contain projections of ethanol production that are substantially under all current private and public forecasts for ethanol production from corn. For example, the February 2006 USDA baseline forecast that by 2010, 2.600 billion bushels of corn would be used for ethanol production. In his September 2006 testimony, Dr. Collins estimated ethanol production above 10 billion gallons by 2010, or the equivalent of 3.65 billion bushels of corn. With current yield trends, more than an additional 7 million planted acres of corn would be required to supply this additional 1.05 billion bushels. As I noted in my testimony, these acres have to come from either the CRP or be bid away from other crops. Thus, since the USDA issued its February 2006 baseline, there has been a shift in projected future market fundamentals on the order of a 9 percent increase in total demand for corn by the year 2010. This is a huge change that fundamentally alters the outlook and need for productive acres that cannot be ignored by researchers.

There are private estimates of future ethanol production, and these were acknowledged by Dr. Collins in his testimony, that estimate ethanol production in 2010 will be 30–40 percent higher than the 10 billion gallons forecast by USDA. If this turns out to be an accurate forecast, an additional 14 million planted acres of corn will be required, compared to the USDA February baseline, simply to maintain available corn supplies to ethanol producers and all other corn users in the marketplace. (It is of some interest that the University of Tennessee study estimated that even a total elimination of CRP payments would only result in 12.6 million acres returning to active farm production.)

We would submit that the University of Tennessee study should be completely rejected by the committee as it provides no credible information because of the woefully out-of-date assumptions. By all appearances, the U.S. is on track to be producing, at the minimum, 10 billion gallons of fuel ethanol by 2010 generating a need for substantially more grain just to maintain our competitive position in livestock industries as well as in fuel ethanol. While the University of Tennessee study assumed “elimination” of the CRP, we have not heard anyone making such a drastic policy recommendation. There are, according to Dr. Collins, more than 7 million acres in the CRP that can be farmed in an environmentally sustainable way. Even if the marketplace can bid 7 million acres of CRP ground back into production, because of the trends in ethanol and other biofuels production, U.S. grain production capacity will be sorely tested over the life of the next farm bill to keep pace with market demand for grains and oilseeds. In all likelihood, this will result in upward trends in farm prices and less dependence on farm programs to keep farming profitable.

In shaping policy that is optimal for the U.S. agricultural sector, we would urge the committee to rely on the most recent data available and ignore studies that are based upon clearly out-of-date information. For your information, the National Grain and Feed Foundation, along with other organizations, plans to conduct a private study of the potential range of biofuel production over the course of the next 5–10 years, the impact on livestock operations and the demand for transportation services, which are particularly tight in today’s marketplace. We would anticipate the results of that study to be available sometime early in the 2007 session of Congress, and we will provide that study to the committee when it is complete.

AAGC
Alliance for Agricultural
Growth & Competitiveness

ALLIANCE FOR AGRICULTURAL GROWTH & COMPETITIVENESS

STATEMENT REGARDING

COMPREHENSIVE FEDERAL FARM POLICY

HEARING OF THE COMMITTEE ON AGRICULTURE

THE HONORABLE ROBERT W. GOODLATTE CHAIRMAN

SHARON CLARK
VICE PRESIDENT, TRANSPORTATION
GRAIN AND OILSEED DIVISION
PERDUE FARMS
SALISBURY, MARYLAND

SEPTEMBER 13, 2006
WASHINGTON, DC

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Good morning, Chairman Goodlatte, Representative Peterson, and members of the committee. Thank you, Chairman Goodlatte, for the opportunity to participate in this important and very timely hearing regarding a new farm bill. On behalf of the Alliance for Agricultural Growth & Competitiveness (AAGC), I appreciate your invitation to provide the Alliance's recommendations and comments to help enhance U.S. agriculture's ability and capacity to meet the demands of expanding markets at home and abroad.

My name is Sharon Clark, Vice President of Transportation for Perdue Farm's Grain and Oilseed Division. Headquartered in Salisbury, Maryland, Perdue Farms is a major producer of agricultural products, from refined soybean oil to feed ingredients to poultry. Perdue Farms purchases grain from more than 5,000 local farmers to supply our feed mills and market grain internationally. Our grain receiving facilities serve farmers throughout the Mid-Atlantic and handle more than 200 million bushels on an annual basis. Each week, our associates produce more than 50 million pounds of poultry products at plants throughout the eastern half of the United States. Perdue Farms is proud to be a vital and growing market for the hundreds of family farmers who grow the grain and oilseeds needed to meet my company's ever-expanding feed requirements. Perdue Farms is equally proud to contract with more than 2,400 independent family farmers to grow the chickens and turkeys required to meet the needs of our customers in supermarkets, foodservice and international markets.

Perdue Farms is a member of the American Feed Industry Association, The Fertilizer Institute, National Chicken Council, National Grain and Feed Association, and National Oilseed Processors Association. . All five organizations are active participants in AAGC. I am pleased to present this statement on behalf of the Alliance for Agricultural Growth & Competitiveness. The Alliance includes a broad, national cross-section of agricultural associations, agribusinesses, and related organizations that are committed to improving U.S. agriculture's growth potential and ability to expand and compete in both domestic and international markets. Attached to my statement is the roster of AAGC's members. Also, attached are four papers that present the Alliance's primary principles. My statement is based on these four papers.

In drafting the next farm bill, AAGC encourages policymakers to develop legislation that supports the following principles:

- Conservation programs should minimize the idling of productive land to achieve environmental goals;
- U.S. farm programs should comply with U.S. obligations under the World Trade Organization (WTO), encourage the further liberalization of trade, and minimize market distortions on planting decisions; and
- Farm programs should continue to avoid creating artificial storage programs that build government or private stockpiles of grains and oilseeds, except for emergency humanitarian purposes.

AAGC supports these principles and believes that drafting farm policy under these guidelines will best position U.S. agriculture, from farmers to consumers, to succeed and meet the dynamic market challenges in the years ahead. U.S. agriculture enjoys significant competitive strengths. The 2007 farm bill offers policymakers a unique chance to develop a forward-looking, flexible farm policy that enhances these strengths and promotes the continued growth of U.S. agriculture.

AAGC believes staying with the original schedule to draft and enact a new multi-year farm bill in 2007 is appropriate and prudent. While no one can accurately predict when the current World Trade Organization talks will result in an acceptable agreement, it is reasonable to expect a much-prolonged timetable before an overall successful conclusion is achieved. In the meantime, the United States has certain outstanding WTO obligations that must be met. Addressing those obligations now, in a positive manner in a new farm bill, will allow the United States to advance an aggressive international trade agenda that will improve the outlook for growth in the agricultural sector. To best succeed in this environment, U.S. agriculture needs stability, predictability, and certainty of farm programs and policies. Congress has an opportunity, with the current farm legislation expiring, to enact new farm legislation so that U.S. agriculture can move forward to take advantage of the growth opportunities that lie ahead.

Federal budgetary considerations are increasingly paramount. Agriculture should not be expected to bear an unfair share of spending reduction if such adjustments are necessary. Anticipating budgetary adjustments and being proactive in addressing issues can make such a budget adjustment burden more bearable, rather than reacting and realigning once policies and programs are in place. Farmers, ranchers, agribusiness and others in agriculture need greater certainty in terms of farm legislation and programs. Delaying a new farm bill increases uncertainty regarding the outcome of the shape and form of the new farm bill and resulting programs.

AAGC is pleased to note that USDA is estimating fiscal 2007 agricultural exports will be a record level of over $72 billion. USDA cites a favorable world economy, the value of the U.S. dollar and certain other factors for the likelihood of achieving record agricultural sales overseas.

While the export demand for U.S. agricultural products is expected to grow in the years ahead, the growth in production of ethanol, manufactured almost exclusively from corn, and biodiesel, manufactured mostly from vegetable oil from soybeans and other oilseeds, is growing rapidly. Demand for corn for ethanol is expected to grow at more than 30 percent a year for at least the next couple of years. Demand for vegetable oil for biodiesel is expected to grow at an even faster rate although from a much smaller base.

In addition to the dynamic changes coming in the biofuels and international markets, it must, at the same time, be recognized that the domestic livestock and poultry industry is the largest, most important market for U.S. crops. Perdue Farms is proud of and dedicated to its role in animal and field crop agriculture. AAGC respectfully reminds policymakers of the tremendous importance of the domestic livestock and poultry sector when farm policy changes are being considered.

Expanding both ethanol/biodiesel production and animal agriculture does not have to be a mutually exclusive proposition if the appropriate policies and programs are developed and in place. These policies and programs should let market-based choices decide the future balance among users and allow full production on productive U.S. farmland. One of the most important actions, if not the most important, is to successfully address the increasing demands on agriculture for food and energy. Key to achieving this success is revising the Conservation Reserve Program (CRP) so that it recognizes environmentally-sensitive lands need protection while sound, productive crop land needs to be available as market conditions warrant. AAGC believes there is significant acreage in the CRP that can return to crop production without any measurable impact on the environment, especially if soil, water, and air issues are addressed through conservation tillage practices.

This significant acreage of non-erodible, non-environmentally sensitive land currently enrolled in the CRP must be allowed to re-enter crop production. There is, however, a disincentive for land to exit the CRP. Nearly all of the land in the CRP is no longer eligible for direct farm program payments and counter-cyclical payments, although the land is eligible for marketing loan benefits. It is estimated that two-thirds of the land currently enrolled in the CRP received farm program benefits before entering CRP, but over the years, USDA reassigned farm program acreage bases so nearly all the land in the CRP is now ineligible to receive some elements of farm program payments. Congress in the new farm bill needs to recognize this issue or CRP will likely continue to idle large tracts of non-environmentally fragile cropland that U.S. agriculture needs for meeting growing domestic and world demand.

Government owned or controlled stocks distort market price signals impacting production and storage of agricultural commodities. Higher prices for commodities in future months, normally reflecting carrying charges, provide the incentive in the market place to store the commodities into the future. If government pays directly for commercial storage or pays growers to store their crop, like the former farmer-owned reserve, carrying charges are disrupted and growers and commercials have much less incentive to store the commodities for future disposition. Government takes over a storage function normally carried out by growers and commercials, resulting in limited additional storage of commodities. The incremental additional storage provided would likely cost the government much more than would be the "cost" to the market through carrying charges for additional storage. While the government is accumulating stocks, price could be somewhat supported, but once government funded stocks have been accumulated, their existence serves as a cap on prices. In either case, the price signal is blunted to the grower causing him to grow more or less than the market would be signaling if there was no government storage program. Congress wisely removed these storage programs from current law. AAGC supports this congressional action and opposes government funded or supported storage programs.

With respect to providing a farm income safety net, U.S. farm policy and programs should work toward elimination of distortions in market signals to U.S. agricultural producers. Fashioning a non-market distorting farm income safety net can play a strong role in promoting U.S. competitiveness. Under the principles supported by AAGC, Congress and the Administration have wide latitude in developing policies that meet the needs of today's producers, while positioning the entire U.S. agricultural system for growth in the increasingly competitive global markets of the future.

Promoting U.S. competitiveness through aggressive public investment in agricultural research, transportation infrastructure, rural development, and biotechnology is also a necessary and important part of any new farm policy.

In summary, AAGC encourages Congress to design farm legislation that achieves the following:

- Reforms the Conservation Reserve Program to eliminate the retirement of all non-erodible, non-environmentally sensitive farmland;
- Provides a farm income safety net that is not subject to continual challenges from trading partners through the World Trade Organization;
- Makes substantial movement toward replacing non-market incentives to plant crops in order to receive program benefits; and
- Avoids creating storage programs that artificially build government and non-government stockpiles of grains and oilseeds, except for emergency humanitarian needs.

Mr. Chairman and Committee members, the Alliance for Agricultural Growth & Competitiveness appreciates the opportunity to provide recommendations to better position U.S. agriculture to become even more dynamic and productive and instill greater confidence to invest for the future. The Alliance looks forward to working with the Committee to help craft new farm legislation toward these worthy goals.

CORN REFINERS ASSOCIATION

Testimony

By

Audrae Erickson

Corn Refiners Association

Before the

House Agriculture Committee

On the

2007 Farm Bill

September 13, 2006

Mr. Chairman, members of the Committee, thank you for this opportunity to present the views of the Corn Refiners Association on the next Farm Bill.

The Corn Refiners Association, or CRA, represents the corn wet milling industry. Our members produce a number of products for food use: highly specialized corn starches, corn sweeteners, corn oil and other food ingredients, as well as animal feed products like corn gluten feed and meal, and a number of products for industrial use such as ethanol and bio-plastics.

Our industry has formulated a position for the 2007 Farm Bill – a position that stems from being the victim of a longstanding trade dispute that cost our industry more than $4 billion over the past ten years. In specific, the CRA has no higher priority than the long-term, permanent resolution of the decade-long high fructose corn syrup (HFCS) dispute with Mexico. The permanent resolution of this issue is linked to the operation of the U.S. sugar program – an issue of key consideration for the next Farm Bill.

Specifically, the CRA has concluded that the long-term resolution of this dispute rests on two-way, free trade in sweeteners between the United States and Mexico, as envisioned by the North American Free Trade Agreement (NAFTA) effective January 1, 2008. How the U.S. sugar program is structured under the next Farm Bill is crucial to ensuring that the free trade promised under the NAFTA is realized in 2008 – not only for our industry, but many others as well. If any element of the sugar program restricts or otherwise negates free trade in sugar between the United States and Mexico, then corn sweeteners will be taken hostage yet again. Mexico will simply stop imports of our high quality sweetener at significant cost and loss of jobs to our industry.

It is imperative that the next Farm Bill not limit imports of sugar from Mexico through marketing allotment provisions, or some other mechanism. To do so would be in strict violation of U.S. commitments under the NAFTA, an agreement that has been highly beneficial for U.S. agricultural exports, including beef, pork, poultry, dairy, corn, soybean meal, apples, dry edible beans, and rice. If the United States does not live up to its NAFTA commitments on sugar, we can be certain that Mexico will be under intense political pressure to nullify its NAFTA free trade commitments for these high value U.S. exports.

As you know, the 1.532 million short ton import trigger established for marketing allotments in the 2002 Farm Bill will currently enable only 276,000 short tons (approximately 250,000 metric tons) of imported sugar from Mexico and other FTA countries after the U.S. WTO commitment is satisfied. The NAFTA allows for free trade in sugar in 2008 – thereby rendering the 276,000 short ton cushion under the existing marketing allotments for sugar imports from Mexico incompatible with our NAFTA obligations.

Thus, marketing allotments are a barrier to sweetener trade with Mexico. The 2007 Farm Bill must be consistent with the NAFTA. That is no sugar program provision should stand in the way of, or act as a limit to, full implementation of two-way trade in sweeteners with Mexico. The CRA will not be in a position to support the U.S. sugar program in the next Farm Bill if imports of Mexican sugar are subjected to or limited by marketing allotments or any aspect of the sugar program.

For further consideration by this Committee, it is clear that the sugar program, as it is currently constructed, will no longer be a no net cost program beginning in 2008. Specifically, the program is forecast by the Congressional Budget Office to incur taxpayer costs beginning in 2008, with annual costs averaging $248 million from 2008-16, and reaching $340 million annually by 2016 as follows:

2008: $32 million
2009: $130 million
2010: $214 million
2011: $259 million
2012: $294 million
2013: $305 million
2014: $321 million
2015: $335 million
2016: $340 million

These projected costs are a direct result of the anticipated imports of sugar from Mexico.

Finally, the corn wet milling industry is very supportive of the efforts of the Sweetener Users Association to reach out to the broader sweetener industry, including sugar growers and refiners, to formulate a sugar policy that maintains a viable sweetener economy and is beneficial for all aspects of the sweetener industry.

We thank you for the opportunity to testify before this Committee and hope our comments concerning the need to ensure full implementation of the U.S. commitment for free trade in sugar with Mexico is fully incorporated in the sugar provisions of the next Farm Bill.

Background on the U.S.-Mexico High Fructose Corn Syrup Dispute

Since 1997, the sweetener impasse with Mexico has resulted in more than $4 billion in lost HFCS sales, both HFCS exports and U.S.-owned HFCS sales in Mexico, or in excess of 800 million bushels of corn production, including lost corn sales to Mexico intended for sweetener production.

In 1997, Mexico imposed preliminary, and later final, antidumping duties on U.S. exports of high fructose corn syrup. Both the World Trade Organization and the NAFTA dispute settlement panels found Mexico's antidumping investigation to be illegal.

In January of 2002, Mexico lifted its antidumping margins on U.S. HFCS exports, and instead, imposed a 20% tax on all beverages sold in Mexico that are sweetened with HFCS. This tax shut the Mexican market down overnight for U.S. exports of HFCS and bulk corn for production of HFCS in Mexico by U.S. owned firms. This tax remains in place to this day. Losses of $944 million in HFCS sales, equivalent to 168 million bushels of corn, are sustained every year that the tax is in place, with additional sizable losses to investments.

The U.S. corn industry lost its top HFCS export market with an estimated annual potential of 2.6 million metric tons:

Economic Loss	Losses in Market Value to the United States
Lost HFCS sales to Mexico	▪ In excess of $4 billion lost in HFCS sales since 1997 ▪ $944 million lost in HFCS sales annually
Lost corn sales	▪ Since 1997, the United States has lost a market for 833 million bushels of corn valued at $1.7 billion ▪ Or $437 million (168 million bushels) in lost corn sales annually
Lost farm input sales	▪ Unspecified losses to seed, fertilizer and farm machinery industries and related rural investment.
Economic Benefit if Mexican market is fully re-opened to HFCS	▪ Increase of $0.06 per bushel of corn nationally, or $0.10 per bushel in key corn states

The corn wet milling industry idled capacity, eliminated jobs, closed plants and witnessed the exit of some companies from the industry as a result of the lack of a resolution on this issue.

The price per bushel of corn in the United States could rise by $0.10 in key corn states, or $0.06 nationally, when the Mexican market is fully restored for corn sweeteners.

The corn-based sweetener industry is a significant contributor to the U.S. economy. Of the more than 370,000 total jobs in the U.S. sugar and corn sweetener sector, more than 226,000 are involved in bringing corn-based products to the market.

The United States began WTO dispute settlement proceedings against Mexico's discriminatory soda tax in March 2004. The WTO issued a final ruling on the HFCS case in favor of the United States on October 7, 2005 that was later appealed by the Mexican government. Mexico appealed the WTO ruling and the WTO Appellate Body ruled in favor of the United States on March 6, 2006.

On October 1, 2005, Mexico established a tariff rate quota of 250,000 metric tons of HFCS access for U.S. exporters. The Corn Refiners Association welcomed the TRQ as a first step in resolving the HFCS dispute, but continued to assert that significantly greater access to Mexico was necessary to rectify the near closure of the Mexican market for the past four years.

On July 27, 2006, the U.S. and Mexican governments announced a settlement to the WTO HFCS case. The agreement covers the period October 1, 2006, through December 31, 2007. It provides for 250,000 metric tons dry basis of HFCS access into Mexico for the first twelve months and a minimum of 175,000 metric tons, or up to a maximum of 250,000 metric tons, for the remaining three months. An equivalent amount of access will be granted for Mexican sugar exports to the United States. The soda tax will be eliminated in January 2007, consistent with an agreement reached between Mexico and the United States and as notified to the WTO. All duties will be removed on U.S.-Mexico sweetener trade effective January 1, 2008, as required by the NAFTA.

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TESTIMONY OF
BOB FRAZEE
BEFORE THE AGRICULTURE COMMITTEE
UNITED STATES HOUSE OF REPESENTATIVES
SEPTEMBER 13, 2006

Good Morning:

My name is Bob Frazee and I am a John Deere Equipment dealer in Cazenovia, New York. We are a family owned multi-store dealership, which is operated by me, my wife and our three sons, with locations in Cazenovia, Chittenango, Cortland, Clinton, Herkimer, Lafayette, South New Berlin, and Oneonta, N.Y. Our dealerships sell and service agricultural, commercial and consumer equipment, work site products, and golf and turf equipment.

I also serve as chairman of the board of the North American Equipment Dealers Association (NAEDA), which represents nearly 5,000 retail agricultural, industrial and outdoor power equipment dealerships in the U.S. and Canada. Collectively, these dealerships employ approximately 100,000 people. NAEDA is an association that works with 15 affiliated associations in the US and 3 in Canada. It is on their behalf – and the dealerships we serve – that I am here today to talk to you about the 2007 farm bill.

NAEDA's present farm bill policy reads as follows:

> "For the 2007 farm bill, NAEDA supports legislation that provides for planting flexibility, provides a safety net for producers that also considers extreme weather conditions and trade related issues, balances the needs of conservation and the needs for active producing lands, considers trade issues, supports education and research efforts and provides for rural development activities that includes agricultural credit, beginning farmer programs and value-added programs for a renewable bio-economy."

To clarify that policy I offer the following comments for your consideration.

As an association that represents equipment dealerships, which for the most part are located in rural areas, we have identified a rural development need – to retain and hire quality employees to work in this industry. A survey conducted in the summer of 2005 in several mid-western states by two of our affiliates found that every dealership that responded to the survey had at least one immediate technician vacancy, and more importantly, was looking to add two or three additional technicians as employees in the next three to five years. While this survey only targeted technicians, we know it is equally challenging for dealers to recruit people to manage dealerships or work in sales or parts positions.

Using our total membership, this equates to 5,000 immediate vacancies, with 10,000 vacancies or more to be filled in the next few years. And this is only for technicians. We ask Congress to consider allocating funds in the next farm bill to help alert individuals and our youth about the employment opportunities in agriculture. Vocational education and other job retraining programs should also be considered and supported to train and enable individuals to stay and work in rural areas in businesses such as mine.

We also believe the next farm bill should support a national energy policy with realistic and achievable goals to make the U.S. more self-sufficient and less reliant on foreign energy sources. The farm bill energy title could be used to help reduce the nation's dependence on foreign energy sources. A comprehensive energy title should:

- Promote conservation of all fuels.
- Encourage universities and other institutions and organizations to conduct research and provide education programs about energy.
- Encourage the development of alternative fuels, renewable fuels and next generation technologies for wind, biomass, and coal.
- Oppose the use of government incentives for any imported biofuel.

On the matter of conservation, we support balancing the needs of conservation with the needs of land used for food, feed and energy production. We suggest the USDA reevaluate the criteria for reenrolling land into conservation programs, particularly the Conservation Reserve Program (CRP). We believe more emphasis should be placed on and authority given to each state's Farm Service Agency to determine CRP payment rates and acreage qualifications. Many of our dealers have indicated that far too much land has been taken out of production (as dictated by Washington) in their areas and at payment rates that exceed local market conditions. Where this has occurred, rural areas and businesses have suffered from the decline in overall economic activity. Again, if the farm bill has an adequate energy title that incorporates CRP and other conservation acres, they could become part of the environmental benefits and energy security that society wants today.

Another conservation area in which we have an interest is the use of carbon credits for carbon sequestration. If landowners, farmers and ranchers, whether on private or public lands, were allowed to sell "carbon credits" to companies, it could bring new nongovernment revenue sources to the conservation table. This could give producers additional options for their operations and still provide desired conservation benefits.

We also believe the next farm bill should contain specific language in which the USDA is given the leadership role and clear duties (working thru ARS and universities) to establish "conservation" benchmarks. These benchmarks should be of sound science, measurable and consistent with the best management practices for each state or region of the country. If we are to have public support and funding for conservation measures, the public must know that progress is being made on a set of measurable goals, whether they deal with livestock, wildlife, dust, air or water quality. The established goals should also incorporate air and water quality goals outlined and/or regulated by the EPA that have an effect on agriculture and the businesses we represent.

Our last issue is trade. We believe trade policy will change the guidelines for the next farm bill. We want to encourage Congress to be cautious of how Brazil's winning WTO decision on cotton is interpreted and formulated in the next farm bill. Compliance with trade rules can be achieved with proper "green box" alignments, rural development initiatives, research and the like. Rural America depends on agriculture and agriculture needs a farm bill that considers and incorporates "fair trading rules and level playing field concepts," if we are to expect agriculture growth and expansion and long-term prosperity for agribusinesses, such as equipment dealers.

On behalf of the North American Equipment Dealers Association, thank you for the opportunity to appear before this committee. I am confident that when this process is complete, you will be able to develop a comprehensive farm bill that will meet the needs of the public, our producers, agribusinesses, and rural America.

I will try to answer any questions you might have.

Thank you.

BOB FRAZEE ANSWERS TO SUBMITTED QUESTIONS

How do you design (redesign) CRP to keep land in conservation while meeting the new land use needs for energy, wildlife and other competing interests?

I believe there should be more involvement and input at the local level when it comes to selection of lands to be enrolled in CRP. This could include better coordination with NRCS, FSA, state and local conservation groups. Payment rates, restrictions on enrollments for described purposes and conservation goals should all be established at the local level. We support the CRP program, but believe program changes can be made that do not distort the marketplace and take unnecessary working lands out of production.

Regarding transportation issues, what are the biggest concerns with rail, truck and barge transportation particularly with the needs to transport the quantity of biofuels of the future and the magnitude needed/to be produced?

We suggest Congress look at the infrastructure needs and design a plan to fund them accordingly. We know there are a number of rural roads and bridges and river locks and dams that need to be upgraded to provide the competitive edge needed in a global economy. Congress needs to respond to these needs if agriculture is to stay competitive.

How is the current drought affecting businesses across our industry?

Business is down significantly in drought areas. Equipment demand is typically 20–40 percent below non-drought areas.

What problems do you see if Congress extends the current farm bill?

If the current farm bill is extended, we believe there will be continued challenges from WTO trade counties. An extension will also not fix CRP and conservation concerns, reflect on new energy opportunities or change outdated research priorities.

How should USDA research dollars be allocated in the future?

We believe research dollars should be directed towards biotechnology, one that measures the impacts of conservation projects, improves rural infrastructure and economic development. Energy research on new enzymes, better use of biomass, et cetera should be a part of the next farm bill priorities.

Testimony of
FRED HENSLER
On Behalf of the
SWEETENER USERS ASSOCIATION

House Committee on Agriculture
September 13, 2006

Mr. Chairman, thank you for the opportunity to testify at this hearing on the 2007 farm bill. My name is Fred Hensler, and I am commercial director for raw materials at Mars, Inc. I am testifying today in my capacity as first vice chairman of the Sweetener Users Association. SUA members are the companies who use nutritive sweeteners in their confectionery, bakery, cereal, beverage, dairy product and food manufacturing operations, as well as trade associations representing those same industries.

Sugar Users' Goals

As sugar users, we want and need strong and healthy domestic sugar producers and processors. We believe it is in our interest to have a geographically diverse production base in the United States for both sugar beets and sugar cane. Likewise, we believe there is a need for a strong, independent U.S. cane refining industry.

We see some real problems in the design of current U.S. sugar policy, and I will mention some of those in my testimony. But that does not mean we advocate that the United States eliminate its sugar policy entirely. Instead, we should come together as an industry – growers, processors, refiners and users alike – to arrive at a consensus on the best government policy to meet everyone's needs and serve the public interest. Our organization has hosted industry-wide discussions, and although I certainly cannot report that there is a consensus, I can say that a variety of industry participants – not just users – have recognized that there is a need to talk about change.

Today, I will mention some of the challenges facing the current sugar program and explain why we believe that consideration should be given to a broad range of new policy options. I will point out differences between the sugar program and other agricultural support policies. I will also examine some of the limitations of the current sugar program in both design and administration. Next, I will identify some of the long-term consequences of past and current sugar policies. Finally, I will point out future challenges and provide some recommended principles which we believe should help to guide future sugar policy.

A Program Under Threat

Mr. Chairman, the current sugar program will have to change. It cannot be maintained in its present form in the face of an open border with Mexico, import requirements under multiple free trade agreements, and other trade policy realities.

Last year's hurricanes focused attention on sugar policy, but it is not because of weather that change is needed. We need to adjust our policies because the current design of the sugar program requires placing limits on imports, and our trade obligations will render such a program unworkable. In addition, the current program's marketplace distortions impose unnecessary costs on a variety of groups within society, even though a different program could be designed to continue assisting producers and processors without harming these other groups.

The need for change is more and more widely recognized. Earlier this month, Dow Jones Newswires wrote that "the government shield that protects U.S. sugar producers from competing with imports will effectively come down this year," and quoted Secretary of Agriculture Mike Johanns as saying the following about the current sugar program: "Policies like that have a cost. One way or another, that cost will work its way through our economic system ..." The article quoted another USDA official as saying: "You can't operate a supply-control program if you can't control the supply. You can't operate the supply-control program if the Mexican border is wide open, as it will become October 1 of this year."

Mr. Chairman, there are a number of ways that the sugar program could be reformed, and I will offer some specific examples later in my testimony. But the bottom line is: The program has to change.

Differences from Other Agricultural Programs

Compared to government support policies for other commodities, the sugar program is different in several respects. Two of the most important are import quotas and marketing allotments, both of which affect the availability, timing and control of supplies in the marketplace.

Sugar is one of the few U.S. commodities whose domestic program relies on import quotas as an integral part of the support structure. Current sugar policy employs a tariff rate quota (TRQ) to limit supplies and ensure that the domestic loan program does not result in sugar forfeitures to the government. The past 25 years have shown that this policy tool, despite the best efforts of USDA, is difficult to administer efficiently and effectively and has frequently resulted in market dislocations.

In addition to import quotas, sugar is now virtually alone among U.S. commodities in employing marketing allotments that serve as a mandatory supply management program. Most other program crops had acreage controls until the mid-1990s, but policies were changed in the 1996 and 2002 farm bills to meet the challenges of an evolving marketplace and the realities of international trade, including the Uruguay Round Agreement on Agriculture and the North American Free Trade Agreement. Conversely, the last farm bill took a step backward by re-introducing marketing allotments as a foundation for sugar policy. That contributed to market dislocations and administrative difficulties for USDA. Sugar is the only major commodity for which the government attempts to actively manage supplies.

The use of these tools in past and current sugar policy has had negative consequences for the entire sugar industry. I will cite several examples, but what they have in common is that the government interjects itself into the marketplace, and that often causes problems for some or all stakeholders. More important, we believe that an overhaul of sugar policy is required to avoid greater problems in the future.

Import Quotas

One of the government's primary supply-control tools is the TRQ. During the past quarter of a century, USDA has used this tool in an attempt to balance the conflicting goals of maintaining adequate domestic sugar supplies and avoiding forfeitures.

We believe that it is difficult, if not impossible, for USDA (or anyone else) to accurately forecast market fundamentals, including the effects of nature, trade agreements and consumer trends, to name just a few. It is also our belief that the TRQ supply-control tool will become increasingly ineffective, as the pace of change in the world increases and our multilateral and bilateral commitments expand. We believe that a more market-oriented approach will best serve future sugar policy needs.

Two specific examples of the TRQ's limitations as a policy tool were apparent over the past year after USDA announced several TRQ increases in the wake of last summer's hurricanes. Both examples are related to market circumstances which compelled USDA to allow quota imports of large quantities of refined sugar – something that is quite unusual.

The United States is obliged by World Trade Organization (WTO) rules to import minimum amounts of both raw and refined sugar. However, refined sugar imports are normally dwarfed by raw imports. Our WTO minimum quota is 1,117,195 metric tons for raw cane sugar, but only 22,000 metric tons for refined sugar. Importing mostly raw sugar helps maintain throughput in our nation's cane sugar refineries, and that is important because this part of the sugar industry has been shrinking for many years.

Since Hurricane Katrina idled a large New Orleans-area sugar refinery for several months, the market was short of refined sugar. That shortage was apparent from the fact that refined sugar prices rallied much more sharply than raw sugar prices. The temporary loss of that refinery reduced demand for raw sugar while tightening refined sugar supplies.

USDA announced several import quota increases for refined sugar, but these quotas were less effective in increasing refined supplies than they might have been, largely because of problems that are not of USDA's making. First, U.S. Customs and Border Protection differentiates between raw and refined sugar on the basis of polarity – a measurement of purity. For U.S. industrial users, sugar needs to be refined to a polarity of 99.8 or 99.9, but Customs considers any sugar with a polarity of 99.5 or greater to be refined sugar, and therefore eligible to fill a refined sugar quota. (This practice stems from a definition of raw sugar in the Harmonized Tariff Schedules of the United States.)

Mexico produces a sugar called *estandar* which is approximately 99.6 polarity. Some other origins, including Brazil, produce similar sugars. These sugars can be imported as refined sugar, and thus help to exhaust the available quota – but they do not immediately add any refined sugar to the U.S. market, since they require further refining in the United States before they can meet normal U.S. manufacturing standards, and be delivered to an industrial user. Thus, USDA's intentions to add refined sugar to the market have in some cases been frustrated. The actual amount of refined sugar imported under the quotas has not been as great as the quota amount.

It is difficult enough to conduct business under challenging market conditions and an intrusive regulatory system. It is even more difficult when the regulation fails to match up to commercial realities. Simply put, the government considers all sugar above 99.5 polarity to be refined, but the U.S. market does not. This inconsistency should be fixed.

Another example of a TRQ problem concerns the type of quota that has been used for refined sugar. A portion of the quotas has been "first-come, first-served," meaning it is open to all origins, but if early-arriving cargoes fill the quotas, then sugar that has not yet arrived will not enjoy the benefits of the TRQ, and may be charged the prohibitive over-quota duty if it is imported.

There are numerous benefits to a first-come, first-served system, but there are also disadvantages. Such a system strongly favors Canada and Mexico as origins, because the goods can enter U.S. customs territory more quickly than products that must be shipped longer distances. If there are quality issues with the nearby sugar – and there were such issues with Mexican sugar in some cases – then extra costs get built into the system, reflecting the additional steps that must be taken by industrial users before the sugar is really usable.

Again, we cite these examples to show the problems and limitations of the TRQ as a policy tool. If sugar policies were modified so as to make the TRQ unnecessary or less important, we believe that these particular problems would have been addressed more efficiently and effectively, because sellers and buyers would simply source the sugar from other origins. A quota system, by definition, arbitrarily limits sellers', processors' and users' choices. If a TRQ is still used in the future, we are interested in pursuing administrative or legislative remedies to these and other difficulties of TRQ administration. I am glad to report that this is an area where there also seems to be interest from major grower organizations.

Marketing Allotments

The government's other primary supply-control tool is marketing allotments. USDA uses this policy tool in an attempt to balance the conflicting goals of limiting domestic production, maintaining an adequate balance of domestic beet and cane sugar supplies, meeting minimum import requirements per international trade agreements, and avoiding forfeitures.

Marketing allotments were part of the 1990 farm bill, but were little used. More recently, the principal policy change for sugar in the 2002 farm bill was the re-introduction of marketing allotments. Once again, despite USDA's best efforts, the use of marketing allotments has resulted in several instances of market distortions, such as volatile prices, production limitations and supply shortfalls.

USDA first established an Overall Allotment Quantity (OAQ) before the 2002/03 marketing year, and the Department's initial announcement was more conservative – that is, smaller – than the market expected. A sharp run-up in prices was the result. Subsequently, market conditions caused USDA to increase the OAQ, and prices fell. Such price spikes and sharp declines, caused not by supply-demand fundamentals but by unexpected government action, are not a desirable result of program operations.

In subsequent years, USDA has generally done a good job of setting the OAQ and making adjustments. However, the process by which the OAQ is established remains somewhat opaque. The Department has often operated as if it had a rough stocks target in mind when making its OAQ decisions, but has never said so explicitly. As a result, the market has to try and outguess the government. Market participants must forecast not only what the government will do, but also when the action will take place. As a result, government decisions can have as much impact on the market as planting patterns, weather events or shifts in demand. That is not the case for most other agricultural commodities today, and I would suggest to you that it is not desirable from the standpoint of public policy.

More recently, the shortcomings of this policy tool have become especially obvious. Since last September, sugar markets have been dominated by the aftermath of Hurricanes Katrina and Rita (as well as Hurricane Wilma soon thereafter). Spot prices for refined sugar cited by *Milling & Baking News* reached 50¢ per pound and even higher in a few cases, compared to a more normal range of 22-28¢ per pound. (They are still much higher than during previous periods, according to this publication, which USDA uses as its official price source since there is no futures market for refined sugar.)

Yet even in such an extreme market situation, there were still limited domestic stocks of perfectly good sugar that sellers were willing to sell, and buyers were willing to buy, that were "blocked" from the marketplace because of the allotment system. Buyer and seller could not come together to consummate a business transaction that was in their mutual interest until they got permission from the government. The result was to exacerbate the already-severe logistical problems – which beset sellers and buyers alike – and further limit the availability of sugar to the marketplace.

Something is wrong with a program that produces that kind of result. Eventually, USDA did act to permit the marketing of the "blocked" sugar. And indeed, Mr. Chairman, SUA would like to commend the Department for the multiple actions it took last fall to try and restore balance to the market. The Department paid attention to the sugar market's needs and acted promptly. Likewise, the Department's recent OAQ and TRQ announcements for 2006/07 were responsible and prudent. Criticism of these decisions by some grower groups is unjustified, and I have attached to my testimony a letter that SUA sent to the Department, refuting some of those criticisms.

As we pointed out earlier, the use of marketing allotments as a policy tool creates market distortions and it is virtually impossible for USDA to manage such a program effectively and efficiently. Even at its best, government usually cannot react as quickly as the marketplace demands, especially in turbulent times when all buyers and sellers are scrambling to match up available supplies with pressing demands. In that kind of environment, it is problematic to have a policy which says it is illegal to sell sugar until the government decides otherwise.

I do not want to leave the impression that our concerns about the sugar program relate solely to the aftermath of last year's hurricanes. After all, no government program can control the weather. In fact, though, the program has not performed well even in calmer markets. More often than not, this sugar program has been associated with surplus, not shortage. Chronic surplus should no more be a policy goal than persistent shortage, and a program that tends to produce one or the other stands in need of change.

Long Term Consequences – Unsustainable Future

Mr. Chairman, we believe that there are compelling reasons to revise current sugar policy. These reasons include the long-term consequences of over a quarter of a century of ill advised sugar policy. We also believe that current sugar policy is unsustainable, and the sooner we can begin to talk about workable alternatives, the better for everyone, including users, refiners, processors and producers alike. Let me review just a few examples:

Use of Domestic Sugar is Flat. The reasons are straightforward and go far beyond the often-cited Atkins Diet, a factor which has recently faded. Price support policies kept domestic sugar priced substantially above alternative sweeteners, which took over entire demand segments. At the same time, the differential between domestic and world sugar prices created an incentive to import sugar-containing products that were not (and under WTO rules could not be) subject to import quotas. Close to a tenth of domestic sugar demand is now being filled by these products.

Loss of U.S. Manufacturing Jobs. High domestic sugar prices provide an added incentive to relocate U.S. food processing jobs overseas. I should note that several factors are used to determine whether or not to relocate manufacturing overseas, including labor and foreign exchange rates. However, the prospect of lower sugar input costs provides an additional powerful incentive to relocate food processing overseas. The past decade has seen several examples of the migration of food manufacturing jobs to overseas locations – and as the Commerce Department stated in a February 2006 report, there has been a sharp difference in job growth within the food industry, with those segments that use sugar losing jobs while non-sugar-using segments experienced modest job growth.

That Commerce Department report noted the loss of 10,000 jobs in sugar-using food and beverage industries from 1997-2002, and suggested the sugar program was a major factor in these job losses. More recent data through 2004 are now available, and unfortunately the picture they paint is even worse than Commerce reported.

From 1997 to 2004, jobs in those segments of the food and beverage industry that use sugar fell by more than 70,000, or almost 10%. By contrast, the number of jobs in non-sugar-using food and beverage sectors grew by more than 35,000 jobs or about 4%.

Mr. Chairman, whenever the issue of the sugar program and jobs comes up, we are told that labor costs, not sugar costs, explain job losses. The fact is, however, that all food and beverage companies incur labor costs, whether they use sugar or not. The U.S. Department of Commerce statistics I have just cited demonstrate that sugar-using industries are losing jobs, and those industries that do not use sugar are adding jobs. It seems to me that this committee has a responsibility to ask whether current sugar program design is hurting industrial employment, and whether an alternative program design could mitigate these effects while still offering protection for producer incomes.

International Trade. The current sugar policies of the United States are difficult to reconcile with the future direction of international trade policy, and our own trade liberalization objectives and obligations. We believe future sugar policy should be redesigned to be more closely aligned with the realities of world trade rules while still protecting producer incomes and promoting greater market orientation.

For example, in 2008 sugar trade with Mexico will be unrestricted. Mexican sugar producers are not subject to marketing allotments. Meanwhile, any eventual Doha Round agreement is likely to require both an expansion of the sugar TRQ, and reductions in "amber box" subsidies – and today's U.S. sugar program is entirely "amber."

Even if one assumes the Doha Round will be delayed for some years, U.S. import requirements will increase under the already-enacted Dominican Republic-Central America Free Trade Agreement. Additional FTAs with Peru and Colombia have already been signed, and will further increase import obligations. Pending negotiations with Thailand, when completed, will surely add further quantities.

Combine these FTA amounts with the unlimited quantities that can enter from Mexico, and it should be clear that a sugar program which relies primarily on import restraints faces a dilemma. If marketing allotments remain in effect, they will become more and more restrictive on U.S. producers, locking them into a declining share of their own market. But if marketing allotments are not in effect, the probability of large-scale forfeitures and high government costs will increase.

Principles to Guide Future Sugar Policy

Mr. Chairman, the problems we have identified in current sugar policy can also lead to principles that Congress should consider in shaping sugar policy for the next Farm Bill.

The current program interposes the government among all industry stakeholders through the tariff-rate quota and marketing allotments. Future policies should aim at less government interference in normal business transactions.

For the past quarter of a century, sugar policy has not been sufficiently responsive to market signals and changes in the world economy. This has resulted in unintended consequences such as supply shortages, loan forfeitures, slow growth of domestic sugar consumption, inhibition of international trade, and the relocation of U.S. manufacturing jobs overseas. Future policies should feature greater market orientation, which will address these problems, while still recognizing producers' need for an economic safety net.

Perhaps most important, the current sugar policies of the United States are difficult to reconcile with a rapidly changing world and the future direction of international trade policy, and our own farm and industrial trade objectives. We believe future policies should be redesigned to be more closely aligned with the realities of world trade rules, while still protecting producer incomes and promoting greater market orientation.

Mr. Chairman, a variety of program designs could be consistent with these principles. For example, the committee might decide to make the sugar program more like other farm programs, with marketing loans, direct payments and countercyclical payments. That is exactly what this committee did with the peanut program in 2002, when that program faced challenges that were quite similar to those now facing the sugar program.

I understand that in the course of your field hearings this year, producers of program crops like wheat, feed grains, oilseeds and cotton have generally been supportive of their current programs, which include marketing loans and countercyclical and direct payments. Thus, if Congress chose to shift sugar policy into this model, you would do so with the knowledge that such programs tend to enjoy strong producer support.

Other options could include revenue assurance or a simple system of direct payments. SUA could support any of these alternatives if they achieved our reform goals, because we do recognize the need to safeguard producer incomes.

Let me also emphasize that there might also be acceptable reform options that do not involve direct payments to producers or processors. Again, SUA could certainly support a sugar program that involved direct payments, but we do not wish to confine the debate only to those alternatives.

We believe change is coming, and that all of us – farmers, processors, refiners and users – would be well advised to work together toward a sustainable policy that will meet the needs of all stakeholders alike. We believe those goals are also shared by this Committee, and look forward to working with you as you develop the next Farm Bill.

We thank you for this opportunity.

The Fertilizer Institute

Nourish, Replenish, Grow

Testimony of

Alex McGregor

President

The McGregor Company

Before the

U.S. House of Representatives Agriculture Committee

Regarding

The 2007 Farm Bill and an Overview of Challenges Faced by Farm Families and the North American Fertilizer Industry

DESCRIPTION OF TESTIMONY

Consequences of the energy crisis for family farms and the fertilizer industry and suggestions for addressing them.

September 13, 2006

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Chairman Goodlatte, members of the House Agriculture Committee, thank you for scheduling this hearing. It comes at a time when the farm families who are stewards of 97 percent of the arable acres back home—and who represent one of the last and finest bastions of family business—are facing severe hardships. My name is Alex McGregor and I am president of The McGregor Company, a business that serves two thousand dryland wheat, legume, and barley growing families in the inland Pacific Northwest and families who grow potatoes, corn, and many other crops in the adjacent Columbia Basin. I'm speaking on behalf of The Fertilizer Institute (TFI), an organization that represents plant food manufacturers and retailers throughout the country.

My thanks to you, Mr. Chairman, for taking the time to come to my region last October to hear concerns of farm families who had just then encountered a severe energy crisis as fuel and nitrogen prices soared in the aftermaths of Hurricanes Katrina and Rita. I'm from a farm family, too. We've raised wheat and livestock for 125 years and I'm an active member, and past president, of the Washington Association of Wheat Growers. The McGregor Company has 350 full-time employees who have dedicated their careers to serving growers in 43 farm communities. We've been around agriculture long enough to know that, if farmers succeed, so do we. Right now, they are facing a severe crisis and we are compelled to seek your help. Businesses such as ours, schools, and the future of rural towns—all depend upon the survival of family farms.

We hear of hardships being faced by farmers every day in the farm towns we serve: cautious bankers reluctant to provide operating lines; growers who have had to 'let go' farm help and raise crops on thousands of acres single-handedly; farmers selling equipment or land to raise cash; farmers who have had to tell their children to seek more profitable employment in cities; growers who have had to pledge the cash value of their life insurance to get a loan; and dedicated middle-aged farmers who fear running out of equity and whose hope and cast-iron optimism are just about gone. We lost three or four growers in each of the 43 towns where we do business last year, and we fear the pace will accelerate without immediate help.

While there are many strengths in the current farm bill, strengths which can be built upon, the lack of an effective safety net to cushion through down cycles has meant that record numbers of producers are falling through holes in the netting and drowning in red ink or bailing out before they lose the last of their equity. "I've farmed here since 1952 and this is the worst emergency we've known in my lifetime. We truly need assistance and we need it now," a long time customer commented recently. His counterpart, from the same small town of Oakesdale, Washington, talks of his family having "farmed in the Palouse for over 125 years. We worked through the Panic of 1893 and survived the depression years of the early thirties but over a century of sweat and hard work will be in vain without some form of immediate help." A Colfax, Washington grower told me last week that "I have three farmers around me who hung it up this fall. There are many others who are on the verge. If there **ever** was a time when a safety net has been urgently needed, this is it!"

I agree with Agriculture Secretary Johanns' comment last month that "one of those [program] crops, wheat, has really had a rather challenging time of it...You don't collect LDP and countercyclical [payments] with this current farm bill. You may prove me wrong a year here or there, but they really have been on the short side of this Farm Bill." We feel this statement has been particularly applicable to growers of soft white wheat, the predominant class grown in my region, since USDA set loan rates by class. The loan rate set for soft white wheat is far below the producer's cost of production which nullifies the intended safety net of the LDP. In addition, the counter cyclical calculation still remains an average of all classes of wheat which removes any hope for assistance from this feature of the Farm Bill.

Recent high energy costs have created an unanticipated shock to the farm economy: the Food and Agricultural Policy Research Institute (FAPRI) estimates that fuel prices have increased 113 percent, and fertilizer costs 70 percent, since 2002. It is not economically sustainable for growers to have to pay more for a gallon of fuel than they receive for a bushel of grain! A sixty-six year old woman I know had just been paid $2.92 per bushel for her wheat crop last fall before filling her car at a service station where she paid $2.99 per gallon for the fuel. She commented that it was the first time she ever remembered paying more for a gallon of fuel than her family received for a bushel of grain. Many others were to make similar discoveries. Such circumstances last happened in the bleakest years of the Great Depression when my family sold its wheat for 24 cents a bushel. We kept the horses and mules a few more years back then and let the tractor sit. Today, sadly, too many have been forced to conclude that the only option they have is to sell out and leave their farms.

We've been working through TFI and the Agricultural Energy Alliance, a group of more than a hundred farm organizations and agricultural businesses, to call attention to the impact the natural gas crisis is having on farm families and those of us who serve them. Natural gas—which is combined with atmospheric nitrogen to convert the latter into a usable product—represents seventy to ninety percent of the production cost of ammonia, a nitrogen source itself and the building block for other nitrogen products. With the cost of natural gas increasing from the $3 range in 2002 to as high as $15 late last fall, while costs elsewhere in the world remained low, farm families and the fertilizer industry have been crippled. We've lost 24 nitrogen production plants that have closed since 1998 and ammonia production has fallen 35 percent. Abundant U.S. reserves in the Gulf of Mexico, where a network of pipelines and infrastructure is already in place, could be rapidly brought on line.

Mr. Chairman, and members of the committee, even though energy legislation is not in the jurisdiction of the Agriculture Committee, we urge you to communicate to the House leadership to move quickly and reconcile H.R. 4761, the Deep Ocean Energy and Resources Act, and S. 3711, the Gulf of Mexico Energy Security Act, as soon as possible before the adjournment of the 109th Congress. It is critically important to the farmers we serve and to our industry that these bills be reconciled, passed, and signed into law before Congress adjourns for the November elections! The future of farm families and those who serve them is on the line—I know of no other action that could better help us ensure affordably priced plant food for the American farmer for the next several years. We appreciate interest in alternative fuels but growers need help for the here and now. "We've got to survive the short term so our families will still be here to take advantage of whatever long range improvements come down the road," growers tell me. As a grower I know puts it: "We need dependable domestic supplies of energy until we achieve a world where alternative sources are a reality."

We urge your support for emergency disaster assistance to help combat severe weather related calamities and the economic consequences of the brutal and unprecedented upward spirals in energy prices that none of us anticipated in 2002. Unlike other industries, those who produce foodstuffs cannot pass along higher input costs or add fuel surcharges like they receive both for incoming goods or outbound crops. I remember an elderly woman saying to me, "my husband and I have been farming for fifty years. He doesn't want to put the place into CRP. But is there any hope?" By acting now on emergency energy disaster relief and in opening up at least a portion of the 85 percent of natural gas reserves currently off limits, we will be able to assure farm families, and their bankers, that their representatives in Washington, D.C. are taking positive steps to help them at a critical time.

Though the growers my industry serves would rather depend on the markets than government assistance for their livelihoods, they need a level playing field in a global marketplace where many trading partners support their farmers at a much higher level than do we. I remember your observation, Mr. Chairman, when you met with us in Ritzville, Washington last year that if global trade talks don't yield results additional assistance may be necessary to help farm families compete globally. The current impasse makes us realize how vital it is that heed be paid to the letter your counterpart in the Senate, Chairman Chambliss, sent to the Budget Committee of that body earlier this year urging no new reductions in Agriculture Committee mandatory spending and adequate funding for discretionary spending. A tall order, indeed, but necessary if farm families and communities are to persevere.

Taking off my TFI hat for a moment and speaking personally as a Washington wheat grower, I'll offer a few suggestions. While grower organizations are not yet ready to commit to any one proposal, placing more program emphasis on direct payments would provide the most reliable cash flow of all program components and would greatly help producers secure operating credit. It should also help us comply with international trade obligations. A target price more aligned with today's market conditions or a counter cyclical program based on revenue rather than price alone would help shore up some of the missing fibers in the safety net. Commodity neutrality—supporting each commodity to the same level of production cost—should be restored in the 2007 legislation. To combat what was not anticipated in 2002—wildly gyrating energy costs—perhaps an energy component could provide assistance should average farm energy costs, as calculated by NASS or USDA, spike beyond 10 percent upward in a crop year.

Conservation programs are important supplements to farm program safety nets and we hope they continue as authorized but with full funding. Growers back home have done all that could be asked of them—they've tripled yields in half a century, reduced waterborne soil erosion by more than 80 percent, reduced windblown dust by 600 percent and reduced stubble burning by 4,000 percent – the biggest gains in productivity and stewardship since wheat was first sown 11,000 years ago. It's a success story in so many ways—for consumers, for the regional and national economy and, once in awhile, for the farm and ranch families who have made it all possible.

The oft-stated hope that the Conservation Security Program (CSP) would "reward the best and motivate the rest" has bogged down with inadequate funding and complex and bureaucratic administration. Perhaps allowing a base funding equal to 25 percent of a direct payment could be offered to those who would answer affirmatively, subject to possible NRCS inspection, some basic questions such as "Do you use soil conserving practices appropriate for your region?" Beyond the base payment, further enhancements are already in place in CSP and we hope adequate funding is put in place to make them accessible for farm families.

The frustration level with CSP funding and administration is near the boiling point in several farm districts back home. Complex and daunting rules, NRCS personnel who already have plenty on their plates and may lack agronomic familiarity with the challenges faced in the field, and a sense by growers that they may stumble without help on some obscure technicality and thereby be bypassed for a very long time until their watershed is again selected—there is ample room for making the process more user friendly.

Crop input retailers like our company can help, not on the auditing side, but by assisting as Technical Service Providers (TSPs) for producers who wish them to do so. We have on board sixty well trained Certified Crop Advisers in my company alone, and thousands more with other firms across the country, and we provide technically specialized one-on-one assistance to farmers, helping them develop site specific nutrient management and cropping plans. Skeptics who have raised the "conflict of interest" charge at NRCS rulemaking sessions don't understand that crop advisers work in small communities with farm customers they know well, that relationships of trust are built over many years and that they shatter easily if bad or self-serving advice is offered or if misunderstandings occur. Where crop advisers, who spend much of their time in the field with growers, can be of help—and where a producer so chooses—we can lighten the CSP and Environmental Quality Incentive Program (EQIP) administrative burden and help the grower determine how to meet the objectives of a conservation program.

We strongly support an emphasis upon agronomically sound nutrient management plans. Conservation of the soil requires appropriate yields, which necessitates adequate nutrients to replenish what has been used to produce previous crops. The 'soil conditioning index' that is the basis for ratios such as STIR and RUSLE is based in part upon yield—an indicator of the amount of residue that will be available to protect the soil. Offering incentives for input reduction is a poor alternative to rewarding conservation. As any grower will tell you, fertilizers are expensive and they aren't about to use more than necessary to replenish the soil. "One size fits all" plans don't fit when management strategies vary markedly, often within a very confined geography. The agronomists at one of our branches serve growers whose annual rainfall varies from eight inches in the lowlands to 25 inches in the foothills several miles away. Nutrient needs, yield potential, and conservation strategies vary just as dramatically.

Proper placement of fertilizer in the root zone where it will be used by the growing crop—for which we've designed and put in the field several generations of improved application tools—and conservation of the soil in which the nutrients are placed are the true variables that can best minimize nutrient loss. The result of technically sound nutrient management plans, designed for local conditions, is better profit potential for the producer, increased crop growth and organic matter to return to the soil, fewer nutrients left behind, and improved water quality.

There is potential, within the energy title of a new farm bill, to encourage growers to produce crops that can be used as energy sources. Bolstering the meager budgets for canola research at regional land grant schools, for example, would help in finding varieties well suited to the area my family serves. We support incentives for further research and development of renewable energy incentives, including cellulosic ethanol.

There is promise, too, in considering 'beefing up' funding for CCRP—continuous signup CRP—

to offer stronger incentives for buffers and filters as environmental priorities and, in the process, to lessen the need for defaulting to whole farm take-out which harms local communities and results in painful decisions to leave the farm. All would benefit: ground would be set aside where it is most sensitive, towns would not shrivel up on the vine, and Congress and taxpayers would achieve some environmental progress for the dollars invested. Desperate farmers, like the woman I quoted earlier who didn't want to put the whole place into CRP and give up the farm, would have a better chance to weather the storm.

Like the growers we serve, we've been involved in agriculture for a very long time. We've seen good and bad times and we've been resilient. As a customer of ours put it, in a letter to Congress: "We have gone through tough times before. Farmers are known for keeping their optimism, a hope for better days ahead, and our belief that the work we do to feed people here and around the world is important. But we've had a severe economic storm hit us. Our personal situation has become critical and we are running out of hope." The official USDA seal proclaiming -- "Agriculture is the Foundation of Manufacture and Commerce"—says volumes about the impact that farming and ranching have on our local, regional and national economy. A strong and well funded farm program that helps farm families succeed benefits all Americans.

In conclusion, we need your help, as members of Congress, in taking quick action to pass a consensus energy bill to ensure affordably priced nitrogen for farm families and to preserve what remains of our domestic fertilizer industry. Staggering increases in energy costs are leading to a loss of operating credit and profitability and, ultimately, to the loss of farms and farm businesses in rural America. Our customers need emergency energy disaster assistance and they need it soon. An accountant with a regional firm that serves several hundred farmers estimates that, without some relief, more farms will go out of business in the next two years than in the aggregate of the last fifteen. Another reports that the most frequently asked questions these days are: "How will I be able to afford to retire?" and "Can I, in good conscience, allow my son to pursue his dream of taking over the farm?"

We need your help so that men and women of the next generation can rationally consider careers in our field and gain the ever more complex technical expertise needed in a fast changing trade, and so we can share with them the years of experience it took us to know the land and how to care for it properly. We need your help to staunch the bleeding, to give farm families a fighting chance and to encourage young people to consider careers in agriculture. To cite just one of the dozens of letters growers have shared with me that they've sent to Congress: "These are desperate times in the farm industry and we are all reaching out for help. I would appreciate anything you can do to keep the family farm business alive."

Your help, as House Agriculture Committee members, in framing a new farm bill that fine-tunes what we have with "safety net" provisions that can help in tough times and that provides some protection against runaway energy prices is badly needed and much appreciated. We, in the farm input service industry, will do all in our power to help farmers qualify for conservation benefits and to continue to assist in wise nutrient management.

I believe homeland security must encompass the ability to produce home-grown food that meets exacting regulatory standards, the ability to produce nutrients domestically to nourish those crops, and the use of the extraordinary human and technological resources we have that allow us to very efficiently feed fellow Americans and people around the globe. I hope these factors rank as worthwhile in your definition, too. We need to be able to offer some hope for young people, for farm families, and for the agricultural communities surrounded by amber waves of grain. Please assist all of us so we can affirm the hopes that many farmers still retain: that during times of severe hardship, they will get help. Never has there been a more important time for us to be able to go home and tell our farm neighbors: "Yes, there is hope for the future."

Thank you, Chairman Goodlatte and members of the committee for your leadership in addressing the critically important issues facing America's food producers and the agricultural businesses that serve them. Respectfully,

Alex McGregor

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Testimony of
Rick L. Schwein
Senior Vice President
Grain Millers, Inc.
Eden Prairie, MN

On behalf of the
North American Millers' Association

Before the
House Agriculture Committee

The Farm Bill – its impact on the grain milling industry

September 13, 2006

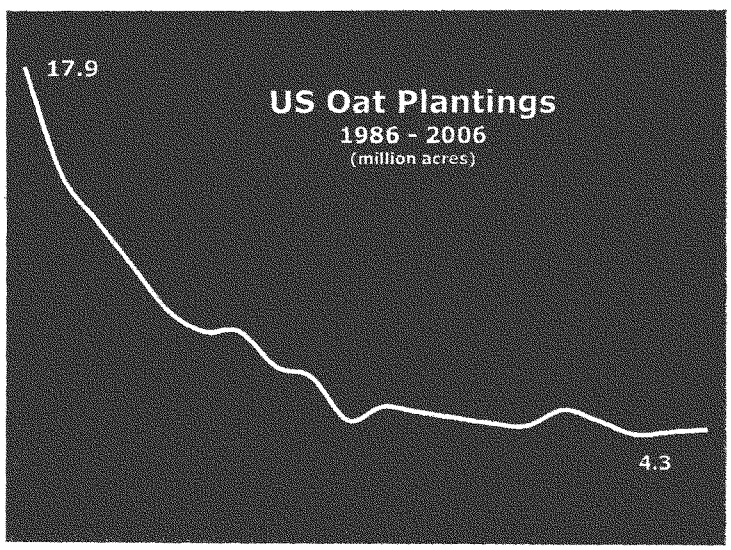
Thank you Chairman Goodlatte, Congressman Peterson and members of the committee. I am Rick Schwein, senior vice president of Grain Millers, Inc. Grain Millers is a privately owned processor headquartered in Eden Prairie, a suburb of Minneapolis, Minnesota.

Grain Millers owns and operates two mills in the US – St. Ansgar, Iowa and Eugene, Oregon as well as a mill in Canada. We are one of the world's largest suppliers of milled oat products to the food industry. We produce oat meal, oat bran and oat flour for use by most of the major US food manufacturers. We pack private label and branded hot cereals and process and blend wheat, barley and rye to meet the growing demand for whole grain products. Our products are used throughout North America as well as exported for use to both Central and South America.

I have been in the grain and milling industry for more than 30 years and am here today representing the North American Millers' Association. NAMA is the trade association representing 48 companies that operate 170 wheat, oat and corn mills in 38 states. Their collective production capacity exceeds 160 million pounds of product each day, more than 95 percent of the total industry production. I will become chairman of NAMA at our annual meeting next week.

Where we are today

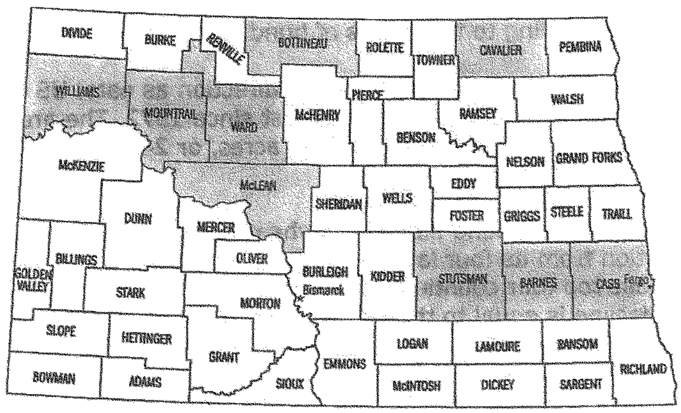
2006 oat production was a mere 107 million bushels, the lowest since USDA began keeping records in 1866, shortly after President Lincoln created the Department. For example, in Minnesota, traditionally a leader in oat production, it's as if the top 53 oat producing counties, out of 87 total, just stopped planting oats altogether. The same is true of the other oat producing states.



These dramatic production losses have led directly to the major relocation of the oat milling industry over the past 15 years. Since the early 1990's, a number of millers have ceased operations in the US entirely. That processing capacity moved closer to the production source in Canada leading to the losses of hundreds of industry jobs.

US wheat production is headed in the same direction as oats. US wheat plantings the last three years were the lowest since 1972. The area planted to wheat has dropped by 18 million acres, or 24 percent, in just 10 years.

In Kansas, the decline in land planted to wheat is equivalent to the entire production from its four largest producing counties. It's as if farmers in those top four counties just stopped growing wheat. In North Dakota, the decline is equal to the nine largest producing counties getting out of wheat production completely.



Between 1996 and 2005, North Dakota's annual wheat plantings declined by 4.2 million acres, as if the state's nine largest wheat-producing counties simply stopped planting wheat.

Not too many years ago the thought that the US would import cereal grains was unthinkable. Now, however, food oats consumed in the US are nearly 100 percent imported.

Likewise, in most years, US production of hard red spring wheat for bread and durum wheat for pasta are insufficient to meet total usage (aggregate of domestic consumption, exports, seed and reasonable carryover) and millers must rely on imports to augment the US crop.

Those imports have caused regrettable friction between millers and growers. As millers, our first choice is always to buy American grain when possible. But I can tell you today, imports of wheat and oats into the US will continue and, absent action by Congress, may increase.

<u>How did we get here?</u>

There are multiple reasons for the precipitous declines in wheat and oat production, but I will focus this testimony on these three principal factors: federal farm programs, the Conservation Reserve Program and the agronomic advantages of competing crops.

Federal farm programs – Through the current programs, Uncle Sam is loudly telling growers "Don't plant wheat or oats!" At the same time the US government is encouraging them to grow other crops like corn and soybeans, which hardly need encouragement given the President's biofuels mandate, or minor crops like field peas, for which there really isn't even a market.

Conservation Reserve Program – Since 1986 the CRP has idled as much as 36 million acres, concentrated in traditional wheat and oat growing regions. Some of that land is highly erodible, never should have been planted to crops in the first place, and should remain in some conservation program. However, a major share of the CRP could be farmed in environmentally sustainable ways, especially with modern low or no till practices.

Agronomic advantages of competing crop – Traditionally, wheat was the best crop option for growers on the Great Plains. Corn and soybeans that generated higher returns in the Corn Belt were not suited to the arid climate of the Plains, nor were they suited for the shorter growing season of the northern plains.

In recent years, however, genetic advances in corn and soybeans have changed that equation. Corn varieties flourish in the Plains growing regions, as do short season soybeans that mature before the early frosts of the northern Plains.

In short, now that producers CAN grow corn and soybeans, they ARE growing them. Government policies have made it desirable, but agronomics have made it possible.

While the picture is gloomy, all is not lost. Demand for oat and other whole grain products is rising. The demand for milled flour seems to have stabilized over the past year. Many companies are continuing to invest in processing capacity in the US. Grain Millers, Inc., for example, is in the midst of a $20 million capacity expansion in Iowa.

We are, however, hedging this bet as we, too, have expanded our capacity in Canada over the past 5 years. Regrettably, the oats for this new milling capacity in Iowa will be grown in Canada.

Recommendations

Farm program – As Congress writes the next farm bill, it has an opportunity to breathe life into these vital strategic industries. For whatever amount of money Congress decides is necessary for a safety net for growers, we implore you to find mechanisms for distributing that money in ways that do not distort their planting decisions. We must end up with a farm bill that allows the market to determine what crops are planted.

Wheat and oat millers are willing to compete with processors of competing crops to encourage farmers to plant more of the cereal grains we need. But we cannot compete with the treasury of the US Government.

Conservation Reserve Program – NAMA supports retaining environmentally sensitive land in a conservation program. However, probably two-thirds of the 36 million acres currently enrolled in the CRP could be farmed without sacrificing environmental goals, especially through low and no tillage farming practices that have evolved since the CRP's inception in 1986.

At the same time, the US' environmental goals can be best met by focusing conservation dollars on waterway filter strips and similar areas which provide the best return on investment. Also, CRP rules must be changed to add flexibility so that growers can respond to market signals without extreme penalties, as is currently the case.

The US is going to need those acres immediately. Discussing the boom in biofuels, USDA's chief economist testified before Congress last week that US corn plantings will have to increase by 10 million acres in the next 4 years just to satisfy the ethanol demand. From where will those acres come? Failure to significantly reform CRP will mean that reducing our dependence on foreign oil may result in increased dependence on foreign grain.

For decades we have known that growing corn after corn after corn is not desirable for either environmental or disease and insect management reasons. Yet that's exactly what is being encouraged.

Another benefit of releasing a substantial portion of the CRP is that it would be an excellent way to respond to the need for land to produce organic grains, which on a percentage basis is the fastest growing segment of the industry.

Research – Wheat and oat yields lag behind other crop options, especially corn and soybeans. And, with each passing year, the lag for wheat and oats gets more pronounced.

Average annual yield increase
1870 – 2005
(percent)

Corn	3.0
Soybeans*	3.1
Wheat	1.8
Oats	1.1

*USDA began keeping soybean production records in 1930

Wheat and oat research is nearly all federally funded, at a combined total of about $50 million annually. Compare that with private corn research efforts where multiple companies each invest more than one million dollars every day. No surprise then that wheat and oat yields lag behind, and that disadvantage widens each year.

Summary

It is the height of irony that the US government, through the 2005 US Dietary Guidelines, encourages consumers to eat more grains but at the same time is very directly discouraging growers from producing those same grains.

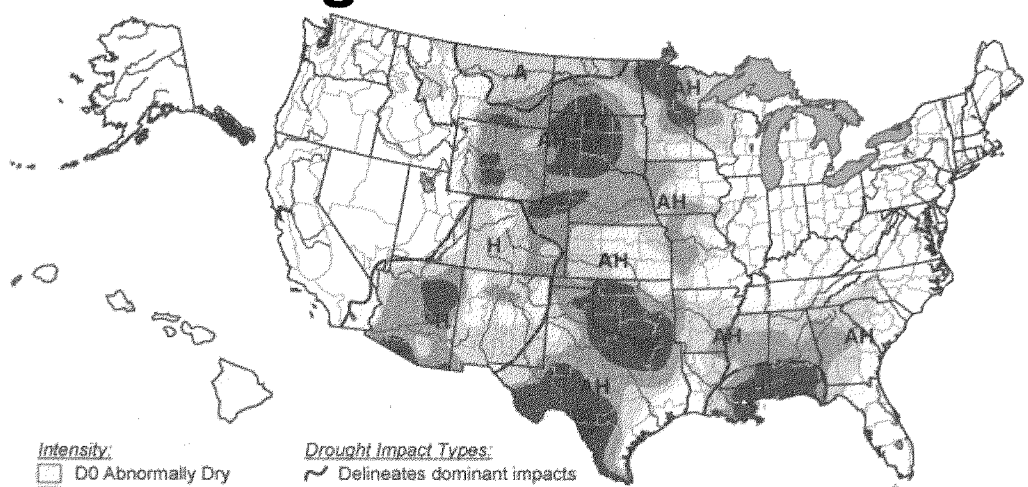
NAMA believes Congress has a major opportunity to improve conditions for the wheat and oat industry, from grower through end consumer. This can be achieved by reforming the CRP to allow sustainable acres back into production, reforming the farm program to reduce government-caused distortions of production decisions and investing in research to give growers better crop options.

Thank you very much for this chance to share the millers' views. If you have any questions I am happy to answer them.

Pomeroy

U.S. Drought Monitor

August 1, 2006
Valid 8 a.m. EDT



Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:
- ~ Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

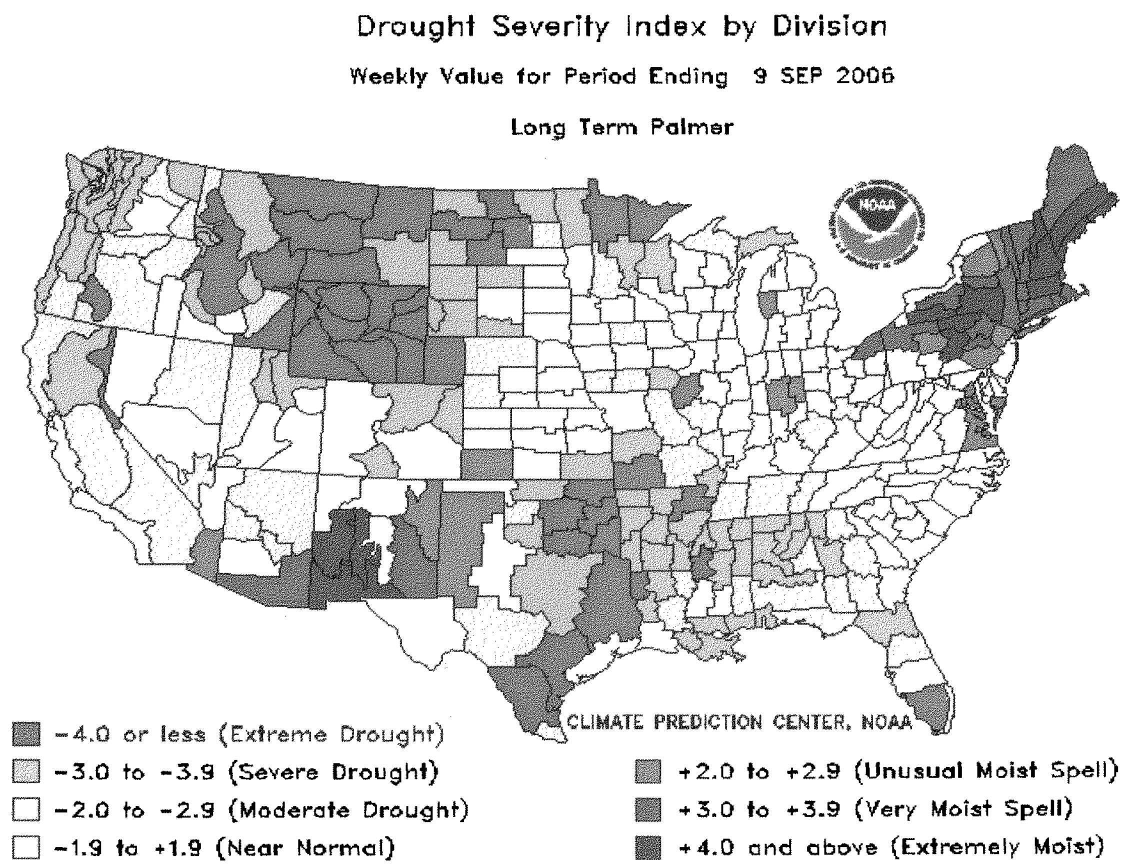
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm

USDA

National Drought Mitigation Center

Released Thursday, August 3, 2006
Author: David Miskus, JAWF/CPC/NCEP/NOAA


Drought Severity Index by Division
Weekly Value for Period Ending 9 SEP 2006
Long Term Palmer
CLIMATE PREDICTION CENTER, NOAA
-4.0 or less (Extreme Drought)
-3.0 to -3.9 (Severe Drought)
-2.0 to -2.9 (Moderate Drought)
-1.9 to +1.9 (Near Normal)
+2.0 to +2.9 (Unusual Moist Spell)
+3.0 to +3.9 (Very Moist Spell)
+4.0 and above (Extremely Moist)

REVIEW OF FEDERAL FARM POLICY

WEDNESDAY, SEPTEMBER 20, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to call, at 10:07 a.m., in room 1300, Longworth House Office Building, Hon. Bob Goodlatte (chairman of the committee) presiding.

Present: Representatives Everett, Lucas, Moran, Gutknecht, Johnson, Osborne, Graves, Bonner, Neugebauer, Boustany, Kuhl, Foxx, Conaway, Fortenberry, Sodrel, Peterson, Holden, Etheridge, Baca, Marshall, Herseth, Cuellar, Salazar, Pomeroy, and Boswell.

Staff present: William E. O'Conner, Jr., staff director; Pelham Straughn, Bryan Dierlam, Craig Jagger, Callista Gingrich, clerk; Rob Larew, minority staff director; Chip Conley, Chandler Goule, Clark Ogilvie, and Anne Simmons.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

The CHAIRMAN. Good morning and welcome to the House Committee on Agriculture.

This is the committee's 13th full committee hearing to discuss and review Federal farm policy. Since February the committee has traveled to 11 States to gather feedback from individual producers about the future of farm policy. We have heard from 116 producers through our series of field hearings, and today we are happy to hear from 17 organizations that represent America's farmers and ranchers.

As you can see from the witness list, we have a full day ahead of us. It is no secret that we find ourselves in a different environment now than when the 2002 farm bill was written. Today the budget picture looks different, as does the export and trade environment. Whether or not the actual dollar amount set aside for agriculture spending remains the same as the previous farm bill remains to be seen. However, I assure you that the number of groups expressing interest in this farm bill is growing daily. The result is a larger number of players competing for a slice of the same pie. We will have to be creative in how we approach the next farm bill to ensure that all involved in American agriculture are equipped with what they need to be successful.

I am committed to writing the best farm bill we can with the resources made available to us. To that end, I need your help, helping us identify your priorities, discern your needs from your wants and secure the best possible budget allocation that will assist this committee in crafting a farm bill that will serve America's producers well.

I can say with certainty that this committee understands the vital role that American farm policy plays in sustaining agriculture and its impact on our national economy and our national security.

Unfortunately, many of our urban and suburban colleagues do not. If this doesn't concern every person sitting in this room today, it should. Why? Because while the committee will be writing the next farm bill, we cannot turn it into law by ourselves. The passage of the farm bill requires an act of the entire Congress and must garner the support of a majority of rural, suburban and urban representatives. We do our best to educate our colleagues, but we cannot do it alone.

We need you to consistently voice your concerns to all Members of Congress, including those outside of the Agriculture Committee. Your local media and local communities should hear the message as well. We all need to spread the message about the vital role U.S. agriculture plays in the lives of every American and how our policies are designed to meet our needs and ensure our security.

Now let us get down to the business of the day, which is to hear from our witness. I respectfully request Members to submit their opening statements for the record so we may proceed with our first panel of witnesses. And always I have one exception to that, and it is my pleasure to now recognize the ranking minority member of the committee, Congressman Peterson of Minnesota.

STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman and thank you for holding this hearing today and I want to thank all of the witnesses for joining us. We have had a woodpecker out there. Maybe it is that Arkansas one they can't find.

We have had a busy year here in the Agriculture Committee, traveling around the country for farm bill hearings. We have heard from producers around the country about the 2002 farm bill, how it has worked, where we need to improve it and where they think we need to go with Federal farm policy.

For the most part we have heard that folks like the current farm bill and want to do see a similar bill next time.

I am looking forward to hearing what your members are telling you about farm policy and how it is working in the real world. And I am also interested in hearing about how your members are dealing with the agriculture disasters that have plagued so many of our agriculture communities.

More than 60 percent of all counties in the United States have been designated disaster areas. So I know that most of you must be hearing from your members about the situation out there and what they need to recover.

We have big challenges ahead of us, addressing the need for agriculture disaster assistance and then moving on to the 2007 farm bill.

I appreciate all of you being here today to offer your advice and look forward to hearing your testimony.

The CHAIRMAN. I thank the gentleman
Other statements for the record will be accepted at this time.
[The prepared statement of Mr. Baca follows:]

PREPARED STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Chairman Goodlatte and Ranking Member Peterson:

Thank you, Mr. Chairman and the ranking member, for your hard work and leadership as we move into the 2007 farm bill reauthorization. I am pleased to discuss today the current state of our Federal farm policy from the perspective of American farmers and growers.

This committee's goal, of course, is to end up with a farm bill that strikes the right balance between protecting American farmers, promoting sensible natural resource management, and strengthening our market position in the worldwide economy. The 2002 bill did a very good job in striking that balance, but things have changed rapidly in the last several years. Hearing from different sides and perspectives over the next few months will no doubt help us get a more accurate view of the state of American agriculture in 2006.

I also want to thank each of our many witnesses for coming here today and hope that both of you will be able to help us in Congress understand what has changed over the last 4 years and what could be improved in the current policy to ensure that the balance we sought in 2002 remains.

In particular, I hope we can discuss with our witnesses how Congress can create a renewable fuel economy that is accessible to all localities, regardless of the feedstocks that are generated in those areas. We hear a lot about ethanol in the Corn Belt, but what other affordable, renewable energy sources are out there—especially in the west coast and in my home State of California. Not every part of this country grows corn or sugar cane. What other biofuel technologies could we be investing our research dollars into? And what impact will further investments in corn-based ethanol do to the price of feed for our many livestock farmers? We must ensure that their interests are protected as well.

I'd also like to talk more in this committee on what needs to be done in order to balance the realities of the global marketplace while protecting the interest of American family farms—many of which are not able to compete against foreign crops and products that are produced in countries with sparse safety regulations and labor standards.

Finally, I'm very interested to hear from the specialty crops farmers about what they will need over the next several years to grow their businesses. As you know Mr. Chairman, my home State of California produces a wide variety of specialty crops. However, the term "specialty crop" is misleading. These crops aren't just obscure plants and products. They are fruits and vegetables like peaches, plums, strawberries, asparagus—all products that American consumers expect to see at their local stores. We need to make sure that these valuable crops are better supported in the next farm bill.

Our country was founded on agriculture and ingenuity. It is fitting then that we bring these areas together to create a new future for America based on a fair policy that maximizes grower productivity, environmental responsibility, and global trade. I look forward to working with our farmers on this next farm bill and thank the chairman and ranking member again for their leadership.

Thank you.

The CHAIRMAN. We would like to welcome our first panel to the table: Mr. Bob Stallman, president of the American Farm Bureau Federation, from Washington, DC; Mr. Tom Buis, president of the National Farmers Union of Washington, DC; Mr. Allen Helms, chairman of the National Cotton Council, from Clarkedale, Arkansas; Mr. Paul Combs, chairman of the USA Rice Producers Group, from Kennett, Missouri; Mr. Dale Schuler, president of the National Association of Wheat Growers, from Carter, Montana; and Mr. Gerald Tumbleson, president of the National Corn Growers Association, from Sherburn, Minnesota.

Bob, looks like you have sustained injuries in the fight for American agriculture. But we are welcome to hear your testimony.

We would remind all our witnesses that their full statement will be made a part of the record and ask you to limit your comments to 5 minutes.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. STALLMAN. Mr. Chairman, you can appreciate that working in Washington your arm can only be twisted so many times.

Well, good morning, and, Mr. Chairman and Ranking Member Peterson and members of the committee, thank you for the opportunity for to us to present testimony. My name is Bob Stallman. I am a rice and cattle producer in Texas and president of the American Farm Bureau Federation. There is no question the existing farm bill is popular with farmers and ranchers throughout the country. Continued maintenance of its structure and its funding is a high priority for Farm Bureau. 89 percent to 11 percent, American Farm Bureau Federation delegates cast a resounding vote in support of extending the economic safety net of the current farm bill until a new world trade agreement is reached that would increase foreign market access for U.S. farmers and ranchers. One of the most important reasons for this extension is the current stalemate in the WTO negotiations.

America's farmers and ranchers believe a significant expansion of trade opportunities is the only acceptable outcome of the WTO negotiations, and the outcome of the negotiations particularly as they relate to domestic support commitments must be known and taken into account before we begin crafting a major new farm bill with major policy changes.

We must negotiate a WTO agreement that accomplishes our objectives and then modify our farm policies accordingly and to the extent necessary based on the final outcome of the negotiations.

Why do we believe this is so? This approach provides U.S. negotiators the strongest negotiating leverage. The primary component the U.S. has to offer in the negotiations is reductions in our domestic support programs. The leading component for many other countries is primarily reductions in high tariffs. If we reduce our domestic supports in an upcoming farm bill budget reconciliation debate, we have less leverage to use to convince other countries to reduce their tariffs and export subsidies. Our strongest negotiating leverage is to maintain our current level of AMS support until we agree to a WTO round that has been beneficial for agriculture. We will not receive any credit for unilateral reductions made prior to resumption of the Doha negotiations.

Second point, we are simply not far enough along in the negotiations to anticipate a likely WTO outcome and to make major changes in the new farm bill on that basis. Critics of our farm bill say that any successful WTO negotiation will require reductions in our farm programs near the 60 percent of trade-distorting domestic support level offered by the U.S. a year ago. Therefore why not go ahead anyway?

We do not know what will be agreed to at the end of the negotiations. There may be smaller average tariff cuts and a larger number of sensitive products than the U.S. had previously sought. Altering our programs now to reduce support by 60 percent just in case that is what is included in the final agreement makes no sense.

Third point, reforming the farm bill now absent a final agreement offers no assurance that additional reforms would not be required when an agreement is finalized.

I have heard some say that a question American agriculture is going to have to answer is if we have to change our farm policy do we do it ourselves or do we have others do it for us? A few years ago, the European Union decided to change their policy on their own terms and adopted their common agricultural policy.

These reforms shifted many of their programs from more trade distorting programs to programs that qualified for the nontrading distorting "green box." many Europeans believed that by doing so their changes would suffice as their contributions to the round. Virtually no country has given the European Union credit for those changes.

And in a similar vein the U.S. offered a bold reduction in our trade distorting domestic supports only to have it viewed as a new starting point for the negotiations. If we attempt to prejudge our contributions to a successful WTO round in an upcoming farm bill, we would fall prey to the same outcome as the Europeans.

Farmers and ranchers are willing to lower farm program payments via the World Trade Organization negotiations if and only if they can secure increased opportunities to sell their products overseas. However, we are not willing to give up supports without getting anything in return.

We will support making minor adjustments to the bill; for instance, to comply with recent WTO rulings on direct payments in the fruit and vegetable planting restrictions. In the meantime U.S. farm policy should continue to help level the playing ground with assistance to American farmers until trade negotiations achieve a more open world market.

On a related issue there are those who say we must change our farm programs now because of our loss in the WTO challenge to the Brazil cotton case. While there is a possibility that new challenges to U.S. support programs might be filed in the WTO, the starting point for such complaints would likely be the Brazilian challenge to our cotton programs.

The question to consider is how vulnerable other crops are to similar challenges. We have looked at most of those questions and believe that it will be more difficult to prove serious prejudice in other crops than it was for cotton. But in the end it is impossible to predict how the panel will rule as we found out in the case of cotton. However, to alter farm programs now because a country might have the resources and desire to file a case against our farm programs and it might succeed and be implemented in 2 or 3 years is not a good reason to alter in and of itself our current farm policy.

We have covered several other topics in our written statements such as biofuels and energy, revenue insurance, conservation and others, and I will be pleased to address any questions related to those areas in the Q and A. Thank you very much for the opportunity to be before this committee.

[The prepared statement of Mr. Stallman appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Stallman. Mr. Buis, welcome.

STATEMENT OF TOM BUIS, PRESIDENT, NATIONAL FARMERS UNION

Mr. BUIS. Thank you, Chairman Goodlatte and Ranking Member Peterson and the rest of the members of the committee.

I want to thank you for the opportunity to testify, but I also want to commend you for your tremendous efforts at outreach all summer long and holding field hearings on the farm bill, holding the Washington hearings and your efforts at outreach on the Web site to truly get the feeling of what people want to see throughout America in the case of the farm bill. The National Farmers Union, like you, have conducted several farm bill listening sessions across the country. I think we did 15 in the month of August.

And part of the reason we do it I think is the very same reason that you do, and that is the true answers to the challenges that face rural America lies with the people that live there, work there and raise their families, and my favorite quote of all time is by President Eisenhower, which sort of describes what happens in the farm bill process, and that is that the farming is mighty easy when your plow is a pencil and you are a thousand miles from the nearest corn field, and we want to thank you for going out into those corn fields and cotton fields and other types.

First of all, what we heard at the listening sessions and what our board has unanimously supported is a extension of the current farm bill. I think there is an overwhelming feeling among farmers that the 2002 farm bill was a significant improvement over Freedom to Farm. There is a lot of concerns that the political partisanship here in Washington, the sea of red ink with the budget deficit, the uncertainties over trade, and I agree with Mr. Stallman that we shouldn't be negotiating with ourselves and guessing what is going to happen in that agreement.

And probably a bigger concern is the shaky financial condition that exists on farms, on the cash flow situation because of the tremendous skyrocketing input costs as a result of energy over the last 2 years. That has had a significant impact. And so to move forward and change the safety net at this point with so much uncertainty, our folks feel that is not worth taking the risk.

They also feel that we might go backwards and there is no better example than just pick up any major urban newspaper almost on any given day and someone is blaming farmers for all the evils in the world.

We are the reason for the budget deficit even though we know we are not. We are the cause of other farmers not being able to make a profit worldwide, even though we are not. We are the cause of environmental problems. You name it. There is a lot of people gearing up for this farm bill to which sort of creates a perfect storm in our opinion on the timing.

However, when you do write a farm bill and if you will be at it hopefully, one of the first in line to make suggestions and what I heard around the country and what we gathered, the No. 1 issue among everyone is getting a profit from the marketplace.

Often times, farm bills are reactive to the conditions that exist throughout the country. They deal with the symptoms. They don't necessarily deal with the cause. And I think if there is anything this committee and your counterparts in the Senate can do is put a tremendous influence on creating a profitable environment for all farmers.

There is a lot of excitement. There is a lot of excitement about the opportunity of fuels from the farm, energy from the farm, whether it is ethanol, biodiesel, wind energy, biomass, cellulosic, every one is really excited. There is some caution to throw there, because I think a lot of the excitement is they are getting more of the total dollar produced from that energy and kept in those local communities. There is a big concern that Wall Street and others will take away this industry and the profit won't be there.

The second really exciting economic opportunity is direct farmer to consumer marketing of natural, fresh, source verified from the farm products to the consumers. It is the fastest growing sector of the food industry. Consumers are willing to pay for it. It is driven by consumers' preference to pay a higher price for fresh, higher quality products. And I think we should do everything to keep that going.

Fair, open competitive markets comes up repeatedly and with the announcement this week of the No. 1 hog producer in the country buying the number two hog producer, that certainly is probably going to raise a lot more awareness and fair trade, truly leveling the playing field on not just necessarily the free trade.

The safety net. A couple of ideas has come up that has come up repeatedly, one is we need to have a permanent disaster program in place that provides assistance in a timely manner, avoids the embarrassment of people getting something for nothing, and actually makes some common sense to a lot of people. I think it would save the Government money in the long run.

Improvements in risk management and a truly countercyclical safety net based on the cost of production. The tremendous increase in input costs the past 2 years has made just choosing a number out there for a safety net inaccurate in protecting people's risks.

I will stop there. Mr. Chairman, and ranking member, again thank you for your efforts at outreach and I would encourage the committee to focus on the cause of the problems, which is lack of profitability and not just on the symptoms.

Thank you.

[The prepared statement of Mr. Buis appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you Tom. Mr. Helms, welcome.

STATEMENT OF ALLEN B. HELMS, JR., CHAIRMAN, NATIONAL COTTON COUNCIL

Mr. HELMS. Thank you.

Mr. Chairman and members of the committee, thank you for the opportunity to present testimony today on U.S. farm policy.

My name is Allen Helms. I operate a diversified farming operation in Clarkedale, Arkansas and I also have the honor of serving as chairman of the National Cotton Council. Two years of above average yields growers in several parts of the Cotton Belt are facing much lower yields due to extreme drought conditions. Currently USDA has issued disaster declarations for 334 cotton producing counties, covering almost 80 percent of cotton acreage. For those affected producers' emergency staffer assistance for 2006 will be critical.

Mr. Chairman, the 2002 farm bill continues to enjoy solid support among cotton producers. Combination of direct and countercyclical payments provides income support, especially when prices are low, without distorting planting decisions. We strongly support continuation of the marketing loan with an effective world price discovery mechanism. Marketing loan rewards responds to low prices and does not cause low prices. It is vitally important that all production is eligible for the marketing loan and can be redeemed at the prevailing world price, so farmers can make informed orderly marketing decisions.

Cotton loan structure and world price calculation have served the industry well. There have been minimum forfeitures and robust exports, but some modification may be necessary to respond to the new emphasis on export markets and the determination of step 2.

Our Pima cotton producers support continuation of the loan program with a competitiveness provision to ensure U.S. extra long staple cotton remains competitive in international markets.

The extra long staple program has minimal cost and Pima is an importance alternative crop in the irrigated West particularly in California's San Joaquin Valley. A sound farm policy is of little value to the cotton industry if arbitrary unworkable limitations are placed on benefits. Frankly, we believe limitations should be eliminated but at the very least any limitations in future loss should not be more restrictive or disruptive than those in current law.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary cost share basis and are a valuable complement to commodity programs. However, they are not an effective substitute for the safety net provided by commodity programs.

Continuation of an adequately funded export promotion program, including the Market Access Program and Foreign Market Development Program, are important in an export dependent agricultural economy. It is also valuable to maintain a WTO compliant Export Credit Guarantee Program.

Mr. Chairman, the cotton industry can continue to support an ambitious WTO agreement that does not unfairly target any commodity. We commend you and our negotiators for refusing to allow unwarranted pressure and artificial deadlines to undermine the U.S. position last July.

It is very important that when and if the negotiations resume, they be conducted as a single undertaking and that there be no early harvest for cotton. We understand that suspension of the Doha negotiations has created debate as to the best way to steer domestic farm policy. However, it is clear that the next farm bill must allow the United States to negotiate from a position of strength.

Cotton farmers are deeply concerned about the decline of our longstanding customer, the U.S. textile industry, which until recently consumed nearly 50 percent of our annual production. Despite significant gains in productivity and efficiency, U.S. textile manufacturers have found it difficult to compete with imported barrel products from primarily Asian sources. The loss of step 2 compounds the gradual financial conditions of the textile industry.

The remaining manufacturers have indicated strong interest in revising our step 3 import policy and in developing a possible WTO compliant alternative to step 2.

Although cotton fibers are a primary product, cotton seed accounts for 12 percent of our farm gate value. About 50 percent is crushed to produce high quality oil and meal and the remaining 50 percent is sold for feed. The feed market is an increasingly important market for cotton seed. We ask that as policy is developed any impact on markets for cotton seed be carefully considered and mitigated if necessary and appropriate.

In closing, I would like to reiterate the cotton industry's overall support for the current farm bill.

We also know, however, that an extension will face hurdles both domestically and internationally. I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support a continuation of a balanced and effective policy for all U.S. agriculture.

Thank you for this opportunity to testify, and we will be pleased to respond to questions at the appropriate time.

[The prepared statement of Mr. Helms appears at the conclusion of the hearing.]

Mr. EVERETT [presiding]. Thank you very much, Mr. Helms.

Mr. Combs, I believe you are up next.

STATEMENT OF PAUL T. COMBS, CHAIRMAN, USA RICE PRODUCERS' GROUP

Mr. COMBS. Good morning, Acting Chairman Everett and members of the committee. I am Paul T. Combs, a rice, cotton, wheat and soybean producer from Kennett, Missouri. I serve as Chairman of the USA Rice Producers' Group, a member group of the USA Rice Federation. And my testimony today is on behalf of both the USA Rice Federation and USA Rice Producers Association.

We thank you for holding this hearing here today and for the opportunity you have given us to testify. As Congress prepares for the next farm bill the U.S. rice industry supports maintaining an effective farm safety net that includes a marketing loan program as well as price support payments and planning flexibility. These commodity programs also serve as rural development programs and this is especially true in the case of rice because most of the U.S. crop is transported, processed and marketed by firms in the rural areas of the country where it is grown. Therefore, these programs contribute significantly to the overall economic activity in the U.S. rice growing region.

At this time rice producers and others in production agriculture face an uncertain farm policy due to repeated proposals to cut our farm programs and the pending Doha round of WTO negotiations.

For these and other reasons the U.S. rice industry supports an extension of the 2002 farm bill, particularly the commodity program, until such time as the WTO provides a trade agreement that has been approved by Congress.

We believe the policies and structure of the current bill should be continued.

There are a number of key factors that support extending the 2002 farm bill. Number 1, our current farm programs are a fiscally responsible approach to farm policy and they provide a safety net when it is needed. CBO August 2006 budget baseline estimates that the actual commodity title costs through 2005 reflect a real savings of nearly $19 billion relative to the levels estimated when the 2002 bill was approved.

Number 2, any reduction in the current programs and spending levels of the farm bill will result in the effective unilateral disarmament by the U.S. and ultimately weaken our negotiating position with other countries and, number three, writing a new farm bill in advance of a final WTO agreement would result in a very short-term bill that must be rewritten should WTO negotiations be concluded and the trade rules are in place. Any such changes that inject uncertainty into this safety net will lead to financing difficulties to producers.

The U.S. rice industry opposes any further reduction in the payment limit levels provided under the current farm bill. It is essential that rice producers maintain nonrecourse loan program eligibility for all production.

Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice farms, which have the highest cost of production of any major grain crop. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is most critical.

Conservation programs play an important role in production agriculture by providing assistance to producers in their continued efforts to conserve our Nation's natural resources.

The rice industry supports maintaining a strong conservation title in the next farm bill, but not at the expense of the commodity title.

Forty to 50 percent of the annual U.S. rice crop is exported, so trade is clearly critical to our industry and despite the general continuing trend towards market liberalization, rice outside the United States has remained among the most protected agriculture commodity.

In addition, U.S. policies intended to punish foreign nations or encourage regime changes disproportionately harm U.S. rice producers. Unilaterally imposed trade sanctions have and in some cases continue to play a key role in destabilizing the U.S. rice industry and constraining its long-term market potential in countries such as Cuba, Iran and Iraq.

In conclusion, U.S. farm policy must provide a stabilizing balance to markets and a reliable planning horizon for producers.

We urge you to recognize how well the current farm bill is working for U.S. agriculture and consider ways to maintain its structure as we begin debate on the next farm bill.

However, with the need for a strong farm safety net as part of U.S. farm policy the U.S. rice industry supports extending the 2002 farm bill until a WTO trade agreement is negotiated and approved by Congress. This concludes my testimony.

[The prepared statement of Mr. Combs appears at the conclusion of the hearing.]

Mr. EVERETT. Thank you very much. Mr. Schuler, you are next.

STATEMENT OF DALE SCHULER, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. SCHULER. Mr. Chairman, members of this committee, my name is Dale Schuler. I am a wheat farmer from Carter, Montana, and I am currently serving as president of the National Association of Wheat Growers. Thank you for this opportunity to be here today to share some of the thoughts of the growers I represent on farm policy.

The effective farm legislation is essential not only for wheat growers, but also rural economies and the American consumer.

Farm programs were designed to cushion the boom and bust cycles that are inherent to agricultural production and to ensure a consistently safe, affordable and abundant food supply for the American people.

The 2002 farm bill has strong points. And the wheat growers that I represent believe that the next farm bill should build on these strengths. However, while wheat growers generally support the current policy, much of the safety net provided in the 2002 farm bill has not been effective for wheat farmers.

Since 2002, wheat growers have received little or no benefit from two key components of the current bill, the countercyclical program and the loan deficiency payment program for two main reasons.

First, severe weather conditions for several consecutive years in many wheat States have led to significantly lowered yields or total crop failure. The loan program and the LDP are useless when you have no crop.

Second, the target price for the countercyclical program for wheat was set considerably lower than needed to cover the cost of production, and severe weather conditions in some areas have created a short crop which has led to slightly higher prices.

As a result there has been very little support in the form of countercyclical payments also. As you can see by the chart I provided in my testimony, the support level for wheat compared to other commodities in the 2002 to 2005 crop years, even as a percentage of production costs, is relatively low.

We are not in any way suggesting that other crops receive too much support. Far from it. They face the same problems our growers face and rely heavily on the safety net. We are simply stating that wheat producers need a viable safety net, too.

There is no doubt that the American food stamp farmers would rather depend on the market than the Government for their livelihoods, but the current economic and trade environments do not offer a level playing field in the global marketplace. Many of our trading partners support their farmers at a much higher rate than the U.S. At the same time we face continually increasing production and transportation costs. Fuel and fertilizer prices are up an estimated 24 to 27 percent for wheat growers just from last year, as estimated in a recent FAPRI report and a current disaster situation including droughts, floods and fires has been especially troubling for our members.

These issues have led us to be looking at the effects of making minor alterations to the 2002 farm bill and put wheat at a more equitable position in the farm support system.

For instance, we are examining the impacts of increasing the direct payment to more accurately reflect the economic situation wheat growers are currently facing.

Fuel and fertilizer costs continue to skyrocket, yet the price for wheat for the most part remains stagnant. While there has been a small increase in the price this year due to drought, this doesn't help many wheat farmers who had no crop and still does not cover the cost of production for the wheat producers who did.

The direct payment is the most reliable cash flow of all program components and as such greatly aids in securing operating credit. We believe therefore more emphasis should be put on this component of the commodity support system for wheat growers.

In addition to increasing the direct payment, we are currently examining the impacts to both farmers and the Government of increasing the target price to be more aligned with today's market conditions.

Also our members would like to see conservation programs continue as presently authorized but with full funding.

We would like to explore opportunities to streamline the program signup to be less time consuming and more producer friendly. We also believe strongly in the pursuit of renewable energy from agriculture sources and support additional incentives to further research and development of renewable energy initiatives, specifically cellulosic ethanol.

In closing, I must state that we are firmly committed to developing an effective 2007 farm bill and welcome the opportunity to work with you to do so.

Thank you for this opportunity, and I will be ready to answer any questions that you may have.

[The prepared statement of Mr. Schuler appears at the conclusion of the hearing.]

Mr. EVERETT. Thank you, Mr. Schuler.

Mr. Tumbleson, I think you are next.

STATEMENT OF GERALD TUMBLESON, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. TUMBLESON. Mr. Chairman and members of the committee, on behalf of the National Corn Growers Association I want to thank you for this opportunity to share our members' views on the 2002 farm bill and provide input for the writing of the 2007 farm bill.

My name is Gerald Tumbleson, and I farm with my wife and two sons in southern Minnesota where we produce corn, soybeans and hogs. I currently serve as president of the NCGA. National Corn Growers Association represents more than 32,000 corn farmers from 48 States. NCGA also represents more than 300,000 farmers who contribute to the corn checkoff programs.

Mr. Chairman, I am sure you have heard the question, can we grow enough corn for ethanol, livestock feed, export markets and for food? The Nation's corn growers are committed to being a reliable supplier of feed, food and fuel for this country and the world. To do so we need a farm bill that provides a safety net when needed, a robust research effort by the public and private sectors, conservation programs that are directed to working lands, energy policy that accelerates a transition from a hydrocarbon economy to a carbohydrate economy and the tools necessary to build broader and robust, more robust international markets and funding for important investments in rural America.

My written testimony is based on policy developed by grass roots members' outlines of the measures of how we should proceed in these areas. The 2002 farm bill has been a good public policy. It is good for the farmers, good for the environment, and good for the taxpayer.

When prices fall as they did at harvest last year due to big crop losses in Hurricane Katrina, payments were made to producers. And when prices are high, payments go down. This is good policy.

Additionally, there has been an expansion of participation in crop insurance and we believe that should continue.

During times of localized crop shortages, some farmers are not able to receive loan deficiency payments or countercyclical payments at a time when they need them most.

To take the positive underpinnings of the current program and to develop a more effective safety net, our Public Policy Action Team, a group of 15 growers, has spent the past year and a half weighing numerous options for the next farm bill. The group is in the final steps of refining a revenue based safety net program that our voting delegates approved in July as the primary focus for the commodity title of the 2007 farm bill. This concept factors in price, yield and variable production expenses.

This revenue based proposal will replace a marketing loan and the countercyclical programs and would directly target support to producers that have a revenue loss. Two new programs, Base Revenue Program, or BRP, and the Revenue Countercyclical Program, or RCCP, would work in complementary fashion and compensate producers when market revenue declines below target levels.

BRP provides coverage against declines in farm level crop net revenue. RCCP builds on this base and provides protection against declines in revenue measured at the county level which is similar to group risk income protection.

Coupled with the current fixed direct payments and recourse loan program, BRP and RCCP would establish a safety net structured to meet current WTO rules for income insurance and safety net programs in the green box, while the RCCP fits within the amber box.

Our Revenue Based Program remains a work in progress and NCGS is committed to reaching out to other commodity groups as we further refine our proposal for your consideration.

In the opening of my testimony, I laid out a list of what our members view as important in the various titles of the farm bill. Our growers view these programs, the commodity title to the research title to conservation to trade and all the rest, as investments in America.

We can debate the various mechanisms by which these investments will be made but we need to commit to such investments. Programs that encourage production of food, feed and fuel are better expenditures of taxpayer dollars than the enormous cost of maintaining a secure and reliable flow of food and energy from unstable areas of the world.

Mr. Chairman and members of the committee, the world is short of two things, energy and protein. I am proud to be able to represent the thousands of corn growers around this country who wake up every morning eager to do their part to produce both. Our organization is eager to work with you in the months ahead to ensure that we can do the best job possible to meet that challenge.

Thank you, and I look forward to answering your questions.

[The prepared statement of Mr. Tumbleson appears at the conclusion of the hearing.]

Mr. EVERETT. Let me thank all members of the panel and also say to the Members and to panelists that we are expecting a vote around 10:45 that may occur and/or may not occur and the Chair will keep Members posted on that.

Two different places I am tempted to start, but I am going to, Mr. Combs, since you expressed some interest in this, let's start and ask the panel, are you worried that 1- or 2-year extensions of farm bill instead of longer multi-year authorizations will hamper on how you plan your farm practices on a year-to-year basis?

Mr. COMBS. Congressman Everett, when we compared every other alternative in the current policy that surfaced, our farmers and lenders far and away prefer the current farm policy for as long as we can get it. It is predictable. You can go to the bank and make a loan and bankers understand it.

The alternatives that we have seen so far cost just as much and do less for the farmer and, worse, some of these alternatives don't do anything to help insulate farmers from potential WTO litigation. And so I believe that the vast majority of the farmers in this country like what we have got. We want to keep it and we want to see Washington defend it in the world.

Mr. EVERETT. Other members would like to comment on that? Mr. Stallman.

Mr. STALLMAN. Mr. Chairman, I would concur that from a planning standpoint, farmers need certainty and the longer the better. And our position is clear that we want at least a 1-year extension. Further year extensions of the major structure and funding of this current program would certainly be more desirable from a planning standpoint.

So that is something that you know we will have to address. But, ultimately, it is better to be longer in terms of planning rather than shorter.

Mr. SCHULER. Mr. Chairman, as we sit here comfortably in this room many of the member wheat growers that I represent are sitting home in the uncomfortable position of wondering how to repay their operating debt. And this isn't just because of drought and other disasters but because of the rapidly increasing cost of production for wheat producers.

We do not believe that our members can be satisfied with an extension of this farm bill. We need improvements and we need it now.

Mr. EVERETT. Anybody else?

Mr. BUIS. Mr. Chairman, I agree, the longer a period of certainty, the better for the farmers. But I think if this committee expressed its wishes to put it off for 2 years and the sooner the better would obviously help.

As far as those people out there suffering, there has been a tremendous amount of economic damage as a result of weather related disasters over the last 2 years. And I think if this Congress could do anything before it goes home, pass an emergency disaster bill for other weather related disasters. It is horrible out there. I have been in 30 States in the past 3 months, and in many States the only thing that was green was a tractor, the paint on the tractor. And the hurt, it is real and I share the concern with the Wheat Growers.

Mr. EVERETT. Be glad to know you own your own John Deere. Anybody else out there?

Mr. Tumbleson, you talked about increased fuel costs and that has been a significant problem for farmers. I got a kind of a long question. I will let you start off with it, but let me go ahead and kind of read this thing.

We all know there is no doubt that production of biofuels is on the increase. However, at many of the hearings that we have had concerns have been raised about the consequences of this on other segments of agriculture.

For example, where will we find additional acres needed to meet the growing demand for corn for ethanol? In my part of the country, we are losing a lot of farmland to CRP and also to frankly subdivisions.

What does it mean for commodity and conservation programs? What will the impact be on livestock and poultry producers or on the price of mid-level proteins like cotton seed meal and alfalfa as this distilled dried grain production increases? Do the witnesses have any thoughts on this? And, Mr. Tumbleson, if you don't mind since you brought it up we will start with you.

Mr. TUMBLESON. Well, thank you, Mr. Chairman. And the national corn growers know they have been the lead in ethanol and in the production of biofuels and we realize that. That came about back in the 1980's when we had a pile of corn so large that we couldn't use it. So we decided to do research. We decided to spend some money on research. What has turned out that we did spend the money on research and we were able to convert corn to ethanol. And what also has turned out, amazingly, we still have a monstrous carryover.

And when we have done our research and we have done our studies, it has turned out that we are increasing production faster than we are increasing the usage, so when we converted to ethanol, it is a way of converting our product to what we need.

Now, that sounds like it is for the farmers, and that sounds like a program in the farm bill is for the farmers. It is really not. It is really for the United States of America.

Now when we remain and we keep a strong farm bill that is our safety net for agriculture. Everybody believes that.

Now, when we look at where we get our fuels today, they come from hydrocarbons or oil, which is fine, that is brand new money in the country that drills an oil well. We don't have that necessary product. So we use another brand new source of money and that is called the sun.

We have it solar paneled from the east coast to the west coast and it is called photosynthesis. We convert that photosynthesis to energy. And like I said before, we are only short of really two things. That is energy and protein. Now in doing this, the United States suddenly realizes that the sun is the safety net for the United States of America.

So if A equals B equals C, the farm bill is a safety net for agriculture, but agriculture is the safety net for the United States of America. Do you realize the farm bill is the safety net for the United States of America, not just the farmers? That is where we are going with the fuels. And we will be able to supply that. Our research is turning into a lot of production increases. We need to have usage for that as we do it, and this is for the United States of America and your safety net that this committee has put forth, and I give you all the credit in the world of doing that. That is fantastic and I think that you don't realize the power you have in the United States of America in this committee to what will happen to the United States of America. And we will produce the crops to do it.

Mr. EVERETT. Anyone else?

Mr. STALLMAN. Mr. Chairman, this will be just a brief comment but representing the diversity of American agriculture that exists in this country, I have no doubt that American producers, if the demand and price is there, will provide whatever product is necessary to supply that demand. There has been a lot of handwringing about where is all this acreage going to come from? It will come from other commodities. If it needs to come to corn some of it will come out of CRP perhaps, but it will be market determined as opposed to somebody dictating that those acres should come out. So I am confident we will be able to do the job that is necessary.

Mr. BUIS. Mr. Chairman, I grew up in a farm. I have farmed for 20 years before coming here and I have been hearing two sort of phrases repeatedly in my lifetime. One is we are going to run out of food. We have to produce more, we got to produce more, we got to produce more, and ironically at a time when we are now seeing some hope of getting a decent profitable price from the marketplace because of producing fuel, many are saying whoa, whoa, we can't go down that road. But the fact of the matter we have to get a profit somewhere, either get it from the marketplace or you get it from the Government and the more we encourage the fuels to farm the better.

The second method we are always one trade agreement away from prosperity and neither one of those have much validity.

Mr. HELMS. Mr. Chairman, those of us in the cotton industry obviously are very supportive of all alternative energy sources and policies, but we are fearful of some unintended consequences on the value of our cotton seed and our cotton seed meal.

And we would just ask that this be watched and monitored and possibly we may need some type of mitigating vehicle because we do fear that we will see a price depression.

Mr. SCHULER. Mr. Chairman, I believe that as long as we producers can remain profitable, we will continue to supply abundant food for the American people. We are working with several groups and industries on a industry that is in its infancy and that is the development of a cellulosic ethanol production industry in this country, and I think that all crops can at some point participate in that, and that is utilizing a resource that really isn't being used for any other purpose at this time.

Also there may be opportunity to use some of our CRP acres in production of cellulose for ethanol production while still maintaining the environmental and wildlife benefits that go along with CRP.

Mr. EVERETT. Well, thank you very much, and now I turn the questioning over to a Member of Congress who has done an awful lot of work in the biofuels, and that is our ranking member, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman, and it is actually the State of Minnesota, leadership, people like Mr. Tumbleson that have really shown the way on this and I think Minnesota, by doing what they have done, is showing what can happen when the Government puts the focus on working with private industry.

We have had a mandate on ethanol, we have had a mandate on biodiesel now, we have forced the electric companies to buy wind energy and other renewables and it works. And I think the Federal Government ought to look at what we did in Minnesota, and that would help propel this industry even faster than it is.

Mr. Tumbleson, I am sorry, we even had water wars in Minnesota. I had to go try and resolve a dispute this morning.

But when I was down in Iowa, I guess maybe this is just Iowa, or I am not sure, but we had corn growers testifying that they want a new program, revenue program. Is that a localized deal, or what is going on with that?

Mr. TUMBLESON. Well, the national corn growers is looking at options and we have put the BRP and CPP together to go as a revenue source for protection.

There is an area that if you look into western Iowa, maybe not quite, but west of there it is very, very dry this year. And our program, the 2002 farm bill does not really cover that area like—there is a gap there on that, and if we had a revenue protection under that scenario they would be covered better and there is a gap there and whether you think of it as disaster or not, every year we come up with a disaster program and it has been for as long as I can remember I think some places had a disaster.

This program that we are talking about in national would cover that type program. Now there is many views across the United States on how that should be done, the National Corn Growers is putting one forth and it is a work in progress and we are taking it to other commodities to look at and to see what can be put together under that scenario. And it is really not necessarily just for the farmer. It is for the sake of the United States of America because people, when you can keep them on the farm, find some way to do that and protect them, they can turn around and invest.

Now on this revenue protection my wife and I were fortunate enough to go to Australia. They do not have that revenue protection and sitting in the farmer's house with them they had a—this one farmer had 300,000 in a savings account, 2 percent interest.

And I said well, why don't you invest that in an ethanol plant, make something here that causes jobs for your local community and turns up value and money turns again and he said I can't. And I said why not. He said because if I don't get a crop next year I have to use that. Well, this United States of America where I was so proud to be from, I said, our Congress has allowed us to increase the investments in rural America because they put in a safety net. Now that is a safety net they are talking about so that we can invest. We can turn around and turn jobs. We had the NAFTA agreement. What happened in a few years? We have a jobs bill.

Well, this, what this committee does, is a jobs bill in a sense that you are doing it. And that is where we want to go on the safety net so the money then can be used to invest. Once you invest and, you said it, Minnesota has been a prime example of how we invest that money and the State of Minnesota returned a tremendous amount and that is what they are looking at.

Mr. PETERSON. Well, that kind of ties into, you guys, I haven't had a chance to read all your testimony but what I have been hearing I think the corn growers generally want to keep what they have got. That is your official position, no? You are in flux?

Mr. TUMBLESON. National Corn Growers has got a policy forward on revenue coverage which we really like, but it is going to take time to get it there.

Mr. PETERSON. So have you looked at the permanent disaster bill that I put together?

Mr. TUMBLESON. Personally I have looked at it because you are from the State of Minnesota.

Mr. PETERSON. And I want everybody to comment on this. Your organization has not taken a position on this?

Mr. TUMBLESON. No.

Mr. PETERSON. The rest of you, what do you think about having a bill that looks similar to what we have now and adding a permanent disaster where the Secretary would have the authority to make disaster payments without having to come to Congress and making that part of the farm bill?

Mr. SCHULER. Well, no one would appreciate more than the Wheat Growers not having to come back here every year, every other year, asking for ad hoc disaster assistance for our producers. So certainly, if there was some mechanism either through improved crop insurance or a disaster mechanism that would provide for these losses when they occur, it would be much appreciated.

One concern is that the declining APH issue that producers experience when they have had successive years of drought, that would have to be addressed in a permanent disaster program. Also, that relied on APH in determining what the coverage level would be.

If there were some mechanism to address that, whether it is long-term indexing or something else that addresses the declining APH, it would probably be an effective program.

Mr. COMBS. Congressman Peterson, we support the concept that in rice we spend several hundreds to thousands of dollars an acre to be sure that the land is formed and that we can irrigate every acre so we tend not to have crop failures due to production losses. Where we get in trouble is on the price side. So we would like to work with you on that. It doesn't take away from the safety net that is there.

Mr. HELMS. Congressman Peterson, we in cotton support the concept also. We certainly would like to be able to take a lot closer look and see how, also see how this would fit in from the budgetary standpoint and so forth, but I think conceptionally it sounds good to us.

Mr. BUIS. Mr. Peterson, we wholeheartedly support the concept, and I think it only makes common sense both in terms of getting assistance out in a timely manner but that we don't have to recreate the wheel every time we are lucky enough to get a disaster package passed by Congress. And that is not an easy task. I mean if you think back over the last few years, some of the struggles we faced, we wouldn't have got a disaster program probably in 2004 except for four hurricanes hitting a key battleground State right before the presidential election.

Well, if you have a disaster when the political will is not strong enough, it is still a disaster to that farmer and we can't afford to wait for the political winds to be strong enough to pass ad hoc assistance.

Mr. STALLMAN. In Farm Bureau we have kind of gone around the circle on this. We removed our support for standing disaster, thinking that—and this is years ago—thinking that crop insurance was going to fill the void, if you will, and make annual disaster assistance bills unnecessary. And as we all know, that hasn't worked nearly as well as it was anticipated back then. We do have a policy that indicates that the Secretary should have wider discretion in responding to some disasters, but we don't have policy supporting specifically a standing disaster program.

I will tell you, Mr. Peterson, that likely will be an element of discussion as we go forward through this policy debate this year within our organization just because of what has happened in 2005 and 2006.

Mr. PETERSON. Mr. Chairman, I can see my time has expired but if I could just have 30 seconds to——

Mr. EVERETT. Thirty seconds.

Mr. PETERSON. To editorialize. I look forward to working with all of you because what I put forth is not necessarily written in stone and we understand there are things that need to be tweaked and so forth.

But, Mr. Schuler, the reason that I did this is that after being on the subcommittee and dealing with crop insurance all these years, I am convinced that we are never going to fix this APH problem in crop insurance.

The only way we are going to fix it is to put a disaster bill together with crop insurance. We would have to repeal the actuarial soundness deal in RMA to fix that problem. And I don't think that is ever going to happen.

So I just think we will spend a lot less money. It will make a lot more sense. People will know where they are at.

And we look forward to working with all of you. Thank you.

Mr. Everett [presiding]. Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman, and it is a privilege to be here with such a distinguished group. Having now participated in previous farm bills and looking forward, like my colleagues, very shortly in 2007, I think it is fair to say that the principles of the 2002 farm bill that carried over from the 1996 farm bill, of certainty of payments, the annual payments are obviously still very popular.

And sometimes we forget how dramatic that policy change was in 1996—away from supply management, away from Uncle Sam owning grain stocks.

But I think it is worth noting, too, that in the 1996 farm bill we struggled so hard with—in addition to the fixed annual payments, in addition to the LDP statements. That was the main focus. And there were, gentlemen, I think you would agree, probably some pretty generally decent weather years in the late 1990's, which produced some substantial stocks. And we have had several bump-ups on the annual payments, and that led to a call in 2002 that we needed to address that potential for all of our productive capacity; and this committee responding perhaps not to every producer, but to most producers across the country, added the countercyclical language.

Now we seem to be in a period of time where we have several fiscal years in the payments, countercyclical payments do you no good if you have nothing to sell, as you quite obviously have addressed. And that brings us, I guess, to this point.

Now the committee has one tradition. That is, we try very hard to do what America production agriculture wants to do. So the question, I guess, that I start off with, No. 1: Is there any disagreement with the concept that as we put together, or we move forward on whatever kind of a farm bill you have, maintaining the flexibility and maintaining that certainty of payment in the annual payment, we all agree with that? Fair assessment? No disagreements?

Mr. Peterson brings up a fascinating concept about how we direct and address the disaster, and I have been working on a disaster bill since May to address both 2005–06, the wildfires, the floods in California, and the loss of major crops up and down the Plains, and I come up with an incredible number of about $3 billion that would be necessary, the kind of money that is just simply not available until we finish up the appropriations process and bring that whole $2.8 trillion budget together, probably in late November and early December; and I know we will all work diligently.

I guess my question to the panel, my first question, would be in the spirit of permanent disaster; and I realize we are going to have a vote shortly to implement the kind of program that Mr. Peterson is talking about. It would take many billions of dollars. If it was 3 billions of dollars to cover the last year's dollars, as I would estimate, then it is not unreasonable that your permanent fundings would have to be in the $3, $4, maybe $5 billion range.

I guess my question is—and touch it if you dare, guys—we spend about $4 or $5 billion maintaining the present crop insurance regime, RMA, the subsidies, all of those things. Would that money be better spent, as Mr. Peterson thinks, perhaps in a permanent disaster program and step Uncle Sam back away from the subsidies?

Be brave, guys.

Mr. BUIS. The devil hates a coward.

I would suggest another alternative to look at for the funding of a permanent disaster program. The genesis for the direct payments that began in the 1996 farm bill occurred because a couple of very big States had crop failures, and we are going to have to repay advanced deficiency payments under the old program. That is the genesis of the direct payment. And we all have heard, and we have heard here again this morning, that the countercyclical economic assistance and the loan rates, the LDPs, don't benefit someone who loses a crop and we would need to increase direct payment. We might as well call it what it is.

The direct payment began in Federal farm policy to address production shortfall, and we might as well utilize that to address it in the future. Whether you call it a direct payment, it is really not based on economics. It is based on protecting that first unit of production.

Mr. LUCAS. But under the doctrine, under the 1996 and 2002 farm bill, if you were going to have maximum flexibility, the resources had to be delivered, it seemed at the time, in the form of a direct payment to be able to allow producers to use those dollars as they saw fit.

Mr. BUIS. I don't see how that gets in the way of flexibility. In fact, I think it provides certainty.

As we heard from the Wheat Growers, as you get in a cycle where you have repeatedly bad production times, you need some certainty. The APH program doesn't work; a permanent disaster program, I think, would work. I don't know if it takes $5 billion, but we certainly could work on tightening that down.

But what happens in disaster programs, because they are ad hoc and it takes so many votes to get one passed, it takes a majority, a lot of things get thrown in there, including the kitchen sink. That is how we get the bad media that the guy's cows who saw the space shuttle fall out of the sky got the huge payment that we read about in all the big papers. That gives us all a black eye.

I think we could create a program based on certainty. USDA wouldn't have to reinvent the wheel, and we wouldn't have all of that stuff thrown in annually.

Mr. STALLMAN. Well, first, I would have to say that we support maintaining the direct payments and the flexibility that you referenced initially. We are not ready, from a policy standpoint, to shift all of the funds from crop insurance over to disaster.

I will tell you, though, we have strong support, in principle, for crop insurance, in sort of the philosophical elements of that, including investigating things like revenue insurance that corn growers are doing.

I will also tell you, we have 64 policy positions about changes that need to be put in place in the crop insurance program to make it work. So that does create some dynamic there of believing in crop insurance, but thinking we need to make it better.

I seem to remember a number that, on average, disaster payments amounted to about $2.5 billion a year over a long period of time. I don't think that applies in 2005 and 2006. So obviously the question is, where do we get the money? I can't say we want to take it from there at this point. But as I responded, I think our members are going to be looking at disaster assistance in the context of what is happening in 2005 and 2006.

Mr. TUMBLESON. The National Corn Growers, that is what we are looking at in trying to structure and put together a revenue assurance, and that does get covered under that program. We wouldn't have the countercyclical anymore as it is today, but we would have that in the revenue assurance in some form. And that is where that maybe would tie in to what Congressman Peterson was talking about, but that is our intent.

Mr. SCHULER. The Wheat Growers strongly support keeping the direct payment because it gives us the flexibility, it gives us certainty from one year to the next.

Also, one important component of the crop insurance system that currently exists is the optional unit structure. Many, many of our wheat growers utilize that to give themselves some risk management, while still participating themselves in covering that risk.

We don't believe that any Government program should guarantee profit to producers, only give them the opportunity to be profitable. So our belief is that producers should still participate at some level in managing that risk.

So as we move forward, we would like to see improvements in crop insurance as well as developing that mechanism, whether it is permanent disaster or some type of farm savings account that producers can put away money on their own, as well as with some Government assistance. To make some incentive for producers to do that, I think would be very invaluable.

Mr. LUCAS. Thank you, Mr. Chairman.

Mr. EVERETT. Mr. Holden.

Mr. HOLDEN. The majority of the panel has advocated extending the current farm bill, so I assume we have struck a pretty good balance between conservation and the commodity panel. As the ranking member on the committee that Mr. Lucas chairs on Conservation, Credit, Rural Development and Research, any recommendations on the conservation title? Anything we should do different? How is it working?

Mr. SCHULER. The conservation title is working well. The one shortfall, of course, is the funding especially for the CSP program. We think that is a very valuable program, giving incentives for conservation practices on working lands; and if we could fund that, that program completely, so that all producers could participate, that would be very beneficial.

Mr. COMBS. We participated, two or three, in the CSP program, and we would like to see it on a national basis and see the rules consistently applied in different parts of the country.

Mr. TUMBLESON. I think the farmers in the United States, our conservation system itself, if you go into the country and see the farmers are already doing those things, if we have a market for our products, we will do the conservation because that is our future generation's land; that they are going to be going out there, but to remember the research, research, research. There are going to be things raised on the land that you haven't even dreamt of today, and it is not very far down the future.

So don't tie the farmers, don't tie the United States up in some form that we cannot compete.

Mr. HOLDEN. If you know any appropriators, keep reminding them about the research.

Mr. HELMS. We, in cotton, very much support the conservation program. We think that is very important.

We have also run into problems with some of the administration, some of the programs, in some of the availability to all of our producers; but we also want to continue to state that while we strongly support conservation, we don't ever want to see it as a substitute or replacement for any commodity.

Mr. BUIS. We fully support the conservation security program and the provisions you put in the 2002 farm bill. We do have concerns on how CSP was not only funded, but also how it was implemented. We want to see it be a national program, available to all farmers, and not specific watersheds, and fully funded.

Mr. STALLMAN. Just quickly, funding for the Conservation Security Program and a broader application of the program, probably funding in the equip area, too, with some attention paid to how those funds are allocated.

Mr. EVERETT. The committee will be in recess. We have about 4 minutes left to get over to the floor and vote and then we will reconvene as soon as we get back.

[Recess.]

Mr. LUCAS [presiding]. The panel will please be seated.

Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman. I would like to thank the panelists for being here, for indulging us in this business we do, called "voting." I would just like to make a couple of comments.

Number 1, I think somebody mentioned the CSP has been underfunded and really has been a problem because you often see a divisive effect in rural America where some guy across the road gets CSP and some guy who does almost the same thing as a neighbor doesn't; and it has caused a problem—so something that has been duly noted, and it is difficult.

I would like to thank Mr. Tumbleson for his testimony, and I have really been a proponent of some type of revenue insurance as part of the safety net because, as you know, with base acres and some of the complexities that we have, it is a little bit limiting in terms of what a farmer feels flexible in terms of planning and doing. And so we think that is certainly a point well taken.

I guess the question I have for the panel, just sort of a broad question, we have heard several of you say, well, we really think we ought to extend the current farm bill until the go-around is completed. And the question I would have is, do you really think WTO is necessary? Because it seems very tenuous. It seems like it is very difficult to get movement.

We could theoretically have a series of bilateral trade agreements like we have with Chile and Argentina. And I am certainly not negative towards trade, as some people are; I think trade is very good. But on the other hand, we are starting to see some coalitions develop within WTO that are very difficult to work with—Brazil, obviously. A group of so-called "underdeveloped countries" have became difficult to work with.

And so I guess my question to you is, what do you think? Do we really need to make the WTO work and then for that reason, fail to implement a new farm bill for a period of time while we wait, because we may wait a long time before that Doha Round is completed.

Go ahead.

Mr. STALLMAN. Well, first, we believe very strongly in WTO in being the only international, rules-based trade police that exists.

We support the bilaterals when they are positive for U.S. agriculture. But particularly for a lot of markets that show great future promise for American agriculture, the only way we are going to get those tariff reductions and those markets open is probably through a WTO round negotiation.

That process is slow. It is agonizing for a Texan. You just want to pull your hair out, which I have done. It seems like it is never going to end. But the reality is, in Uruguay, there it took a number of years and there was a hiatus of 3 years, which it looks like we may be entering one of those kinds of periods in this negotiation.

These are more difficult because of the greater involvement of developing countries, lesser-developed countries, that was not there during the Uruguay Round. But the reality is, a lot of those countries are where we have some great market opportunity, so it is necessary to go through that process.

Our position is that it is not that we don't want to have—I guess we are dealing with terminology; "new" and "extension" mean different things to different people. What we are saying is, until we have the restart of those WTO negotiations, unless we believe we shouldn't engage in them at all—which we don't; we think we should—we need to maintain the basic structure and funding.

And Chairman Gutknecht was right; our first action is going to have to be to achieve as much budget allocation that we can as the foreign bill. But we need to maintain that negotiating leverage, and maintaining that by maintaining the basic structure and support system that we have now, and not just come up with a new program that shifts that so-called AMS support to green box support or something else, because the beginning point for the negotiations of reducing our domestic support will be where we are, whether we restart the negotiation.

Mr. BUIS. I think that is a great question, where do we go and how do we get there; and trade is such a key component. However, I think we are very concerned about the direction we are going in trade, and if you look at what has happened in the last 10 years, the United States has gone from a $27.5 billion annual trade act surplus, agriculture trade surplus, down to $3.5 billion last year. Who knows what it will be at the end of this year? We could be a net importer of all agriculture products and that is sort of a sad indictment, when we have been promised for so long that trade is the answer. I think most farmers understand it probably isn't the answer; it isn't going to solve our economic problems.

It is great to be able to trade the surplus, but I think a greater emphasis needs to be put on increasing domestic consumption. Fuels from the farm, other programs can certainly help make that up, because leveling the playing field on trade with the negotiators is leaving out several factors, such as currency manipulation, such as labor rates and environmental and health standards. We are not going to be a low-cost competitive producer unless those are thrown into the mix, and currently they are not.

Mr. HELMS. We, in cotton, are very dependent on trade. We are exporting our cotton. And the tremendous textile imports that are coming back into the country. But we are singled out and hope we are mentioned for some special trade in WTO.

And we, I think, would say that we would support a good WTO agreement. We certainly don't want to be unfairly treated or see an agreement that would give up too much of our domestic support and not get the market access we need. But with the right agreement, we think that we could support it, and would.

Mr. COMBS. Congressman Osborne, rice exports about 40 to 50 percent of what we grow. We think that WTO is important. We tend to get treated as sensitive commodity, so if we get access to the WTO, it needs to be real access. But we don't see any real reason to unilaterally disarm and give up our programs now in hopes of getting a trade agreement. We would rather have the trade agreement and right the program at the roots.

Mr. SCHULER. Congressman Osborne, wheat growers, much like other commodities, rely heavily upon the export trade for our producers, of about 50 percent of what is grown in the United States being exported. Many of the bilateral and multilateral trade agreements that the U.S. has signed recently have benefited our producers.

But generally, overall, there is still a level of tariffs around the world that are significantly higher than what we have here in the United States. So if those levels could be reduced, I think we could get more market access.

There are some other issues that have been brought up in the WTO that would benefit wheat growers also, that would be disciplines on some of the state trading enterprises that allow them to compete unfairly against our producers. Certainly we hope that a WTO agreement would still allow our Government to provide adequate support to our producers so that they can compete in the world marketplace.

We think that a successful WTO agreement would be beneficial to our producers.

Mr. TUMBLESON. Congressman Osborne, by the way, I really appreciate you on this committee, your thought process.

The National Corn Growers are fortunate; we can produce energy and protein, and that is what we are producing. The secret to this is, we are trading the protein wherever we produce it, whether it is in livestock or everything else. Everything is in trade. Everything is trade, and the National Corn Growers want to join with cotton, wheat, everybody else.

We have to be together in this discussion on trade, and we are going to be with those groups as far as we can go.

Mr. OSBORNE. Thank you.

I yield back, Mr. Chairman. Thank you.

Mr. LUCAS. Thank you.

The Chair now turns to the gentleman from the Dakotas, Mr. Pomeroy.

Mr. POMEROY. I thank the chairman. I have enjoyed very much these hearings on the farm bill. But what strikes me? That the activity we have going in September here in the Agriculture Committee on the farm bill is really not dealing with the task at hand, which is the need for a disaster bill.

It reminds me of a college student that might be contemplating, during finals week, next semester's reading list. We have got something immediately before us, and that is the imperative of getting a disaster bill; and as far as I am concerned, finals week is when we leave in September.

I don't think anybody should draw the slightest bit of comfort from vague words about coming back in a lame duck session to consider doing something about a disaster bill. This is the same crowd that didn't do a disaster bill last year when many parts of the country needed it. So why are we going to think this year, once the election is over, we are going to get the kind of response that we need?

Now, I know we have stood in this room, just last week, and had a strong bipartisan showing of House support for a disaster bill. And what I think we need to have in the committee is discussion in terms of how the response might have come from leadership, as representatives of the majority on this committee met with leadership to discuss the need for a disaster bill.

Mr. Chairman, I note you are sitting in for our full committee chairman. But is there someone—either you or someone else—that can give us any information about how the discussions on a disaster response in September were received by majority leadership?

Mr. LUCAS. I don't know that. The Chair can answer that.

I am sure you are a cosponsor of my disaster bill for 2005 and 2006, and I appreciate that cosponsorship. But to the direct answer to your question, I cannot, Mr. Pomeroy.

Mr. POMEROY. I won't put any other Member on the spot with asking them directly now, but I will say this.

In any additional meeting of this committee this month, I will be urging the Members to force all of the discussion on the farm bill. Let us roll up our sleeves and talk about how we get a disaster vote before we leave at the end of next week.

It is like the barn is burning down; we are trying to figure out what color to paint the house.

And so I mean no disrespect for this panel at all, but I am upset with this committee at the moment, because I think we are not putting first things first.

Having said that, let us get on with the questions before the committee. And that is the need for a disaster bill relating to the 2006 crop reduction response.

Mr. Stallman, it is always good to see you. If you would just kick off, I would like to go right down the panel, who thinks that, based on your perspective on all of this, we need a 2006 disaster response?

Mr. STALLMAN. We are supportive of disaster assistance, disaster assistance with—without offsets. We haven't put a number on that for 2006 at this point, because it is too early. There is harvesting that will be under way, and we will have to see what the ultimate end is.

There have been some tough times with respect to disaster across the country, no question about it. So we are supportive of disaster assistance as long as it is emergency and not offset.

Mr. BUIS. Mr. Pomeroy, we fully support disaster assistance. I share the concerns that you outlined on the need and the high priority.

Most people in rural America think that it is a shame that this Congress has not addressed it in the last 2 years. We seem to respond to other crises, and they want to know why it is not as high a priority. I have heard all kinds of suggestions from maybe we ought to give names to droughts, so maybe we get a little bit more attention, much higher visibility.

But the damage is real, the damage is severe; and I would be glad to postpone talking about the farm bill if you want to pass that today.

We have got a great number of cotton producers that are suffering a major disaster this year, and we would support emergency disaster assistance. And we would also hope that 2005 would be part of any disaster assistance.

Mr. SCHULER. We signed on.

Mr. COMBS. We signed on with a lot of other commodities.

Mr. SCHULER. Congressman Pomeroy, we certainly hope that this Congress can find a way to provide disaster assistance for the 2005 and 2006 years. Many of our producers would agree with you wholeheartedly that 2007 is a long way off if you can't pay your bills now.

And also this drought, this disaster goes well beyond the farm gate. Our small communities, our rural economies depend upon a viable agriculture industry to help support the business, to support our schools. We need this support or many of our producers won't be in business in time for a new farm bill.

Mr. TUMBLESON. Yes, Congressman. The National Corn Growers has been on record as supporting disaster assistance, but it would be emergency spending now, with offset, because there are a lot of high expenses in our producers crops here.

But we also realize that we feed a lot of the livestock in that area, give these people a chance, they will be back and they will do a good job for the United States.

Mr. POMEROY. Thank you. I yield back.

Mr. LUCAS. The gentleman yields back his time.

The Chair turns to the gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. I thank you, Mr. Chairman. Gentlemen, I have appreciated most of what you said this morning.

We have heard consistently throughout many of the farm bill hearings that the farm bill is working, and so I will resist the normal temptation to recite chapter and verse. But thank you for reciting basically the same handbook, because that makes it a little easier to go forward at it.

I did have one question, Mr. Buis. You did mention earlier all of the things that were going on, converting farm products into energy, and you are worried that Wall Street is going to sweep in and steal all of the profits. What did you mean by that?

Mr. BUIS. Thank you. I didn't have time to fully explain that. I appreciate the follow-up.

Much of the growth in the development of the manufacturing sector in ethanol, biodiesel, has been farmer-owned, local investors who have risked their capital in order to keep this industry going.

You have to keep in mind this started 30 years ago. We used to call it gasohol. Our experts were probably people that manufactured alcohol out of corn in woodsheds down by the river. We have come a long way and it wouldn't have happened without that investment.

Mr. CONAWAY. The statute of limitations has certainly run on that, by the way.

Mr. BUIS. Well, they did it well and they thought it helped people. But the investment that was put into the industry—and I am talking mostly farmer investment and the growth in the last 5 years—the No. 1 producer, manufacturer of ethanol, is farmer-owned ethanol facilities.

That has been a good thing. It has been profitable. But if you go to one of those communities where they put a plant, where they put $100 million plant in there, you see economic activity that we have never seen before in rural America.

We all talk about how rural America is being bought up, the stores are being boarded up. In those communities, the boards are coming off the storefront. You see the money stay in that local community. It gets reinvested; the profits don't get sucked out to wherever that national corporation headquarters.

And it is a good thing. It builds the tax base, it helps the school, it helps the health care system. And it provides hope and opportunity. That is, the concern is that now that the money interests have suddenly discovered ethanol, that it is this hot new product out there. They will either buy them out, or force them out of the business from driving it up and keeping the producers out of it.

Mr. CONAWAY. OK. I met Monday with a fellow in Dallas who is struggling mightily to finance 600 million gallons a year for ethanol plants, and none of them are going to be located in Dallas. He has gone, obviously, to Wall Street, to New York to get the money for the financing for that. All of those plants will be built in rural America and all of those employees will be there.

So maybe there is a balance between those two, that there won't have to be a robber baron. It will be done at a scope that it needs to to get the mandate that we have got in place and the future needs that are out there if predictions hold true. So I appreciate that.

Thank you very much for your testimony this morning. And I yield back.

Mr. LUCAS. The Chair thanks the gentleman and turns to the gentle lady from the Dakotas.

Ms. HERSETH. Thank you, Mr. Chairman. I appreciate and I want to add a comment or two to questions previously posed and then pose a question to each of our witnesses today. I appreciate your testimony and your responses to questions posed by my colleagues on the subcommittee.

I would point out, in response to Mr. Conaway's comment, in addition to some of these entities that are based out of Dallas, Texas, or Sioux Falls, South Dakota, that are looking at business models where they can get some of that financing out of Wall Street. I don't think anyone has a problem with that.

I think Mr. Buis' point, and the point I would make is, diverse ownership, however, of this industry, I think, is an objective that we like to see, so that we can maybe take this canvas that is not a blank canvas, but one in which we still have options, influencing on behalf of rural America and economic prosperity in rural America; so incentivize business models, whether they be co-ops or whether they be LLCs, where you have farmer investors or other investors from rural America that aren't getting Wall Street money.

And a recent example is in South Dakota, where a current ethanol facility is expanding, had an equity drive that allowed people to invest for $10,000—not $25,000, not $100,000—and they had people waiting at the door. And we were able to raise I think $95 million among individual investors in rural South Dakota who want to be able to be part of a growing industry and keep dollars locally, who are going to help schools and mainstream businesses and other farm businesses.

One other comment I would like to make is to draw everyone's attention to the DOS workshop, regional workshops where a number of stakeholders are coming together to analyze and do calculations on biomass production and what each region can sustain in that biomass production. Because this goes to some of the mess, I think some are starting to perpetuate that biodiesel production is going to lead to shortages in feed for human consumption.

I think that we have got enough visionaries on the Agriculture Committee, and the people that are testifying today, that we can avoid precisely that problem if we are making these substantial investments in research that Mr. Tumbleson mentioned, as well as looking at the profitability from the marketplace that we know is important for farmers and ranchers.

My question to all of you would be that some of my colleagues in the Congress, I have heard as we have prepared for this next rewrite of the farm bill, if it isn't extended another year or two, as some of you suggest, it should be. They are arguing for a drastic reduction in the Federal safety net.

In even some of the listening sessions I think Secretary Johanns held, I felt there was an attempt to lower expectations in light of the budget situation that we are in here in Washington. But some are arguing that farmers are wealthy businessmen who don't need farm programs to mitigate the production and price risk inherent in agriculture.

Now the numbers that I have seen for net farm income don't bear that out. And so I would like to know what your comments are on recent net farm income and the continuing need for a meaningful safety net in light of increased cost of production and a lack of adequate and timely disaster assistance.

So, any comment you would like to share on the safety net that we want to maintain in the next farm bill?

Mr. STALLMAN. Well, for all of the reasons you have heard here today and in other locations, we absolutely do want to maintain a safety net. And the compelling policy reason for that is to reduce variability in income and agriculture, due to the variability that we have because of weather, because our markets and a lot of other factors that aren't—people say it is just another business. It is a business. It has to be a business. But we do face a higher degree of variability in our economic lives as agriculture producers then, say, other industry sectors.

When you look at recent statistics and realize that these are record numbers for—the net farm income numbers for the previous 2 years, compared to the projections for this year by USDA, 2004 net farm income is $82 billion; 2005 net farm income, $72 billion;

projected 2006 net farm income is $56 billion. Significant reduction, a good part of that as a result of increased input expense is primarily energy related. We are almost double our input cost on energy compared to what they have been on an average basis.

So the safety net is there to help take some of that variability out. Without it, the variability in net farm income would be even greater than what it is.

And so that is a compelling reason to continue to maintain the safety net we have that, yes, the first thing we will have to do is to get the best budget allocation that we have for this farm bill.

Mr. BUIS. As I started off my testimony—the No. 1 goal is profitability; and if we do that, and we truly have a countercyclical safety net where we don't give producers money for nothing just because they are farmers, and it is actually based upon the economic conditions that we have or the weather-related production problems that we have, I think that is justifiable.

I have participated in a lot of conferences. I have heard a lot of these groups out there, and by and large, most of the people that are saying "cut the budget" are people that they want the farm programs cut, but they want that money for their purposes and they do not necessarily have a rural constituency. Chasing that pot of gold under the rainbow, and what they see are the commodity programs.

But I think we can do a better job ultimately, when we do write a farm bill, writing one where we don't sort of lead with our chin, and any time the media and other critics can pick up on the fact that somebody is getting huge payments for not planting the crop or not doing something. I think that is wrong. I think that was the Achilles heel of Freedom to Farm. It was based on what we did 20 years ago, not what we are doing today and not the real needs of what in the real safety net that rural America met. Once we do get beyond the extension point, I think we have to take a look at that so that we sort of silence the critics.

In cotton, we have certainly, I think, been able to gain a lot of benefit from the safety net, the countercyclical problem. We are in a very high-risk business; and part of that risk is price risk, it is not all production risk, and we see the strong need to have this price risk safety net.

As I say, it is worked well for us. We have needed it and we have had to use it, and it has been very good to us.

Mr. COMBS. We believe that the safety net, the balance, it works and more money is paid out in lean times. I think we have got the safest and most abundant food supply in the world. And those who want to drastically reduce farm programs need to be careful about what they are asking for; when a lot of that infrastructure gets—if it were to get destroyed because of a misstep in farm policy, then it would certainly be hard to get back.

And with regard to the administration trying to lower expectations, we are thankful that Congress writes the farm bills.

Mr. SCHULER. And respective safety net is critical. I remember this is coming from a representative of a commodity that has not been able to participate in the safety net program of this farm bill, and that is why I say an effective safety net is essential.

The benefit of it, though, for not only the producers, but also the American taxpayers is, as the name implies, the safety net should only provide assistance when it is needed. When prices are high, it should not provide the assistance, but when prices are low, it should kick in and provide that benefit.

Certainly, in a new farm bill, whether or not we extend certain portions of this current bill, there need to be some adjustments made, especially for wheat producers.

Mr. TUMBLESON. That is interesting you should mention the business sense of us as producers out there. When I left home I had $1.80 for my corn. It is pretty interesting to look back over history to see, how many times did I get more than $1.80; and $1.80 is not a very good place to build from.

But when you look at business and farming, we have all had courses in business, and what you do in a business degree is, you look at some consumer and you ask him, What do you want? When you find out what he wants, you go and find a product that you can use for that and you do the research on it.

Agriculture Business 101 is not that. Agriculture Business 101, because of weather—weather is the big factor here. You raise the product; then you go to the consumer and say, What do you want? Then you do the research on it.

So the safety net is in that sense of, what were you able to do, raise the product to do, the research after you find out what they want. Agriculture Business 101 is entirely different than Business 101. And as far as the safety net, the $95 million that Dave Gill's group was able to raise was because of the safety net, or you could not have raised it. Therefore, rural America is benefiting from the safety net. Therefore, the United States—A equals B equals C.

Mr. LUCAS. The gentle lady's time has expired.

We now turn to the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thanks to the panel for being here. I think these listening sessions are very valuable. As I have traveled across the country with the Agriculture Committee, we have heard very much of the same testimony, but I think it is important to continue this dialogue as we move into next year where we will, in fact, sit down and address the 2007 farm bill.

Mr. Helms, I have heard testimony over and over again that the 2002 farm bill, as far as cotton is concerned, has been a good bill that you can make plans off of, and is provided the price safety net; but as I have traveled around recently in my district—and obviously we have had some drought conditions; we had some earlier in the 2002 farm bill that affected cotton farmers. Today, now having almost completed the 2002 farm bill, looking back, if you could go back to the front end, would you have put some of the dollars that were in commodity and conservation and nutrition, would you have maybe put some additional money in that production safety net, and would that, overall, have made the 2002 farm bill possibly a better bill for cotton?

Mr. HELMS. Mr. Neugebauer, I believe, as you mentioned, we obviously have stated over and over we like the bill. I don't know that we would want to have shifted any money within it. I would think that if there had been more money available, we would have certainly been happy to have seen them in the safety net, or in a safety net-type mechanism.

But we will, I think, stand steadfast that we like the mix and the way the program was structured.

Mr. BARROW. Anybody else want to take that question?

Mr. BUIS. Well, in essence, you sort of shifted the funds for us because the drought in 2004 was paid for out of the Conservation Security Program and with some research and rural development programs, which I don't think any of us up here would agree that is the way to go to fund the emergency weather disaster program. I think you still need that piece in there.

We had a good piece for the economic safety net, but we didn't for the production.

Mr. NEUGEBAUER. I think that has been the consensus, that if we look at the next farm bill, we have to look at the production safety net in order to make good farm policy.

Mr. Stallman, I know that you in your organization have supported a 1-year extension of the farm bill, and one of the things that concerns me about that is that, one, we know that the current farm bill has been challenged, and I think we reasonably believe it could be further challenged to the existing format of that. And second, if I am a farmer in west Texas, and there is a piece of land coming up next to me, or I have an opportunity to lease another farm or two after this year, how much propensity do I have to do that when I don't know what the rules are going to be for a longer period of time than just a year?

And so I guess the question is, I still subscribe that if we can give you a 6-year business model of what agriculture policy is going to be in this country for the next 6 years, like we did with the 2002 farm bill, we are still better off than extending it. Because the extension really doesn't provide any certainty; and what we do know currently is, the 2002 farm bill is under challenge.

Mr. STALLMAN. Well, first, Mr. Neugebauer, let me be clear about our position, as I think it has been misrepresented sometimes here in Washington, DC Our position is, at least a 1-year extension of the farm bill. We are perfectly willing to move forward with a longer-lived farm bill in this renewal; we certainly believe that longer is better from a planning standpoint, as you indicated, for farmers. I am a farmer; I would like to be able to plan further.

So what we are saying is, at least 1 year. The reason we came up with at least the 1-year, our position is tied so closely with what happens to the WTO negotiations; and at that time we had the position, we weren't sure about a time line as to whether it would be shorter or longer. Right now, it looks like perhaps it will be longer before the WTO negotiations will restart, and therefore, we believe we shouldn't have any major changes until we get back into that negotiation and see what the ultimate outcome will be.

And if I could, I will address your challenges issue with respect to the WTO, the cotton case. There are people that are viewing that as a loss and, oh, my gosh, the rest of our commodity programs are at risk.

Well, anybody can file a case any time they want to. That is the first point to make. But the reality is that each case is separate, and the factors that have to be considered in the other commodities are—and I can't remember them all—basically the type and aggregate level, or subsidization of a type, of given crop.

The subsidization is a percentage of the value of production, the trends in subsidy production—portions of crops exported, world market shares, price effects of subsidies on the world markets. All of those are part of the things that go into a WTO case, and that is very different for every commodity.

Cotton had a certain set of circumstances; rice and corn, that may be vulnerable, have another set of circumstances, but we don't believe they are as vulnerable as the situation is with the cotton case.

Mr. BARROW. I think, Mr. Combs, you wanted to follow up on that.

Mr. COMBS. Yes. We would respectfully disagree that writing a radically different farm bill to meet what you think the WTO is going to have, and having to rewrite it if we get a WTO agreement, we think that would cause more consternation in the countryside than extending the current farm bill, then dealing with the trade year if they are established. It is working for the rice industry.

And with regard to the chance of litigation of, let us defend our programs. Let us get an administration that wants to defend our programs and get some good lawyers and go to the WTO and maybe win a case in rice or corn.

Mr. NEUGEBAUER. What I would be talking about is writing a bill that we felt like was compliant. We were willing to stand by because we have one right now that we are willing to stand by. But we lost the case there.

So certainly I, for one, am not to believe that we own foreign policy to appease the European Union and some of these other people. I think we ought to write foreign policy in America for American farmers and producers. So as I sit down at the table to be a part of it, that is who I am going to be looking after, because that is who I work for.

But with all things being equal, I think if we can give you a 6-year window. I still believe that is a better window for you than a 1-year window, where you don't know that—in fact, that at the end of that year that things can—that we would have to be materially changed, and if you are going out and buying $150,000 harvesters and tractors and leasing and buying land, it is hard, it looks like to me, coming out of the private sector for 25 years, making those kinds of investments when I don't know what the monthly is going to be past a 1-year period of time.

So that has been my perspective on that. I am not trying to appease anybody in Europe or anywhere else. I am trying to make good farm policy for American farmers.

Mr. COMBS. We would point out, the 2002 bill was enacted—we believed within our heart of hearts it was WTO-compliant. And we lost just one part of one case, on cotton; and we don't think that was a reason to surrender. And if we need a 6-year bill, then let us do a 6-year extension.

Mr. LUCAS. The Chair turns to the gentleman from North Carolina.

Mr. ETHERIDGE. Thank you for being here today, and for the input that you have given thus far. And those who have testified across the country, as we have heard the hearings.

Mr. Helms, thank you. Let me ask the first question to you because cotton used to be a big product in North Carolina, and it has again become a substantial commodity in our State. With the technology and the eradication of the boll weevil, we are growing a lot more cotton than we ever grown it for a long time.

And additionally, textiles remain an important industry in our State of North Carolina, even though we have gone through some tough times and lost an awful lot of jobs in recent years.

My question is that the loss of step 2 programs was a blow, I think, to the entire industry as has just been alluded to in talking to you, and I noticed in your testimony that you mentioned the hope of an alternative to step 2 to be developed. Given the *Reseo* case ruling, do you really think a WTO-compliant alternative to step 2 is possible, and if so, do you have some ideas you would like to share with us?

Do you think it will work? Because I think that is what I would certainly like to hear, and I think the members of this committee who are going to be working on this would certainly be interested.

Mr. HELMS. Mr. Etheridge, we are working very closely with our textile members, our manufacturers' members, and their organizations. We, at this point, are not willing to, I think, say that we have been able to come up with something that would meet the criteria of replacing step 2 and be WTO-compliant.

We are hoping to get considerable input in the near future from the textile sector, and we certainly will be back with some ideas if they are forthcoming. We would like for them to give us more input.

Mr. ETHERIDGE. We will stay tuned then. Thank you, sir.

Mr. Stallman, you cited the explosive demand for farm commodities to produce biofuels and noted the new investment in operating capital and equipment that some producers will require to alter their operations for this market.

You also stated that it is not unreasonable to ask for some producer protection while the investment is being made. Now what protections do you suggest? What protections do you suggest, and will this be additional protections beyond what we are now doing?

And I guess my final point to that question is we all get caught up in is, will it be compatible with our WTO obligations?

Mr. STALLMAN. The purpose of that analysis that we gave about what it would take for producers in terms of capital investment to fundamentally change rotation, increase corn acreage and that type of thing was to make the point—and it is similar to the point that Mr. Neugebauer was making about certainty and planning. It wasn't a new kind of support or anything. It was about having that safety net and the support programs in place so they could be confident that, moving forward to make those adjustments in the rotations, that safety net would be there.

So that was the intent of it. It wasn't any additional type of programs.

Mr. ETHERIDGE. Let me make sure I understand it. So what you are saying is, you want it so that you can have that long-term view, and the commitments could be made by the agriculture community to include the farmers' eligibility equipment, as well as financial institutions that are going to be required to be engaged?

Mr. STALLMAN. Yes, that is accurate.

Mr. ETHERIDGE. Mr. Buis, in many areas of the country—and all of you have alluded to this to some extent—drought and disasters has been a major issue. The truth is, almost every year we find that somewhere, because of the nature of farming, whether it be from hurricanes, whether it be from drought, whether it be tornadoes.

In your testimony, you mentioned your work with other farm organizations to obtain action on disaster relief before the November elections and the creation of a permanent program. You alluded to that, talked about it earlier, and this may be a pretty good stretch, but I am going to ask the question anyway.

How much relief is needed? This year, would you say we are experiencing disaster levels that we faced in the 2003 cycle of agriculture, as you see it?

Mr. BUIS. Yes. I think the latest CBO number of the score of the—probably the best bill that has been introduced on the Senate side is $6.9 billion. And obviously we are not done with this year's harvest, but that is no reason to wait. I mean, you can write a bill to sums, as necessary; CBO is going to score it based on what they think that damage is going to be.

Again, I think the real concern is the delay in getting this out there. And that is why we need the permanent disaster program, remove that uncertainty. And I don't think people are asking for a handout here. They are asking for a helping hand, Mr. Chairman, and I would hope they get it.

Mr. ETHERIDGE. Thank you.

Mr. Chairman, I would only add to that, I saw some numbers recently that family income, overall family income, has dropped over the last several years, over $1,000 per family; and I would say in rural America, it is substantially more than that with both farmers involved.

Thank you. I yield back.

Mr. LUCAS. The Chair appreciates the gentleman's observations, and now turns to the gentleman from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you. When we passed the last farm bill, I served on both the Budget Committee and this committee. We were able to get a pretty good budget allocation from the Budget Committee for this farm bill.

In spite of that, because of House rules and perhaps, maybe, Senate rules as well, we can't really take credit for the fact that we have spent about $17 billion less than we were authorized to spend under the farm bill.

Mr. Stallman, if you look at what we have to do to pass the farm bill, first of all, we have got to get the allocation from the Budget Committee; but second, something we haven't talked much about is changing budget rules so we are allowed some flexibility within the amount of money that the Agriculture Committee has allocated, to make adjustments as we go forward or at least get credits for those years in which we undershoot whatever our budget allocation is.

Has the Farm Bureau looked at that particular part of the problem? And I guess what I am really asking is, would you consider looking at it and helping us on it?

Mr. STALLMAN. Well, first, the budget rules that the Congress uses and that you guys set up, I don't know that we are going to play a huge role in that. What we do recognize, and as you have already alluded to, is the fact that the program is working as intended.

It was designed as a countercyclical problem. Prices are high, payments are less, the hit to the Federal Treasury is less; and the reverse is true also. Based on what Congress is willing to allocate in 2002 to this farm bill, we have a significantly underspent, if you will, what those projections are. But I think that indicates the necessity of having this kind of program in place where you use it when you need it, but have the allocations there to help support times when prices are low.

Mr. GUTKNECHT. Well, I think that is the first step in this whole process. And I think we need to think about it, and we need some other people who are smarter than we are to think about how we might be able to come up with new language relative to the budget in terms of how this is all allocated.

Second, I want to turn to someone who is not only my constituent but also a trusted adviser. Gerald Tumbleson is someone who I respect and admire and probably one of the deepest thinkers. He probably does more thinking on his tractor than almost anybody I know, and frequently when he does he gives us a call with a great thought.

I want to share, if he hasn't already, with members and others who are here something he said, and I quote him all the time. As we look over the horizon in terms of U.S. farm policy and U.S. agriculture's ability to be involved in the world market, one of the things that he says—and I think it is so important and this committee needs to be reminded of—is there is really only two things the world needs more of. One is energy and the other is protein. And if you think about it, we here in the United States are in a unique position to provide more of both.

And the other thing Gerald was talking to me a lot about is we need to at least start thinking outside of the box in terms of the way we handle all of these programs, and he mentioned it to us before, and I just want to give him some time to perhaps develop some of these thoughts relative to whole notion of some kind of revenue assurance or revenue insurance, however we want to describe the term, program—and Gerald do you want to talk a little more? I just want to give you the rest of my time to talk about anything else you figured out on your tractor.

Mr. TUMBLESON. Thank you, Congressman. It is interesting that you and the committee don't get the opportunity that we get, and that is a tractor cab with nobody yelling in your ear. You turn the radio off.

So it does cause us to sit back and do a lot of deeper thinking on where we are going and we in the National Corn Growers look to this crop revenue and we have talked about this. The Congressman and I have talked many times on revenue assurance and where it goes and where it leads us. And it would help on the disaster. It would help on all those ends that we are talking about. But the fortunate part is where I live—and we have a lot of pigs and we have a lot of corn and we have a lot of soybeans, and we use the waste from the pig to fertilize our corn crop. The United States of America has run into a problem. And we have a lot of people who think that is toxic waste. That is not toxic waste. That is one of the greatest things ever invented out there if you ever go where the buffalo used to sleep at night, if you know anything about cows you know where they stand up in the morning that is where the best grass is. So that it not toxic waste. That is a fantastic thing that we are using so we don't have to import the potash, the phosphorous, and the nitrogen and you know where they come from.

So in the same sense, we are really tied to every commodity and every product of agriculture, whether it is meat or whether it is cotton, or whatever it is, this whole concept has to come together.

Now in corn we do produce protein and energy. We are the fortunate ones to do that. Right now we have been allowed to have research money for mapping the corn plant, going that direction, we hope to get every plant that is raised in the United States mapped. Then we will move ahead in this world and that is called genomics. That is where we are headed.

This Agriculture Committee, and I stressed it before, it is absolutely the critical part of the United States of America and—well, you probably realize it but I don't think the public realizes your total value. They look at the Ways and Means, they look at the Appropriations Committee, they look at all those. No, it is right here. This is where the United States of America will become very important and economically will survive.

Now, cutting budgets and things, I have always said one thing when I am riding on my tractor and I told my wife that we are not selling this tractor in December to buy Christmas presents that are the wrong reason for the season and come broke and by the end of February and I have nothing to plant with in March.

That is where we look at the farm bill. That is where we look at the value of agriculture and everybody sitting at this table. And you and I are going to chat again as time goes on, and thank you.

Mr. GUTKNECT. Thank you.

The CHAIRMAN [presiding]. I thank the gentleman. The gentleman from Colorado, Mr. Salazar, is recognized for 5 minutes.

Mr. SALAZAR. Thank you, Mr. Chairman. Let me briefly thank the panelists for their commitment to agriculture. And Mr. Tumbleson, I sure enjoy spending time on my John Deere tractor every weekend. I appreciate that. It is the greatest place to actually think about the problems here in America.

But let me just ask all of you, since you all represent some different sectors. Would you support actually a funding for the specialty crop farmers in the 2007 farm bill? Whether it be research dollars or—I would just like comment from each one of you.

Mr. STALLMAN. What was included in my written statement was a reference to the WTO compliance issue as results, as a result of the cotton case ruling whereby our direct payments are no longer considered to be green box because there is a fruit and vegetable planting restriction on there. So we believe very strongly that needs to be fixed.

We believe just as strongly that there is a cost to the fruit and vegetable industry if that happens because it takes very few additional acres that maybe were prevented from coming into production based on that restriction to seriously hurt markets for some fruit and vegetable producers. And so what we are saying is we need to fix that. But in return the fruit and vegetable industry needs to have a WTO compliant compensation package, if you will, to help offset some of the risks inherent in us doing that, some of the market risks that could occur.

We don't have a real good idea of exactly what components that should be. We are encouraging our State farm yields of fruit and vegetable production to come together and determine what that package is. There is a consensus that there really isn't a desire for any type of commodity program per se, but research, market assistance, things related to conservation that could apply to fruit and vegetable production specifically. Those sorts of things have been mentioned, and I am sure there are others. But yes, we will be supporting in return for removing that restriction to make us WTO compliant a package to assist those producers.

Mr. SALAZAR. Thank you. Tom.

Mr. BUIS. Congressman, short answer, yes, I think all farmers need some help of some type. It is how we structure it and how we move forward.

It hadn't been that many years ago that fruit and vegetable producers didn't even receive anything in disaster programs. And that in itself is a disaster. I think we need to give careful thought and consideration. The one thing that I hear all the time, and depends on who it is and both Bob and I represent all commodities, not just a few, but the other guy is getting more than I am getting. And maybe one of the best documents that the committee could put together is take a look at all aspects, not just how much is going out in the direct payment or how much is going out in the loan program but how much each commodity or each area gets in research, in promotion programs, and other types of Federal assistance even outside the committee's purview so we can really start to look at what is equitable.

Mr. HELMS. Mr. Salazar, as you may be aware, a lot of our cotton producers in some parts of the country, particularly California, are also specialty crop producers but we have some awareness of the specialty crop needs. We would hope that we can work closely with specialty crop groups.

We realize that they most likely are going to be included in the next farm bill and think that we should work together and particularly during the budget process. We need to be closely allied at that point, and then we will have some things in to try to work with to help them.

Mr. COMBS. Yes, Congressman Salazar, we would like to see work with the fruit and vegetable, especially crop producers, to figure out a way that they can be in the program and we can still maintain the safety net that we enjoy.

Mr. SCHULER. Congressman Salazar, we also are concerned about the WTO concerns over green box, direct payments as far as the fruit and vegetable exclusion.

Certainly, I am sure that the fruit and vegetable people will speak for themselves on what type of program they would like to see.

But we do believe also that farm programs should provide equitable support between all commodities, and if there is some program that is developed for them it should be equitable and whatever meets their needs.

Mr. TUMBLESON. Yes, Congressman, we are evaluating that with the vegetables but we are not evaluating research. Research, research, research, and that is the answer for the United States of America. There is a NIFA program out here, National Institute for Food and Agriculture, that is one area that once we convince the people of the United States the value of it, the value for plant based society, wow. We are going to go.

Mr. SALAZAR. I want to thank all of you for your participation. And I yield back, Mr. Chairman.

Mr. LUCAS [presiding]. With that, it is your turn, the gentleman from Kansas.

Mr. MORAN. Mr. Chairman, thank you very much. I appreciate the panel's testimony and the opportunity to visit with you today.

Far be it from me to make suggestions to all of you. The purpose of your participation here today is to make suggestions to us. But I do have some observations, particularly as it relates to disaster assistance. Again I think that is our highest priority at this point in time.

And I would encourage you all—I heard every one of you testify on behalf of your organizations that you are supportive of disaster assistance.

But I certainly encourage you to have your members contact their Members of Congress, your members to contact the administration, to talk to the Department of Agriculture. Make certain that this story is told. Don't just expect Congress on its own volition to be able to get the political will to get this done. We need your input, help, assistance, your pushing, shoving, your demands, that production agriculture's problems due to weather related losses are known here and that there is a appropriate response. And clearly if we can do something—it is unfortunate to me because I have discovered in numerous battles in regard to disaster assistance it is the election, elections that drive this process. I wish it was different. I wish it was much more the case that telling the difficult circumstances that rural America, our agriculture producers face was sufficient to win the battle. That is necessary. Those facts have to be there. But ultimately there is a political consideration that goes into the process here in Washington, and I urge you to use this opportunity in the next 7 weeks to see that your story is told and that the demands are made in a political sense as well as a policy sense for assistance from Congress and the administration with regard to disaster.

I am interested in the extension. We have gotten to the point in which we have talked more about the extension of the farm bill often more than we do about the farm bill itself. And I am not yet willing to concede that we are in the position that an extension is the best outcome. I think by reaching the conclusion that extension is where we should go from now we miss an opportunity that we might have to make circumstances better for farmers.

Clearly things have changed. If a farm bill is designed to provide a safety net for farmers, a lot has changed since 2002, mostly related to input costs. Fuel, fertilizer, natural gas costs have increased dramatically. And I hope that we can take into account those increased costs as we develop farm policy in this country.

And in that regard, I would urge you in the same vein as I urge you in regard to disaster assistance, to hold congressional feet to the fire in regard to the budget. It is often as we discuss agricultural policy, we talk about the farm bill, we talk about knowing that we will have fewer resources, blah, blah, blah, blah. We ought not start with the concession that we are going to have fewer resources.

This Congress has an opportunity to provide the necessary resources. Agricultural spending is not the culprit that it is made out to be when it comes to budget deficits. We are a minority of Members of Congress who care about agriculture, but the reality is that the nature of this place is that a few Members of Congress I think can and will make a difference in the budget process come next Congress.

So I would encourage you all not to concede the issue of necessary resources and ask your Members of Congress to hold firm for a budget number in agriculture that is adequate to meet the safety net needs of the next farm bill.

And finally, I worry about—and again one of the reasons an extension may be premature is that one of the things we all talk about is the renewable fuels opportunities that we have in agriculture. And I would hate to concede with just extending the current farm bill, concede the opportunity that we have to create greater demand for farm based energy production.

And I worry, again, and ask you to hold our feet to the fire. As gasoline prices have come down, the pressure on Congress to respond with an energy policy to develop renewable fuels will diminish. And we will once again do what I think Congresses in the past have done, walk away from a great opportunity to move our country toward energy independence and to create a revitalization of rural America.

And if we allow lower gas prices to impede that effort, we will have lost another opportunity, one more time, as members of agriculture communities, as Members of Congress, as policymakers in this country to change the direction this country is going that we need to go for economic and national security, for environmental reasons. Don't let the price of gasoline drive the policy that is needed here in Washington to the detriment of us simply walking away, the status quo becoming sufficient.

I saw some article that I was labeled Preacher Moran. I am sorry. I didn't mean to provide a sermon. But as I have listened to the testimony those thoughts come to my mind and I think you all have an opportunity to lead us in the direction that we need to go. Please work with us, but please demand that we respond in a way that is positive.

The chairman is back. I was going to ask my friend, Mr. Lucas, for an opportunity to ask a question, instead of a sermon, Mr. Chairman.

The CHAIRMAN. I will be happy to let the gentleman ask his question.

Mr. MORAN. Thank you and this is in particularly in regard to you, Mr. Schuler, with regard to wheat. One of the things I would like to explore with all of you is can we create a farm bill that creates, that treats commodities differently than another commodity? Does that make sense? Do we have different payment limitations, for example, commodity by commodity? Do we have a different mix between the countercyclical LDP and deficiency payments commodity by commodity or do we need to treat them all the same and in particular, Mr. Schuler, the question to you is, you are the one who ought to be the most concerned about a simple extension farm bill under the premise that you have received the least. My question to you is, is the fact that wheat farmers have received less under this farm bill, is it a fundamental problem with the farm bill itself, the balance between countercyclical payments, the target price, all the things that are components of the farm bill, or is it simply that wheat farmers have experienced drought and therefore no production?

Mr. SCHULER. Well, thank you, Congressman Moran, and thank you for your comments also. But certainly, we don't think that there needs to be a drastic restructuring of the farm bill. And it isn't that the components that are in place now aren't workable, but the problem was for wheat that the levels for the safety net were just set too low.

Mr. MORAN. So regardless of the drought, lack of production—obviously that is a problem—but the problem is the price set, the safety net doesn't create the sufficient margins for profit?

Mr. SCHULER. Certainly, but the drought did cause its own problems because without production of course there is no support through the LDP system. But that is just one component of it. Had the countercyclical target price been set higher, there still would have been some safety net provided for wheat producers in times of low price.

The drought of course offers its own challenges, and hopefully that can be addressed either through crop insurance improvements or some type of mechanism that provides additional support, and those times are lost.

But for us, though, there just need to be some improvements in this farm bill and hopefully these can be made. Even if other commodities would like to see the current structure for their crop continued, let's make adjustments for those crops that really need it.

We can keep a direct payment, but for wheat producers we would like to see that at a higher level.

The loan program still provides some major support at times of low prices if you have production. But then also the target price needs to be set at a higher level. So it gives that safety net, raises it off the floor, so it is actually at the level that provides some benefit to our producers.

Mr. MORAN. Mr. Chairman, thank you very much.

The CHAIRMAN. I thank the gentleman and I thank all of the members of this panel. You have done an outstanding job and I can say that even though I haven't been here for a portion of the testimony because you have held the interest of the committee for close to 3 hours. So we have two more panels to go, and we look forward to hearing from them. We have a vote on the floor and will take up the next panel as soon as that vote concludes, but I thank all of you for your contribution today. I apologize for not being here. We have two major pieces of legislation under consideration in the Judiciary Committee and my attention had to be divided today, but I can assure you that it is very much as we move forward focused on writing a farm bill that takes into account the concerns raised by each and every one of you. So thank you again and we excuse you.

The committee will stand in recess.

[Recess.]

The CHAIRMAN. The committee will come to order and we now will welcome our second panel: Mr. John Hoffman, vice president of the American Soybean Association on behalf of the American Soybean Association, the National Sunflower Association, and the U.S. Canola Association from Waterloo, Iowa; Mr. Greg Shelor, president of the National Sorghum Producers, from Minneola, Kansas; Mr. Jim Wysocki, president of the National Potato Council on behalf of the Specialty Crop farm bill Alliance and the National Potato Council, from Bandcroft, Wisconsin; Mr. Jack Roney, Director of Economics and Policy Analysis of the American Sugar Alliance from Arlington, Virginia; Mr. Mark Kaiser, Board Member of the Alabama Peanut Producers Association on behalf of the Alabama Peanut Producers Association, the Florida Peanut Producers Association, the Georgia Peanut Producers, and the Mississippi Peanut Growers Association, from Seminole, Alabama; and Mr. Richard Groven, vice president of the National Barley Growers Association, from Northwood, North Dakota.

I will remind all members of this panel as well that your entire statement will be made a part of the record and ask you that you limit your comments to 5 minutes, and Mr. Hoffman, we will start with you, welcome.

STATEMENT OF JOHN R. HOFFMAN, FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, ON BEHALF OF THE AMERICAN SOYBEAN ASSOCIATION, THE NATIONAL SUNFLOWER ASSOCIATION, AND THE U.S. CANOLA ASSOCIATION

Mr. HOFFMAN. Well, good afternoon, Mr. Chairman and members of the committee. I am John Hoffman, soybean and corn farmer from Waterloo, Iowa. I currently serve as first vice president of the American Soybean Association. I am also appearing today on behalf of the National Sunflower Association and the U.S. Canola Association. I very much appreciate the opportunity to present the views of U.S. oilseed producers on the 2007 farm bill.

Policy producer priorities are to strengthen the current safety net for oilseed crops, support responsible conservation policies, develop new opportunities for expanding production of energy crops, and maintain funding for existing nutrition, research and trade programs.

To achieve these goals, we strongly endorse maintaining the current level of agriculture funding in the CBO baseline. We also support enactment of a new multi-year farm bill to enable farmers to make long-term economic decisions.

Within the commodity title we support the basic structure of farm programs under the 2002 farm bill. We believe adjustments are needed on oilseed support levels in the event these programs are reauthorized. Global demand for protein meal for animal feed and for vegetable oil is growing rapidly as population and living standards of developing countries rise.

We are also seeing increase in the use of vegetable oils for the production of biodiesel both in the U.S. and abroad.

We are concerned that low oilseed support levels in the 2002 farm bill could discourage producers to responding to these positive marketing signals to increase funding of oilseed crops.

Oilseed producers have strongly supported the marketing loan as the most effective tool for ensuring that U.S. crops are competitive with foreign oilseed exports and for supporting producer income when world prices decline. However, loan levels should be established with reference to both recent average prices and to loan levels for other crops to avoid distorting planting decisions.

Countercyclical programs provide a viable method for supporting farm income. While decoupling payments from current year production, current target prices for oilseed crops are too low to have triggered oilseed payments under the current farm bill. If this program is reauthorized, these levels need to be adjusted, taking into account target prices for other crops.

Direct payments are a legacy of the 1996 farm bill when Congress decided to phase out income support by establishing production flexibility contracts and reducing AMTA payments over time. Since they are fixed and attached to a farm's historical crop acreage base, direct payments are factored into land values which raise cash rents and make U.S. producers less competitive in world markets.

Support levels for program crops established in the 2002 farm bill are not proportionate to their recent market value and should be brought within a closer range to reduce the potential for planting distortions. The table attached to my statement compares crop support levels as percentages of the Olympic average of prices for these crops in 2001 through 2005.

As indicated, current marketing loan rates for program crops vary from 75 percent to 125 percent of recent average prices.

Target prices range from 90 to 180 percent.

Direct payments range from less than 2 percent to 40 percent. Disparities of this magnitude can significantly influence planting decisions when prices are at or below support levels.

In the event competition for limited resources in writing the 2007 farm bill prevents equitable adjustments in oilseed support levels or would result in cuts in existing levels of support, our organizations would support consideration of an alternative structure for supporting farm income that could provide an improved safety net for all crops.

I would like to comment on the potential influence of the WTO and the development of farm programs in the 2007 farm bill.

The WTO panel ruling in the cotton case may require Congress to eliminate the current planting restrictions on fruit and vegetable crops if the direct payment program is to be continued.

Depending on the extent to which producers of these crops would need to be compensated to offset potentially lower prices if the restrictions were eliminated, we believe the committee should consider shifting resources out of direct payments to other forms of support for program crops.

Beyond the commodity title, oilseed organizations support reauthorizing and maintaining funding for existing conservation programs, nutrition research and energy and trade programs in the 2002 farm bill.

In the area of conservation programs, oilseed organizations support reducing the acreage enrolled in the Conservation Reserve Program by restricting eligibility criteria to environmentally valued lands.

There is a growing demand for more the viable farmland currently locked up in the CRP, including for the production of energy crops. There have been significant advances in minimum and no till farming methods since much of the current CRP land was first enrolled and the USDA has established that up to 7.2 million acres currently locked in the CRP could be returned to corn and soybean production and farmed in an environmentally sustainable manner.

Mr. Chairman, oilseed producer organizations continue to develop specific positions in advance of the congressional debate of the 2002 farm bill. I appreciate the opportunity to present views today, and I welcome similar opportunities to participate over the coming year and do entertain questions. Thank you.

[The prepared statement of Mr. Hoffman appears at the conclusion of the hearing.]

Mr. MORAN [presiding]. Thank you. Mr. Hoffman.

The Chair recognizes Mr. Shelor, National Sorghum Producers.

STATEMENT OF GREG SHELOR, PRESIDENT, NATIONAL SORGHUM PRODUCERS

Mr. SHELOR. Thank you, Mr. Chairman. You look pretty comfortable in that chair.

Mr. MORAN. Please don't let Mr. Goodlatte know that.

Mr. SHELOR. I thank the committee for the opportunity to present my views for the next farm bill and the impact of the farm bill on my family farm and operation.

My name is Greg Shelor, and I farm near Minneola, Kansas. My 1,700-acre cropping system includes no till dry land sorghum and sorghum-fallow wheat rotation which enhances water conservation and prevents wind and water erosion. Also I irrigate sorghum, corn and soybean, depending on the economics, and partner with my son on livestock.

This year has been a very trying year in the area of my country as we are significantly behind normal in rainfall. Rain received since then came too late to benefit much of the already stoned sorghum crop, although our grassland in summer-fall has recovered nicely. Normally we can count on sorghum as a crop in these dry years, but this year has been extreme.

Before I start my policy discussion, I need to talk about one of the reasons that we have the current farm bill. And I feel that reason is that all of us, agricultural commodity leaders, general farm groups and this committee all work together to develop that farm bill and support the piece of legislation through this legislative process.

I hope we can duplicate that effort as we continue to reauthorize our farm laws. I understand that farm policy may look extremely different 5 years from now, but because of the current budget situations in any potential WTO agreements. If that is the case, I ask that you keep in mind the critical nature of the agriculture economy, especially in the semi-arid regions of Kansas where I farm. Any new farm program needs to be available with family operations like mine that produce in areas that have limited rainfall.

Farm programs provide a significant safety net when the agricultural economy slows down. The current farm program, direct payments and the marketing loan programs provide my operation with the most protection.

If Congress is to change the current programs, I would ask this committee to preserve the equitability relationship between commodities and these programs.

Regarding conservation programs, sorghum is a water sipping crop and it uses less water and nitrogen than any other crops in my rotation. If a greener farm bill is to be developed I ask that any new program created and existing programs reward crops that use less water and need fewer input. For example, the EQIP program which works well in sorghum areas, but I am told by fellow sorghum farmers that they have seen overall water use increase than to decrease; that is, an increase in water demand in semi-arid sorghum belts.

Finally, the growth of the ethanol industry in the sorghum belt has been phenomenal. Currently 15 percent of the sorghum crop is made into ethanol. That is about the same percentage of the corn crop. But we expect significantly more sorghum to be used in ethanol production in the near future.

For example, in western Kansas, the ethanol industry has targeted our area for building plants since we produce some of the cheapest feedstocks in the country and once those plants are built 80 percent of the sorghum production in Kansas will be located within a 50-mile radius of the ethanol plant. That is important to producers because the ethanol industry will play a major role in determining local prices for my sorghum.

You have a challenge in rewriting our national farm laws, and the sorghum industry will work with the chairman and this committee as you develop new farm programs.

Thank you for your time. I am happy for any questions.

[The prepared statement of Mr. Shelor appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Mr. Shelor.

Mr. Wysocki.

STATEMENT OF JIM WYSOCKI, PRESIDENT, NATIONAL POTATO COUNCIL, ON BEHALF OF THE SPECIALTY CROP FARM BILL ALLIANCE AND NATIONAL POTATO COUNCIL

Mr. WYSOCKI. Good afternoon, Mr. Chairman and members of the committee. My name is Jim Wysocki, and I am the chief financial officer for Wysocki Produce Farm, a nine-family farming operation in Wisconsin. I am the current president of the National Potato Council.

Today I will be providing comments on behalf of more than 75 organizations representing growers of specialty crops that have indicated their support for the farm bill priorities developed by the Specialty Crop Farm Bill Alliance.

The specialty crop industry is a dynamic industry characterized by constantly changing supply and demand conditions. We have worked hard to remain profitable, satisfy consumer demands and develop new technology in order to be competitive in the domestic and global marketplace.

Our crops are perishable and are characterized by high cost of production, high crop value and generally inelastic demand. Markets for specialty crops are highly volatile, yet our growers have never relied on traditional farm programs to sustain our industry. While it is the clear intention of the Specialty Crop Farm Bill Alliance to be more actively involved in establishing policy in the 2007 farm bill, alliance members continue to reject direct payment to specialty crop growers as a policy option.

As the policy discussion for the 2007 farm bill takes shape, we look forward to working with you to develop new programs and enhance existing programs that will improve the competitiveness of the specialty crop industry. We are working with Members of Congress to develop specific legislative language consistent with our priorities and expect to have a bill introduced in the House later this month.

The alliance believes that Congress should complete the process of establishing U.S. farm policy prior to the planting of the 2008 crop. We should develop policies based on the needs of our growers and not on the expectations of future developments and bilateral or multilateral trade agreements. The specialty crop industry strongly supports maintaining or strengthening the current U.S. policy which restricts producers from growing fruits and vegetables on acres receiving program payments.

The market conditions and the potential for market disruptions that led to the industry support for this provision in 1985 have not changed.

Currently there are several studies being conducted to determine the potential economic impact on specialty crop growers from the loss of the planting flexibility restrictions. Preliminary results indicate that the impact would be in excess of $3 billion per year.

The current $80,000 payment limit on disaster payments is not equitable for specialty crop producers. Due to higher input costs the loss from disaster per acre is generally significantly greater per acre than for program crops. We believe that the cost of production and the crop value should be used to index disaster assistance payments to allow specialty crop producers to receive a more equitable disaster payment.

Consumers want an agricultural production system that not only produces abundant, affordable safe food supply but also conserves and enhances the natural resource base.

Environmental regulations continue to put pressure on the industry's ability to be competitive in a world economy. Because of these factors, the industry supports expanding cost share and incentive programs such as the environmental quality incentives program and the conservation security program and encourage producers to invest in natural resource protection measures they might not have been able to afford without such assistance.

The economic well-being of the specialty crop industry depends heavily on exports. Without further commitment to export market development by the Federal Government and focused efforts to reduce tariff and nontariff trade barriers, the U.S. specialty crop industry will continue to lose market share to global market competitors. Farm bill programs that have worked well to increase access to foreign markets for domestically produced specialty crops are the technical assistance to specialty crops and the market access program. These programs should be continued and expanded in the next farm bill.

Due to the next tremendous volume of plant material that move in domestic and international commerce, the potential for introduction of pests of concern into the United States is great. In addition, many of our potential trading partners are either unwilling or unable to complete the analysis necessary to develop risk mitigation strategies to allow the shipment of the domestically produced specialty crops to their countries. We support enhancing the structure and resources of APHIS, to better identify and prioritize foreign pest threats, providing timely adequate compensation to producers impacted by emergency eradication programs and to create an export division to more quickly process export petitions from U.S. specialty crop growers.

Federal investment in agricultural research has been shrinking in real times and it is not adequate to meet the terms of needs of the industry. We support expanded Federal investments in research for fruit and vegetable crop production, including plant breeding, pest management, production, physiology, food science mechanization, marketing, product development, food security, food safety and processing.

Additionally, research funding that emphasizes nutrition will provide a significant return on investment through better health for the U.S. population. Fruits and vegetables offer consumers healthy and nutrition food options that are critical to preventing cancer, reducing obesity and diabetes, and maintaining overall good health.

To this end, future farm policy will not only support American agriculture, it will support and encourage the health and wellbeing of all Americans.

The School Fruit and Vegetable Snack Program is an effective and popular nutritional intervention program proven to increase fresh fruit and vegetable consumption among children in participating schools. This program should be significantly expanded in the 2007 farm bill in order for all States to participate in the program.

The industry supports continued expansion of the State Block Grant Program for specialty crops that was authorized in the 2004 Specialty Crops Competitiveness Act. This program allows States to invest in programs and projects that support production related research, commodity production, food safety and other programs that enhance the competitiveness of specialty crop producers.

We look forward to working with the committee on the development of the next farm bill. And we believe that policy options we have outlined for specialty crop producers can improve our long-term competitiveness. We ask for your assistance in building a successful constructive partnership with the Government.

Thank you.

[The prepared statement of Mr. Wysocki appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Mr. Wysocki.

Mr. Roney.

STATEMENT OF JACK RONEY, DIRECTOR, ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE

Mr. RONEY. Thank you, Mr. Chairman. I am Jack Roney, staff economist with the American Sugar Alliance, the national coalition of sugar beet and sugarcane growers, processors, and refiners, accounting for 146,000 American jobs in 19 States.

Mr. Chairman, members of the committee, the policy you provided our industry in the 2002 farm bill is working well. It is working well for American taxpayers. It is working well for American consumers, and it is giving American sugar farmers a chance to survive. The sugar industry recommends that Congress sustain this remarkably successful policy in the next farm bill.

U.S. sugar policy ensures that American sugar farmers derive all their returns from the marketplace and not from the Government, and it attempts to provide farmers a stable price horizon. The policy is simple. USDA offers nonrecourse loans to sugar producers and is required to avoid loan forfeitures at taxpayer costs. USDA has two tools to balance supply and demand and maintain market prices adequate to avoid loan forfeitures. One, it manages imported supplies through our tariff free quota system. We are the world's second largest sugar importer. Two, it manages domestic supplies through our marketing allotment system. Farmers can plant and process as much cane and beets as they wish, but if USDA determines that they have produced more than the market needs, the producers must hold that sugar back from the market and store it at their own expense.

U.S. sugar policy thus places the burden of balancing the supply and demand on the producers and not on the Government. How successful has U.S. sugar policy been? Consumers and taxpayers have been huge beneficiaries. American consumers enjoy some of the lowest and most stable sugar prices in the world. Consumers in the rest of the developed world pay 30 percent more for their sugar than American consumers do.

The 2005 average retail price for sugar was 43 cents. What is amazing is that this is the same price sugar sold for in 1990. It is even the same price sugar sold for in 1980, 26 years ago. What is even more amazing is that consumer prices remained this stable in a year when American sugar farmers faced an unprecedented series of natural disasters, including three catastrophic hurricanes in Louisiana and Florida.

Despite sugar policy's continued success even after being tested by last year's natural disasters, some would like to change the policy. U.S. commodity policy changed in 1996 for most programs. Commodity prices have been allowed to fall, but farmers are kept afloat by Government payments.

Food manufacturers and retailers have been the biggest beneficiaries. They get the cheapest possible raw commodities from reliable American farmers and, by not passing their savings along to consumers, increase their profit margins. The taxpayer costs of subsidizing food manufacturers this way has totaled over $200 billion since 1996.

The income support approach has worked well for other commodities, and we are glad that it has. Converting sugar to income supports would be another boon to the food manufacturers, but would hurt taxpayers and other farmers and consumers would derive no benefit.

The food manufacturers propose a payment approach for sugar with no payment limitation. A recent study put the cost of the sugar payment program at $1.3 billion per year.

During this time of severe budget constraints, where would the money for a new high cost U.S. sugar policy come from? Benefits from other crop farmers would have to be reduced. And what happens when that money runs out? As sugar farms fail in 2.4 million acres, the sugar beets and cane convert to other crops, the increased supplies would put pressure on other farmers' prices.

U.S. sugar policy does face some serious challenges. In the short run, we are concerned that the deal our Government struck with Mexico in July in combination with a generous overall sugar import quota could oversupply the market in the coming year.

The special sugar import concessions to Mexico have been puzzling to say the least. Mexico is a deficit producer of sugar. The Mexican Government owns and operates half the Mexican sugar industry and the U.S. market does not need all the sugar Mexico has been granted.

In the longer run, we face further challenges from NAFTA and from a host of other trade agreements. Like the NAFTA and CAFTA, new agreements could give away more of our market to subsidized foreign sugar producers without addressing any of the subsidies in those countries.

We believe we can overcome these challenges and we look forward to working with the Congress and administration to do so.

To conclude, Mr. Chairman, American sugar farmers have not had a support price increase since 1985. And the survivors have come through a nightmare of natural disasters in 2005. Through it all, we supplied American sugar consumers dependably and well and at no cost to the U.S. treasury.

We ask the committee not to entertain the food manufacturers' suggestion that we yank the price stability out from this program and place an added burden on taxpayers. We respectfully urge the committee to continue the remarkably successful, no cost U.S. sugar policy.

Thank you.

[The prepared statement of Mr. Roney appears at the conclusion of the hearing.]

Mr. MORAN. Thank you.

Mr. Kaiser.

STATEMENT OF MARK KAISER, BOARD MEMBER, ALABAMA PEANUT PRODUCERS ASSOCIATION, ON BEHALF OF THE ALABAMA PEANUT PRODUCERS ASSOCIATION, THE FLORIDA PEANUT PRODUCERS ASSOCIATION, THE GEORGIA PEANUT COMMISSION, AND THE MISSISSIPPI PEANUT GROWERS ASSOCIATION

Mr. KAISER. Good afternoon, Mr. Chairman, Members of the committee. My name is Mark Kaiser. I am a peanut producer from Seminole, Alabama. I am on the board of the Alabama Peanut Producers Association, and I am here today representing the Southern Peanut Farmers Federation.

The federation is comprised of the Alabama Peanut Producers Association, the Georgia Peanut Commission, the Florida Peanut Producers Association and the Mississippi Peanut Growers Association. Our grower organizations represent over 80 percent of the peanuts grown in the United States.

First, I want to thank you, Mr. Chairman, for the House Agricultural Committee's field hearings around the country to hear from our Nation's farmers. This includes a hearing in my home State of Alabama. We are proud of our Alabama members of the committee but especially appreciate Congressman Terry Everett's leadership in moving the U.S. Peanut Program from a supply management program to a more market oriented program in the 2002 farm bill.

The new peanut program has encouraged peanut product manufacturers to develop new products and spend more money on marketing these products.

Despite the NAFTA and Uruguay Round of GATT trade agreements in allowing peanut imports to increase significantly, reaching a high of 71,782 metric tons in 2001, the new peanut program has provided U.S. producers the ability to compete with these imports.

The 2005 peanut import level was just 12,196 metric tons, which is an 83 percent drop in imports. The U.S. peanut industry can compete and be successful.

The new program has also allowed producers to more readily enter peanut production. In Alabama alone, peanut production has expanded from 15 counties in 2002 to 32 counties in 2005.

Georgia has expanded production to counties that traditionally have been limited in the number of commodity options for producers.

The Southern Peanut Farmers Federation has met with other segments of the industry, including buying points, sellers and manufacturers, and each have indicated they were pleased with the 2002 farm bill. Each segment of the industry supported the peanut title of the 2002 farm bill.

While the Congress passed a very respectable peanut program in 2002, the administration of the peanut program by the U.S. Department of Agriculture has not been as successful.

While the domestic marketplace has seen a healthy increase in the demand for consumers and production growth for producers, this has not been the case for the peanut export market.

The USDA has continued to set the loan repayment rate for peanuts too high. Despite language to the contrary in the 2002 farm bill, the Department has relied far too much on data unrelated to the price other export nations are marketing peanuts for in the world marketplace. U.S. peanut producers have lost significant portion of their export market notwithstanding the changes invoked in the 2002 farm bill. Our present export situation is directly related to the high loan repayment rates set by USDA.

The Southern Peanut Farmers Federation is scheduling a series of producer hearings after this crop harvest is complete to discuss the various components of the peanut program and how effective it was for the 2006 crop. We will continue to work with our industry partners and communicate any additional suggestions to the farm bill to the House Agriculture Committee.

At present, we support the continuation of the structure of the current program, but we will seek to update specific provisions. The current program should be considered the basis for the next program.

When the 2002 farm bill was drafted, peanut producers did not envision record high energy prices that impact our major crop inputs, including fuel, fertilizer and chemicals.

The 2006 peanut crop has felt the full impact of these increased costs. It is important that the next farm bill not rest on the backs of declining farm equity.

In Alabama, we saw more than a 26 percent reduction in peanut plantings for the 2006 crop year. High energy costs and weak contract offers are the primary variables for less acreage. Weak contract offers are a direct result of the loan repayment rate being set too high.

As the committee is aware, the storage and handling fees provided in the 2002 farm bill are eliminated for the 2007 crop year. Producers consider this an integral part of the peanut program.

I would be remiss not to point out to the committee that if these fees are not included in the 2007 farm bill, these costs will be passed on to the peanut producer.

If the storage and handling fees are eliminated in the next farm bill, the federation requests that the committee consider options for replacing those fees that will prevent the financial burden being placed on the producer.

I am grateful for the opportunity to be here today representing peanut growers.

Thank you.

[The prepared statement of Mr. Kaiser appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, sir.

Mr. Groven.

STATEMENT OF RICHARD GROVEN, VICE PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION

Mr. GROVEN. Thank you, Mr. Chairman. Good afternoon, Mr. Chairman, and members of the committee. Thank you for the opportunity to appear here today.

My name is Richard Groven. I farm in Northwood, North Dakota, where I produce barley, spring wheat and soybeans. I currently serve as vice president of the National Barley Growers Association.

National Barley has serious concerns regarding the level of support barley receives relative to other crops in the current farm program. We believe barley has lost significant competitiveness in its traditional growing region due in part to distortions in the Federal farm program support levels, and the acreage trends certainly underscore our concerns.

The NAAS June 2006 acreage report showed barley seeded average acreage of 3.5 million acres, a 10 percent decline from 2005 and the lowest planted acreage since estimates began in 1926.

At National Barley's request, the Senate Agriculture Committee asked FAPRI to look into the root cause of a barley acreage decline, specifically if the farm bill might be contributing to it.

According to their findings, marketing loan benefits have clearly favored traditional roll crops over cereal grains. In the Northern Plains average marketing loan benefits the last 5 years were $4 an acre for wheat, $8 an acre for barley, $12 an acre for soybeans and $21 for corn.

At the national level, the combination of marketing loan benefits and market returns can help explain the increase in the national roll crop acreage since the early 1990's and the decline in the small grain production.

However, National Barley Growers does support the continuation of the marketing loan program at equitable levels among program crops. If a marketing loan were to be diminished or eliminated due to WTO concerns, some form of similar support would need to be developed to take its place to continue providing a viable safety net for producers during downturns in prices or production.

We also support continuation of the direct payment program, which is the best means to get much needed operating money into the hands of producers.

We also support continuation of the planting flexibility provisions that have been in place since the 1996 farm bill.

National Barley believes better risk management programs are also needed that will adequately address multi-year losses as well as provide a safety net for the high deductibles we face under current Federal crop insurance polices. We have a Barley Risk Management Task Force working hand in hand with RMA right now on innovative ways to address these challenges.

With regard to the ongoing drought in much of the country, we support disaster assistance for 2005 and 2006 crop losses and vigorously encourage debate on a permanent disaster provision in the next farm bill.

I am sure members of the committee are aware of the rising fuel and fertilizer costs brought about by the run-up in emergency prices. These costs will likely not be compensated by the prices farmers receive for their crops. National Barley supports a flexible safety net that will help offset these costs, since they can not be passed along to the market place; and we encourage the committee to explore ways to address them, such as an energy tax credit.

National Barley Growers supports the Conservation Security Program as authorized in the last farm bill. However, CSP has not been implemented as intended by Congress, and we urge the committee to work towards full implementation.

National Barley Growers also believes the committee shall be aware the transportation problems faced by farmers. More than half of the U.S. barley crop moves to marketing positions by rail. The majority of our production region is now captive to one railroad, and we pay rates well above those rates paid by other grain suppliers who have competitive transportation options. This makes it very difficult for barely from our traditional production areas to compete in both the domestic and foreign markets. The worsening "captive shipper" dilemma faced by farmers undermines the positive effects that any farm bill hopes to provide, and we urge members of the committee to support legislation that would rectify these problems.

Thank you again for the opportunity to testify. The National Barley Growers Association fully understands the challenges you face as you write the next farm bill, but farmers must continue to be offered a viable safety net if the United States is to maintain a home-grown supply of affordable food. We are ready and willing to work with the committee in the coming year to develop sensible provisions to address these needs.

If you have any questions, I would be happy to address them. Thank you.

[The prepared statement of Mr. Groven appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, sir.

The Chair recognizes the gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Gentlemen, thank you all for being here today and testifying for us.

Mr. Kaiser, will you flush out for us, for peanuts, in your view does USDA have the necessary authority to fix or solve the problem with that action from Congress?

Mr. KAISER. I believe they do. The way the bill was written, they are supposed to be able to set the repayment loan rate to where we are competitive, but for some reason it is not happening, and we can't get that out of them.

Mr. CONAWAY. So you have tried to have conversations with whoever in USDA handles this issue and give us what the differential is.

Mr. KAISER. I really wouldn't have an answer to that. I would have to refer that to one of our higher-ups, because I am just a peanut producer. All I know is the loan rate, the repayment rate is set so high that we are not able to clear out our stocks, and we have just got way too many peanuts in loan right now, and we can't get contract prices up where we can make a decent living.

Mr. CONAWAY. I guess the question is, what is the loan rate?

Mr. KAISER. The loan repayment rate right now—I think it was $3.50 this week, posted on Tuesday. The loan rate for us is $3.55.

But the loan repayment rate is what determines whether foreign buyers can buy our peanuts. If we price it too high, we are priced out of the market.

Mr. CONAWAY. Just rough-guess it. Is it $20 a ton, $30 a ton?

Mr. KAISER. I would say probably $30 a ton.

Mr. CONAWAY. Well, again, thank you and I will resist a congressional inclination to repeat everything you said back to us. Thank you for your straightforward testimony. I appreciate the comments telling us what you do want, what you don't want, especially crops.

Thank you for your straightforward testimony as well. I look forward to working with you.

I appreciate you being here today.

I yield back, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Conaway.

The gentleman from Colorado is recognized.

Mr. SALAZAR. Thank you, Mr. Chairman; and I want to thank all of you for your service in trying to preserve what I believe is the most important industry in this country. I really don't have any questions. I just wanted to maybe get a remark from each one of you as to the importance of the energy title in the 2007 farm bill which we will be addressing. So, if you could, each of you want to issue a couple of brief statements, I would appreciate that.

Mr. HOFFMAN. As you know, the main seed stock for biodiesel is soybeans; and in my lifetime there hasn't been the excitement out in the country side for any new development as we have seen with biodiesel and the new energy crops. An energy title would be important in a new farm bill.

Mr. SHELOR. I concur. For sorghum, it would be important. We use a lot of our crops into ethanol right now. We look at wheat, sorghum going into biomass conversions. So I think in the future that would be a promising crop.

Mr. WYSOCKI. I think it is extremely important for the specialty crop growers in that I think increased production capabilities in American agriculture benefit the most for price support issues and for conservation-type issues. Having other crops and other alternatives will allow growers to make more money, will allow us to—when we make more money, we can take better care of the land because we can afford to.

Mr. RONEY. KNBs can be a competitive feed stock for ethanol, and we think there is enormous potential there. We would like to see sugar be a part of any feature of any ethanol programs that the administration might propose. The administration has already suggested that, absorbing excess sugar that we might have to bring in from trade agreements. An ethanol program might be a way to mitigate the harm from the trade agreements on U.S. sugar farmers, and we would be very interested in pursuing whatever the administration might have in mind on that.

Mr. SHELOR. We support bioenergy efforts. We are working on it. We are trying to find peanuts that are cheaper to grow so they can compete in the bioenergy market.

Mr. GROVEN. We are very supportive of the energy aspect.

I might add that the growers in the—at least in the Plains States have been very quick to adopt and embrace the use of biodiesel and ethanol on their farms. The rationale is, if we grow it, we use it.

On my farm, every diesel tractor is running bio of one mix or another. So it is very, very important.

Mr. SALAZAR. Mr. Groven, are you aware of any ethanol plants that are actually used, barley, for ethanol production?

Mr. GROVEN. Yes, there are. In the State of Maryland, not very far away, they are working on making ethanol out of the hairless barley. In North Dakota, one of our processes is actually—a multiplant is starting up using barley as a source for ethanol. The plants have to be changed somewhat. Barley is a little bit more abrasive than corn, the yield per bushel is very, very good. So we feel there will be a lot more use of barley with it.

Mr. SALAZAR. Mr. Wysocki, do you raise potatoes?

Mr. WYSOCKI. Yes, I do.

Mr. SALAZAR. I am a potato farmer myself as well. Are you aware of any potatoes that are being used for production of ethanol?

Mr. WYSOCKI. There are some potatoes that have been in our State about 10 years ago and that failed. In our industry, I think a lot more of it will come from coal generation and electricity through methane digester and that type of operation as the energy is to be produced. In the potato industry, it will be more of a use of the waste product in taking waste energy than actual production directly for energy, at least at this time.

Mr. SALAZAR. OK. Well, thank you, Mr. Chairman.

Mr. EVERETT [presiding]. You are welcome. Thank you.

I have a couple of questions.

Mr. Shelor, you and I have been down this path before, the difficulties we have had in the loan rate, grain sorghum versus corn. And part of the goal of the 2002 farm bill—one of the goals was to equalize those rates. How has that turned out in practice?

Mr. SHELOR. Well, we still have some disparancy in the county rate; and it goes back to the formula that they use to set that price in each county. It goes over the history of previous years of low prices of sorghum, and that affects the price compared to corn.

Mr. EVERETT. Has USDA implemented that provision in line with the farm bill? Have they done it correctly?

Mr. SHELOR. Well, the farm bill says it should be equal. It is not in each county, so I guess they haven't.

Mr. EVERETT. And what is the consequence of that unequal loan rate?

Mr. SHELOR. Well, it is about 20 cents a bushel right now difference between corn and sorghum.

Mr. EVERETT. And the consequence of that is what? Less grain sorghum being grown than would otherwise be the case?

Mr. SHELOR. Yes. When you have a price disparancy, the producer looks at the profits of availability there; and when you go to the bank and do a cash flow and you can't produce a return as well as you can with another crop, then it does influence that.

Mr. EVERETT. You live in a part of Kansas that has a declining aquifer. Water is becoming more and more scarce. Energy prices are increasing, natural gas to bring the water to surface for irrigation. Has there been a shift in crops or crop rotation due to those conditions?

Mr. SHELOR. I think there has been some this year, but not near as much as we would like to see. We still have a few problems with sorghum, not having the right herbicides and available to use on the irrigated land, but we are working towards that area to give the producers another tool to do that. But if we could get a more consistent price at the local level that would help a lot.

Mr. EVERETT. I think your testimony was that the consistent price comes with the production of ethanol.

Mr. SHELOR. We are hoping so, yes.

Mr. EVERETT. And is there a disincentive from a crop insurance perspective in growing grain sorghum?

Mr. SHELOR. Yes, there is. The price election when you do your crops, your selection for crop insurance is—there is a disparancy there; and that is one of the issues that we have lost some makers to on the crop selection insurance. That is one of the tools you look at when you go to the banker and doing your cash flow; and if the money is not there, then it is hard to put the crop in the ground.

Mr. EVERETT. Do you know, Mr. Shelor, the increase or decrease in numbers of acres planted to grain sorghum in the country or in Kansas?

Mr. SHELOR. Numbers I don't have, right offhand.

Mr. EVERETT. Let me ask Mr. Wysocki. The specialty crops grown on program acres, I want to give you the chance to indicate to the committee why that is such an important issue to, especially, crop growers; and I would also like your comment in regard to the Brazilian cotton case. Does it affect this issue for us in Congress? Does your association believe that the decision made at WTO has an impact or effect on what the law can be and still be complying with WTO in regard to those program makers?

Mr. WYSOCKI. I guess I will take the first one.

One of the things that our industry did, and specifically to potatoes, is we reduced voluntarily the production of potatoes by 2 percent in order to improve our prices. We were well below cost of production, and that net result created a doubling of price which we were able to maintain. Not increasing our acres in a subsequent year, even though we were able to double our price, we were able to do that. If a quarter percent of the program crops flex into specialty crops and potatoes share of that would be equal to that shift and, ultimately, each time we reduce our production, we will raise the price such that someone will come in on new land, new ground, new production facilities.

As a producer, I can't walk away from my production facility I haven't paid for yet, but I now have a 10- or 15-year-old model that is less efficient, and I basically would be forced to exit the industry through a bankruptcy proceeding, and our industry is not profitable. A lot of people who share my role are ex-potato producers several years after doing that. I am hoping not to be one of them in a couple of years. Maybe I will be back.

I think, in regard to the WTO, I don't find that that case makes it illegal. It changes the nature of the payment, but it does not make it illegal to do so, and I don't think that a change that would destroy as large of an industry of specialty crops is a worthwhile trade.

Mr. EVERETT. Thank you very much.

I would be very interested in your association's analysis of the WTO cotton case and how it affects specialty grown crops on program makers. All I know is the bits and pieces that I have read about that case and have wondered if it resolves this issue. You are telling me it does not, although we may need to make some changes in regard to being compliant to WTO.

I also appreciate what appears to be happening here with the specialty crop producers coming together and trying to present a unified voice in regard to the 2007 farm bill. I think that will be very useful to those of us trying to sort those out.

The gentleman from Alabama, Mr. Bonner.

Mr. BONNER. Thanks to each of you for being here.

I know sometimes, as an aside, when you leave your homes and farms and communities to come to Washington, DC, to testify before Congress, you expect a bigger audience from Members of Congress. And for the record, most Members are on two or three committees, and there are other hearings being held. But we do appreciate you being here, each and every one of you.

Mr. Kaiser, much of the Southeast, as you know, has experienced record drought this summer and this year. What has been the impact to you and the other growers in the Southeast?

Mr. KAISER. Well, basically, our farm is going to see lower yields; and most areas of the Southeast are going to see extremely lower yields.

We are somewhat fortunate. We did get some rains in July. We are going to make it through the peanut crop. We haven't started harvesting yet. We have delayed harvesting, trying to stretch out the maturity of the crop due to the drought. So we really don't know how our yields are going to be. But in much of the Southeast, we have seen fields abandoned. It is pretty bad.

Mr. BONNER. Since we are asking you to look into a crystal ball that none have used, how would correcting the repayment rate improve exports, in your view?

Mr. KAISER. It would take all of the peanuts that are in Government loan and clear them out of our supply. So when we do try to get contracts, there won't be this huge supply hanging over our heads, and we can get a contract with a premium. But, right now, there is a buyer's market, because we cannot get rid of the extra peanuts. If we have produced too many for the domestic market, we can't get rid of them.

Mr. BONNER. I have got a few more questions that I will submit for the record.

But last one for you, Mr. Kaiser, is it has been a large increase in acreage by new growers in your area, along with Mississippi and South Carolina. How has the program worked for these other two States as well?

Mr. SHELOR. Well, the other two States were not involved very much in peanut production in 2002. In our area, there was some peanut production going on. So they are at more of a disadvantage because they don't have base. A lot of us were able to build some base. They are having to stay in business by having above average yields, and that happens when you go into a new area. But as you grow peanuts there for a period of time, diseases build up, and yields go down. And we experienced the same things. When we first started in peanuts, our yields were phenomenal, but now we are starting to get average yields, and then you are going to be in trouble if you don't have base.

Mr. BONNER. Mr. Groven, not a question, just a comment, if you have time. I want to you out to go over to the House dining room in the Capitol. I had beef and barley soup today, and I could find little of either. And I support the barley growers, and you need to do a better job of supplying barley to our group.

Mr. GROVEN. I will have a truck heading this way tomorrow.

Mr. BONNER. Thank you.

Mr. EVERETT. Thank you very much.

It appears that we are finished with this panel, but, before I dismiss you, the gentleman from Indiana, Mr. Pence, who is a member of this committee, could not attend this hearing. He has for you, Mr. Wysocki, a series of four questions that our clerk will hand you. I would ask that you respond to him and to this committee, and your answers will be made a part of the record.

I thank the panel for your testimony. I hate the word "dismissed." You are now dismissed.

The Chair would now call our third panel: Mr. Jim Evans who is the U.S. chairman of the USA Dry Pea and Lentil Council, Inc., from Genesee, Idaho; Mr. Mike John, National Cattleman's Beef Association, from Huntsville, Missouri; Ms. Joy Philippi, president, National Pork Producers Council, from Bruning, Nebraska; Mr. Ron Truex, president and General Manager, Creighton Brothers, LLC, Atwood, Indiana, on behalf of United Egg Producers; Mr. Paul R. Frischknecht, president, American Sheep Industry, Inc., from Manti, Utah.

We are missing one, but we will proceed.

Mr. Evans, you are recognized. Thank you very much for being here.

STATEMENT OF JIM EVANS, CHAIRMAN, USA DRY PEA AND LENTIL COUNCIL, INC., GENESEE, ID

Mr. EVANS. Thank you, Mr. Chairman; and thank you for the opportunity to be here today.

My name is Jim Evans. I am a fifth generation farmer from Genesee, Idaho; and I raise dried peas, lentils, chickpeas, wheat, and barley. I am also chairman of the USA Dry Pea and Lentil Council, a national organization representing producers, processors, exporters of dried peas, lentils and chickpeas across the northern tier of the United States.

Good farm policies should encourage farmers to take advantage of market opportunities and reward them for crop diversity and management practices that help the environment. Every country helps protect their agricultural base in some form or fashion. The recently failed WTO negotiations prove that most countries are unwilling to leave their farmers unprotected. If U.S. farmers are to compete against subsidized competition, high tariffs, and phytosanitary barriers the following elements of the farm programs must be included in the next farm bill:

Title I, commodity programs. The Marketing Loan LDP Program. The Marketing Loan Program is the single most important farm program tool used on our farms. This program provides some protection when prices go in the tank and pays me nothing when prices are good. I like this program because it allows me to take advantage of market opportunities and it satisfies a banker's need for some downside risk coverage. This useful program needs to continue because it allows me to include environmentally sound crops with targeted market opportunity.

Direct and Counter Cyclical Program. I fully support the continuation of direct and counter cyclical program payments that have sustained my farming operation and local businesses in our area. Farmers do not have the opportunity to set prices, so direct and counter cyclical payments provide financial security against things which I cannot control, like political decisions blocking access to lucrative markets or unexpectedly increasing costs of fuel and fertilizer. Direct and counter cyclical payments are also good for rural development because the dollars go directly to the rural communities.

Planning Flexibility. The best part of the 1996 farm bill was the freedom to plant a crop based on market signals instead of base acres. Planning flexibility must continue and expand in the next farm bill. Chickpeas are currently considered a vegetable crop and are not eligible to be planted on farm programmed acres. Chickpeas are a very important part of my farm operation, and I want the flexibility to be able to plant them on program acres.

Conservation Programs. We support CRP has had very environmental benefits, but it has been devastating to the rural farm communities. In the next farm bill, CRP should be limited to only the most fragile land and whole farm bids should be difficult to obtain.

CSP. In order to achieve the environmental and conservation goals of this great country, we need to fully fund the CSP program, make it available to all producers at the same time. Sign-up for the current CSP program is time consuming and complicated. The program should reward producers for achieving conservation goals based on systems that are economically sustainable and result in significant improvement in soil, air, and water quality. CSP should be modified to reward producers for addressing conservation goals in their local watersheds and encourage farmers to diversify crop portfolios.

Trade. WTO. In a perfect world there would be no agricultural subsidies, tariff barriers, restrictions and currency manipulations. Unfortunately, we do not live in a perfect world. The USA Dry Peas and Lentil Council supports the current WTO negotiations if it results in an agreement that puts U.S. agriculture on an equal playing field with all other countries. WTO negotiations are on the rocks. Congress needs to write a farm bill that protects U.S. agriculture in the current trading environment. We support an extension of the 2002 farm bill until a fair WTO agreement is reached.

We encourage the Food Aid Program. Public Law 480 has been a big part of our income.

MAP and FMD. Phyto-Sanitary Barriers. We currently are having problems with selenium issues in China. They are freezing our shipments. We are also having problems with India with phytosanitary barriers, along with our neighbors on the north.

Energy Conservation. We encourage energy programs to be used in this next farm bill. We also would like to be included in this next farm bill. Peas, lentils and chickpeas produce nitrogen in the soil; and we believe that we should get an energy credit for something that doesn't take energy or conserves energy.

In summary, I would like to thank you for allowing the USA Dry Pea and Lentil Council to provide testimony; and at any time I will take questions.

[The prepared statement of Mr. Evans appears at the conclusion of the hearing.]

Mr. SODREL [presiding]. I thank the gentleman.

We will now hear from Mr. Mike John from Huntsville, Missouri.

STATEMENT OF MIKE JOHN, PRESIDENT, CHAIRMAN, USA DRY PEA AND LENTIL COUNCIL, INC., GENESEE, ID

Mr. JOHN. Thank you. My name is Mike John. I am a cattle producer from Huntsville, as you indicated, and president of the National Cattleman's Beef Association.

Ranchers are an independent lot who are focused on working towards an agricultural policy which minimizes direct Federal involvement in our operations, achieves a reduction in Federal spending, preserves the right of individual choice and management of land, water and other resources, provides an opportunity to compete in foreign markets and does not favor one producer or commodity over another.

There are many areas where we can work together to truly ensure the future of the cattle business in the United States, including conservation and environmental stewardship. Ranchers are our partners in conservation. Our livelihood is made on the land, so being good stewards of the land not only makes good environmental sense but is fundamental to our industry to remain strong.

The goal of conservation and environmental programs is to achieve the greatest environmental benefit with the resources that are available. Programs such as EQIP here are extremely popular with cattlemen, and we hope to see this type of cost share program expand to include more producers. Cost share and working land programs serve to protect both the environment and taxpayers money.

As we saw 2 weeks ago with the House vote on H.R. 503, the animal activists are not only increasing their presence on Capitol Hill but they are also winning. The vote on H.R. 503 is frightening to those of us in the livestock business. You are all bombarded with all sorts of claims, but the fact is this bill had no sound argument behind it and was based solely on emotion.

It is not a secret that these animal activists want to put the U.S. cattle groups out of business, and the farm bill should not be a platform for their agenda. H.R. 503 creates a slippery slope that we must be very cautious of.

Outside of conservation and activist issues, there are several other issues that have the ability to impact the beef industry. One such area is trade. U.S. cattlemen have been and continue to be believers in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our product. We support Government programs such as the Market Access Program and the Foreign Market Development Program which help expand opportunities for U.S. beef, and we urge sustained funding for these long-term market development efforts.

We appreciate the committee's help in working to reopen foreign markets that were closed to U.S. beef after the discovery of BSE. To grow our business, we have to look outside of the U.S. borders to find 96 percent of the world's consumers. We encourage the committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is party.

As with the 2002 farm bill, we fully expect to deal with several marketing issues. In looking at these issues, it is important to note that we support the critical role of Government in ensuring a competitive market through strong oversight. This includes the role of taking the necessary enforcement actions when situations involve illegal activities such as collusion, anti-trust and price fixing.

However, Government intervention must not inhibit the producers' ability to take advantage of new marketing opportunities and strategies geared towards capturing more value from our beef. A ban on packer ownership or forward contracting has been a farm bill debate for years. We are strongly opposed to those efforts because we feel that Congress is trying the tell cattle producers how and when to market their cattle. This strikes at the very basis of our business, which is utilizing the market to improve our returns and make a living. Each producer should be able to make their own marketing decisions whether they market their cattle through traditional channels or new and progressive channels. The market provides many opportunities, and cattlemen should be allowed to access all of them.

As you can see, we are not coming to you with our hands out. As I mentioned before, cattlemen are proud and independent; and we want our opportunity to run our ranches the best way we can to provide a high product to the American consumer and provide for our families and preserve our way of life. The open and free market is powerful; and as beef producers, we understand and embrace that fact. Cyclical ups and downs of the market can be harsh, but the system works and we ranchers are steadfastly committed to a competitive and free market system. It is not in the Nation's, farmers' or ranchers' best interest for the Government to implement policy that sets prices, underwrites inefficient production or manipulates domestic supply, demand, cost or price.

We are coming to you in an effort to work together to find ways to use the extremely limited funds available and the best way possible to conserve our resources, build our industry and provide for individual opportunity and success. We ask for nothing more than a Federal agricultural policy that helps build and improve the environment for cattlemen.

We look forward for working with you.

[The prepared statement of Mr. John appears at the conclusion of the hearing.]

Mr. SODREL. Thank you.

We will now hear from Ms. Joy Philippi, president of the National Pork Producers Council from Bruning, Nebraska.

STATEMENT OF JOY PHILIPPI, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, BRUNING, NE

Ms. PHILIPPI. Thank you, Mr. Chairman, Mr. Peterson. My name is Joy Philippi. I am a pork producer from Bruning, Nebraska, and

I am the president of the National Pork Producers Council. I own and operate a nursery that has networked with my neighbors, and I also have 400 acres that is in corn and soybeans.

Mr. Chairman, it is imperative that the U.S. pork industry be at least as competitive as we are today after the next farm bill is written. We need to maintain, strengthen and defend our competitive advantage at home and abroad.

I would like to cover five issues today that we feel are important to our industry.

The first one is risk management. This year, U.S. pork producers are estimating that we will have 15 percent of our production exported. That is up from 12 percent last year. So a loss of exports would have a severe adverse economic impact on pork producers. Iowa State economists estimate that the industry would lose $3.6 billion if our export markets were to close. We believe that we must look at revenue assurance options that would help our pork producers in case those markets are interrupted.

The second topic I would like to discuss is conservation and environment. Pork producers are reducing the environmental footprints of today's pork operations on our country's national resources. Pork producers are participating in USDA's working-lands programs, such as EQIP, but that program has provided only minimal support to our country's pork producers. Since 2003, in the eight States where 78 percent of the Nation's pork is produced, producers received only 11 percent of the EQIP cost share assistance provided to all livestock producers. We need your help in correcting this imbalance.

In a bit I will touch on renewable fuels, but let me say that pork producers believe that the marketplace should decide how to meet the demand for energy, and that is going to mean bringing CRP acres out and putting them back into production. Now, without additional production acres, we realize our producers face run-ups in the price of our feed. However, we do support leaving CRP those acres that provide significant environmental benefits.

The third issue I would like to discuss with you is ethanol. Now let me first be very clear. American pork producers strongly support the development and the use of renewable fuels to reduce our Nation's dependence on foreign oil. But the rapidly growing demand for corn for ethanol production really gives producers like myself the jitters. Industry analysts predict that 2008 ethanol production will be large enough to dramatically reduce the corn available for other uses and drive up corn prices to the point where some pork producers will exit this business. Any widespread drought would significantly accelerate that problem. We urge Congress to focus not just on energy security but rather on fuel, food, and feed security.

And I also want to caution you about the claims that ethanol byproducts, DDGs, can make up any deficiencies for corn. Remember this fact: Only 17 pounds out of a 56 bushels of corn is a usable grain after the processing.

Additionally, one thing you need to know is that pigs cannot utilize DDGs as effectively as other livestock. We have got some challenges like the variation of nutrient content and availability, difficulties in handling and storing and transporting DDGs. There are some meat quality problems and waste nutrient management issues.

The fourth issue I would like to visit with you about is animal welfare. America's pork producers, using our check-off funds, established the world-class Pork Quality Assurance Program to promote responsible animal care through the application of scientifically sound animal welfare practices. That means that we work on proper care and handling at each production stage. We have well-kept facilities to allow safe and humane movement of our animals, and we have health care programs that are developed with veterinary advice. We do not tolerate the mistreatment of our pigs.

We are enhancing our commitment to this through a new program called PQA Plus, which combines producer education and on-farm assessments to ensure we use the highest levels of animal care. These assessments will be third-party audited. We also have a trucker assurance program that will make sure that the animals are handled during transportation correctly.

The last issue that I must touch on is market-structured information. In the past 25 years, the U.S. pork industry has undergone a dramatic change; and in that transformation we have seen a different response in our domestic and international pressures to compete. But our industry does face some challenges from other meats in competing nations.

We have been able to meet those challenges because of our open and transparent markets which have been enhanced by the price and quantity information that has received in the Livestock Mandatory Price Reporting Act. It is imperative this act is renewed soon to ensure that the data be available to all market participants. We thank this committee for helping us get that done here in the House.

We have several market tools that are still available to us. We would like to believe that we would be able to maintain what we use today. We also hope that there will be no restrictions put on how we market. We support the right of all producers of size or type of production system to market access, and we oppose anything that does hinder that access.

Mr. Chairman and members of the committee, as you will be crafting this next farm bill, please keep in mind that pork producers need to maintain, strengthen and defend their competitive advantage both domestically and internationally; and on behalf of the National Pork Producer Council, we thank you for the opportunity to be here today. Thank you.

[The prepared statement of Ms. Philippi appears at the conclusion of the hearing.]

Mr. SODREL. I thank you.

Next, representing United Egg Producers from Atwood, Indiana, Mr. Ron Truex.

STATEMENT OF RON TRUEX, PRESIDENT AND GENERAL MANAGER, CREIGHTON BROTHERS, LLC, ATWOOD, IN, ON BEHALF OF UNITED EGG PRODUCERS

Mr. TRUEX. Mr. Chairman, Mr. Peterson, I appreciate the opportunity to be here today. I am Ron Truex of Creighton Brothers, an egg producer in Atwood, Indiana.

I am honored today to testify on behalf of the United Egg Producers. The UEP represents the producers of about 90 percent of the Nation's eggs. We are honored that nine of the top ten egg producer States are represented on this committee, including Iowa, Ohio, Indiana, Pennsylvania, California, Nebraska, Texas, Minnesota and Georgia.

Our industry has several concerns that we hope you will consider addressing in the 2007 farm bill.

The first issue involves indemnities for low-pathogenic Avian influenza. The USDA will soon propose a program to monitor and control outbreaks of this disease. Low-pathogenic is not the Asian H5N1 strain of highly pathogenic AI, but it must be controlled because it has the potential to mutate into the highly pathogenic virus.

The USDA regulation, when it is published, will propose indemnities if a flock has to be destroyed or vaccinated. We hope the Department will pay indemnities at 100 percent of the producer's loss. Unfortunately in the past, there have been efforts by the use of management and budget to reduce the indemnity levels. That would be inconsistent with the principles of animal disease control and we feel would hurt our AI surveillance effort. Therefore, we ask Congress to consider mandating 100 percent indemnities for AI, whether it is low-pathogenic or high-pathogenic.

Our second concern is the national animal identification system. It will be difficult to get producer participation in a voluntary program unless the confidentiality of data that we have is guaranteed. Unfortunately, it is questionable whether the USDA can give us those guarantees today. We ask you to explore ways that the farm bill can protect the confidentiality of data submitted under the NAIS.

Our third issue involves air emissions from egg farms. As you know, air emissions from all types of livestock are getting more attention from regulators and the public. Our industry has already invested $3 million of our own money through the American Egg Board in research that will measure these emissions so that all of us have a scientific basis for our decisions.

But we need to go beyond measuring emissions and start reducing them. To do that, we need a better scientific basis for determining which technologies are the most promising, both technically and economically. So we respectfully ask that you consider authorizing this research subject to appropriations in order to help keep our industry to be proactive in improving the environment.

And, finally, the UEP asks this committee to oppose any efforts to attach harmful provisions to the farm bill. For example, a recently introduced bill, H.R. 5557, which has been referred to this committee, would apply arbitrary and unscientific animal welfare standards to all Federal food purchases, which would either raise the cost of procurement dramatically or drastically cut the amount of meat, dairy, poultry and egg purchased in poultry programs. Either way, it is a bad idea. We believe these issues should be resolved in the marketplace.

Eighty-seven percent of the egg industry has adopted the UEP certified program developed by an independent, unpaid scientific advisory committee made up of experts in animal behavior, animal physiologists and other disciplines. I am proud to say the Chair of the committee is the former head of the Animal Science Department at Purdue University and is now Dean of Agriculture at Michigan State University. All participants in the UEP certified programs are independently audited by either USDA or a private firm.

Like other egg producers, I am proud to be a part of the U.S. agriculture in this new century. We look forward to working with the committee on a sound, forward-looking farm policy for the coming years.

Thank you.

[The prepared statement of Mr. Truex appears at the conclusion of the hearing.]

Mr. SODREL. Thank you.

Now we will hear from Mr. Paul Frischknecht, president of the American Sheep Industry, from Manti, Utah. Did I pronounce that right?

STATEMENT OF PAUL R. FRISCHKNECHT, PRESIDENT, AMERICAN SHEEP INDUSTRY INC., MANTI, UT

Mr. FRISCHKNECHT. I found over time, Mr. Chairman, that my best response to that is that it simply comes from a long line of family nobility. But you did pronounce it correctly.

And I thank you, Mr. Chairman and Congressman Peterson, for the opportunity for the American Sheep Industry Association to participate in this hearing and give our input with you with regard to the new farm bill that is slated to be crafted next year. I am certainly doing this as a follow-up, which we appreciate, to the field hearings that we had an opportunity to participate in in Colorado and Texas and South Dakota.

I am proud of the accomplishments we have made nationally in the sheep industry with the flock expansion for the past 2 years. A successful industry farming labor promotion program in putting American wool in the industrial farm place, the 102 farm bill gives the same type of credit for the farm industry success and we strongly support Congress' efforts to readdress the next farm legislation.

The Wool Loan Deficiency Program was included for the first time in the 2002 farm bill and implemented timely by the Department of Agriculture for shorn wool and unshorn pelts. However, it is clear that the base loan rate should be set at $1.20 per pound to support the initial research of the program works for the processors and intended. Only one of nine loan categories is utilized at the current base.

The National Sheep Industry Improvement Center, a very successful program of USDA to assist lamb and wool businesses, is due for reauthorization by the farm bill which would fully endorse $20 million in funding and would complete the $50 million authorized by the 1996 legislation.

Regarding the conservation title of the farm bill, our industry supports the propriety of prescriptive grazing with sheep for control of noxious weeds and invasive species. In the rangelands of the U.S., both of these are serious problems and we believe are a very effective tool in livestock grazing.

Cost-share programs ought to be directed to prescriptive grazing projects to provide fiscal and technical assistance to promote grazing contracts on Federal, State, municipal, tribal and private lands. I add that our industry provides grazing that can be expanded to a revenue option for farmers and ranchers which, in turn, strengthen the economies of the rural areas of our country.

We look forward to working with the committee and reauthorizing of two programs and consideration of conservation programs, emphasis on prescriptive grazing for weed and invasive species control. These programs are very helpful to individual producers as well as to the entire lamb and wool industry and can help us continue to rebuilding the sheep industry.

We know international trade may well have a bearing on agriculture legislation in the U.S., and I offer for the committee's review the priority of the sheep business is to address the 2 billion in sheep subsidies that the European Union provides its industry every year and the strict tariff quota system they employ against imported American meat.

ASI believes the Federal Government must address this inequity in trade negotiations, and we would be pleased to share a report of 2006 sheep meat trade reform, the global benefits which provide the direction to level the playing field.

Two issues I add for the committee's consideration that tie more directly to other livestock industries here today are livestock mandatory price reporting and the livestock risk program. Livestock mandatory risk reporting expired nearly a year ago. All U.S. producers and marketers have voluntarily provided with it, but we have got no cooperation whatsoever from foreign companies.

We need, in fact, to have your help in getting further into law the mandatory price reporting that, as I say, expired approximately a year ago.

Livestock risk protection program for lamb is something that the industry direly needs. We request the committee's support for a pilot program for lamb price risk protection, just as now has been offered to the beef and swine industries in the country. And, in fact, the Federal Crop Insurance Corporation is meeting next week to consider this issue for lamb, and we fully expect that it will be approved but we could use your support.

Thank you.

[The prepared statement of Mr. Frischknecht appears at the conclusion of the hearing.]

Mr. SODREL. Thank you. I just have one question, and I would like the give each of you about a minute to respond. And you have already touched a little bit on it in your testimony, but since animal agriculture is the largest single consumer of program crops, I am curious about your views on Federal programs relating to feed grains.

So could each of you just take a minute, kind of elaborate on what you had to say in your testimony, or follow up and comment on it? Start with Mr. Evans, at this end.

Mr. EVANS. I would like to make a comment. Peas and lentils or chickpeas don't eat corn, so I am wrought by all of this.

Mr. JOHN. I will just have to say that our policy has always been that farm programs be fair across all commodity sectors, and so obviously, since corn is a huge input crop in the beef industry, any program that adds support or price protection or any kind of subsidy to our input is something we have an interest in. So I would say that we will be very interested in those titles and how they affect corn production and corn price.

Ms. PHILIPPI. For the pork industry, we have always watched very closely as they developed the commodity title. We always want to make sure things are done so we can remain competitive. As part our farm bill task force effort, we will have a working group that will work directly on the commodity title. It will include looking at all the things that are proposed, as well as how the subsidies will affect the costs.

Mr. TRUEX. We have had the opportunity the past 15 years in our area to have an ethanol plant in the South Bend, Indiana, area that we have been competing with. It does increase the price of our grains slightly.

As some of you may know, we have the world's largest soybean plant going in our county now, and it will be producing soy diesel. We look at that as an advantage because we will be able to use the soy diesel and the bean meal product out of that plant for our poultry.

I think the opportunity that we see, after 80-some years in the egg production business, the high price of grain is usually a good thing for animal production, because we tend to trail up on the income level; as grains go up, so does our egg price.

So we are looking at an opportunity as an agricultural industry, not just eggs. And we think it will be a good thing for the country.

Mr. FRISCHKNECHT. Historically, over time, the farm bill legislation has been focused on crops and it has not been focused so much on livestock until a more recent reauthorization of the farm bill. Our feeling about your question is that the administration of it all ought to be fair. And that is the primary criterion that ought to be used in legislation.

Mr. SODREL. Thank you.

I would like to call on the ranking member of the committee, the gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

How many of the rest of you, well, except for Mr. Evans——

Mr. EVANS. I can step out of the room if you want me to.

Mr. PETERSON. We will see how it goes here, but I hear this back home a lot that as we have higher grain prices, we get higher livestock prices.

Mr. Truex, I think that is what you said.

Mr. TRUEX. Yes.

Mr. PETERSON. How many of the rest of you agree with that? Normally, that is true?

Mr. FRISCHKNECHT. It is.

Mr. PETERSON. Any disagreement? So as long as it is within reason, you guys aren't too nervous?

Mr. JOHN. I would say, since you used the term "within reason."

Mr. PETERSON. What do you think about the corn growers idea to shift off of what they have got and go to a different system? Have you guys looked at that at all, what impact that might have on corn prices or——

Mr. JOHN. I am sorry we haven't really analyzed that.

Mr. PETERSON. Nobody has really looked?

Mr. TRUEX. No. But I have a lot of confidence that the corn, seed corn, companies will keep up the pace for the demand that we are going to generate.

Mr. PETERSON. Amen. I have been talking to them, and I think that there are some real opportunities to increase production substantially in corn. And there are some good things going on with the fact that they are mapping the genome, and I think a lot of these predictions out there have been overblown in terms of what could be the problem, so——

Mr. TRUEX. There are reports of some 100-bushel soybean potential now, too.

Mr. PETERSON. And I have heard 400-bushel corn; I don't know if that is true, probably it won't be up by Canada, in my district. If we could get to 200 up there, we would be happy, and the mandatory price reporting, we are doing our part.

If you can tell us how to straighten the Senate out, we would appreciate that. So we will all work together on that.

But we thank the witnesses for their testimony and, we will take under advisement your request to include you in the program, Mr. Evans, just so you don't feel left out, and look forward to visiting with you and looking at that situation.

So, thank you all.

Mr. SODREL. Thank you and I would like to add to that, I appreciate the witnesses being here. The testimony here and field hearings are really important as we go forward in the new farm bill.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any question posed by a member of the panel.

This hearing of the House Committee on Agriculture is adjourned.

[Whereupon, at 2:51 p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF PAUL T. COMBS

Good morning, Chairman Goodlatte, Ranking Member Peterson, and members of the committee.

I am Paul T. Combs, a rice, cotton, wheat, and soybean producer from Kennett, Missouri.

I serve as Chairman of the USA Rice Producers' Group, a member group of the USA Rice Federation. My testimony today is on behalf of both the USA Rice Federation and the US Rice Producers Association.

Mr. Chairman, we thank you for holding this hearing and for the opportunity to express our views on the farm bill.

The U.S. rice industry supports maintaining an effective farm safety net that includes a marketing loan program, as well as income support payments and planting flexibility.

At this time, rice producers and others in production agriculture face an uncertain farm policy and financial future due to repeated proposals to cut our farm programs and the Doha Round World Trade Organization (WTO) negotiations.

We supported the efforts of U.S. negotiators in Geneva in July to hold firm for greater market access in the Round. Gaining greater, assured market access is a must if rice producers are to see any net trade gains from the Round.

As you probably know, on August 18th USDA announced the presence of trace amounts of genetically engineered (GE) rice mixed with a commercial long grain rice sample in the Southern rice producing states. This was the first occurrence of GE rice in commercial rice supplies and was a surprise to the industry given that there had been no commercial production of GE rice in the U.S. Both USDA Secretary Mike Johanns and Dr. Robert Brackett, Director of Food and Drug Administration's Center for Food Safety and Applied Nutrition, have clearly stated that their analysis of the Liberty Link 601 protein found in long grain rice poses no human health, food or feed safety or environmental concerns and is safe for consumption.

Unfortunately, in the face of the uncertainty presented by this situation the value of the U.S. rice crop fell an estimated $200 million to $250 million over the course of the next 2 weeks, based on the $1.36 cent per hundredweight fall in the rice futures price on the Chicago Board of Trade. As of the market close on September 14, 2006, nearby futures prices remain down $0.68 per hundredweight from the close of $9.83 per hundredweight on August 18, 2006. These domestic price reductions are particularly frustrating to rice producers, since world rice prices have been on an upward trend in recent months. This type of unexpected market event is just one more example of the need for a strong safety net for rice producers.

For these and other reasons, the U.S. rice industry supports an extension of the 2002 Farm Act until such time as the World Trade Organization provides a multilateral trade agreement that is approved by the U.S. Congress. Furthermore, we believe the policies and structure of the current bill should be continued.

2002 Farm Act Extension

There are a number of key factors that support extending the 2002 Farm Act until a final WTO agreement is in place.

1. Any unilateral reduction of the current programs and spending levels of the farm bill will result in the effect of "unilateral disarmament" by the U.S. and ultimately weaken our negotiating position with other countries.

2. Writing a new and different farm bill in advance of a final WTO agreement could result in a short-term bill that must be rewritten should the WTO negotiations be concluded and new trade rules put in place. Multiple farm bill authorizations in a short timeframe will weaken the predictability and stability that are key components of any effective farm safety net. This predictability is a key requirement for the lending community that provides financing for production agriculture. Any changes that inject uncertainty into this safety net will lead to financing difficulties.

3. Our current farm programs are a fiscally responsible approach to farm policy and provide a safety net when needed. As such, the Congressional Budget Office's (CBO) August 2006 budget baseline estimates that actual commodity title costs through 2005 reflect a real savings of nearly $19 billion relative to the levels estimated by CBO when the farm bill was approved in 2002. And total farm bill costs—which includes costs for commodities, conservation, trade, and any ad hoc disaster—during the period of 2002–2005 are approximately $17 billion below the total level estimated in 2002. Compared to the three years before passage of the 2002 farm bill, average annual costs are down 32 percent.

Certain WTO decisions ruling against U.S. programs make clear that crafting a WTO compliant farm bill is not easy, even when a good faith effort is made over an extended period of time. We believe it would be nearly impossible to write a farm bill to comply with a future WTO agreement while those negotiations are still incomplete.

Ranking Member Collin Peterson and a bipartisan group of more than 20 cosponsors have introduced a measure to extend the current farm bill to accommodate Congressional consideration of an eventual WTO Agreement (H.R. 4332). We support this and other similar such legislation that recognizes the realities of the legislative process while still respecting the multilateral trade negotiating process.

Another concern is the timelines for trade-distorting domestic support and tariff reductions in trade agreements. Any timeline for reductions in trade-distorting domestic supports should be concurrent with the timeline for reduction and elimination of tariffs and duties. It only makes sense that similar timelines for the phase-in of measurable market access gains and for any reductions in U.S. trade-distorting domestic support should be required in future trade agreements. Otherwise, how will producers manage their operations in the interim after support is reduced and increased market access is not obtained for several years?

To the extent that there is ultimately a successful WTO round that involves a reduction in so called trade distorting support, rice producers strongly believe that the amount of the reduction should be captured and dedicated to providing a more WTO compliant safety net of equal benefit to U.S. agricultural producers. Even in a world with expanded trade opportunities there will always be a need for a safety net in production agriculture. This will be true so long as other countries continue to employ trade barriers against certain commodities, including rice.

CRITICAL NEEDS OF RICE FARMING FAMILIES

For the typical family farm that produces rice, economic survival is dependent upon several key factors:

- An effective farm program that provides basic support through marketing loan eligibility for all production and income support through counter-cyclical and direct payments;
- The maintenance of eligibility for farm program benefits for rice operations of all sizes; and
- The development and expansion of global markets for crop off-take.

While U.S. rice yields are among the highest in the world, our production cost per acre is significantly higher than that for other grains.

Even with the safety net in place, much higher production costs, in particular for fuel and fertilizer, have reduced and will continue to reduce rice profitability far below levels previously expected.

These higher costs of production had a direct impact on 2005 crop returns and have impacted producers' 2006 crop planting decisions and returns. In fact, USDA reports that U.S. rice plantings this year are down 14 percent from last year, and are at the lowest levels in 10 years.

The current programs do not ensure that individual rice farms can make a profit. In the face of rising production costs many farmers-especially those who must rent much of their land-can and do experience significant losses. These losses are occurring despite the current farm programs and the recent improvement in rice market prices off of their historically low levels.

It is important to note that the marketing loan levels were not increased for rice or soybeans in the 2002 Farm Act, while the loan levels for all other major crops were increased. Rice has maintained the same loan rate since 1989.

Regarding the rice marketing loan program, there was an initiative by USDA this year to adjust the loan rates for long and medium/short grain rice just as planting was starting in some parts of the rice belt. While there were several options under consideration, the ultimate effect would have been a reduction in long grain loan rates and an increase in medium/short grain rates.

The industry raised its concern over this proposal and the poor timing of such a change with USDA and Members of Congress. USDA ultimately chose to set rice loan rates by class for the 2006 crop year as they have consistently for the past 18 years. We greatly appreciate the willingness of USDA to work with the industry on this issue, and to forego any changes in the loan rates for the 2006 crop year. This will allow time for further study and analysis of the production and market impacts of such changes in the loan rate, and the industry is currently undertaking such an analysis. However, given the current situation detailed earlier regarding the GE rice discovery in long grain rice, we are urging USDA to delay any further action on loan rate adjustments until a more appropriate time, and at least until the situation in our export markets is resolved and market prices stabilize and recover.

We look forward to continuing to work with USDA on this issue.

PAYMENT LIMITATION POLICIES

To be a viable family farm, we must use economies of scale to justify the large capital investment costs associated with farming today. This is especially true for rice farming, which has the highest cost of production of any major grain crop. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is the most critical.

The U.S. rice industry opposes any further reduction in the payment limit levels provided under the current farm bill. We also oppose any government policies that attempt to "target" payments or apply a means test for agricultural production payments. It is essential that rice producers maintain non-recourse loan program eligibility for all production. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice farms.

THE REAL FACTS ON FARM STATISTICS

When the issue of payment limits is brought up, oftentimes opponents of production agriculture attempt to use misleading statistics taken out of context for the purpose of making their argument. Here are some key points that I know you are all probably aware of, but it's important to be reminded of so that we see the real picture of production agriculture.

1) Statistics skewed by "Rural Residence Farms": "Rural residence farms" as defined by USDA represent about two-thirds of the 2.1 million "farms" in this country. Excluding these farms where farming is not the primary occupation of the family

results in a very different picture about the percentage of "farms" receiving farm program payments. The universe of farms actually producing this nation's food and fiber is much smaller than 2.1 million. In fact, 38 percent of farms produce 92 percent of our food and fiber. While producing 92 percent of our food and fiber these farms receive only 87 percent of farm program payments. We appreciate the efforts by the chairman and members of this Committee to cut through the rhetoric of those who apparently would like to see reductions in support of rice and other farm families. Thank you for your continuing efforts to focus on the realities of the U.S. food and fiber production system.

2) Sector-wide "Averages" Hide Unhealthy Subsectors: Using only averages for the farm sector as a whole when it comes to income data can be misleading about the true condition of various sectors of the agriculture economy. Certain sectors may be squeezed between high costs and low prices while others are experiencing high prices and average costs. Since program crops are being targeted for cuts, when statistics are given on Net Farm Income, program crops should be examined individually and separate from other agricultural sectors (i.e.: livestock, fruits, vegetables, etc.). A healthy farm economy as a whole does not necessarily translate into all sectors of the farm economy being healthy.

Economic Contributions of the U.S. Rice Industry

The regional concentration of rice production makes it an extremely important crop in key producing states. Rice production is an important economic driver in all states and regions where inputs for rice production are manufactured and where rice is grown, milled, and processed for food or other uses.

Rice production ranks in the top 8 most valuable crops produced in each of the six major rice-producing states (Arkansas, California, Louisiana, Mississippi, Missouri, and Texas).

Given the high costs of producing rice compared to most other basic agricultural commodities, the contribution to general economic activity from land devoted to rice production tends to be much higher than for other crops.

High input expenditures for rice production imply significant economic activity for the sectors that supply those inputs in the regions where rice is produced.

Each dollar's worth of rice produced in the United States generates about 90 cents worth of revenue for the industries that supply variable production inputs.

Based on state estimates of production costs and rice acreage planted in 2005, U.S. rice farmers spent nearly $1.7 billion to produce 3.38 million acres of rice, including both variable costs and basic ownership costs associated with rice production.

Even modest adjustments to the levels of current support could create a more significant reduction in rice acreage. These effects would be even more acute when combined with the current spike in fuel, fertilizer, and other energy input costs.

A reduction in rice acreage would reduce the total economic activity in the region where the reduction occurred due to the impact on the processing, transportation, marketing, and input supply sectors. Some of this reduction in economic activity would occur regardless of whether or not an alternative crop is planted, because rice contributes disproportionately to the revenues of various input sectors due to its higher production costs.

It is also important to note that in many regions producers have few viable alternatives to producing rice, so the adverse impact on the agricultural economy is severe when rice acres decline.

Economic Contribution to Key Industries

In addition to the economic activity generated from rice farming, an extensive transportation and processing infrastructure has evolved alongside farm-level rice production. These allied industries are highly dependent on the continued supply of rice to support their economic contribution to the overall economy.

Mills: The U.S. rice milling industry performs the important function of processing rice into forms useful to the food and feed industries. The U.S. Census Bureau estimates that the rice milling industry employs more than 4,000 people, and supports an annual payroll in excess of $135 million.

Ports: At major Gulf ports, for example, rice accounts for about 35 percent of all food products shipped. At some West Coast ports (Stockton and Sacramento), rice accounts for 27–37 percent of total outbound shipments. Studies have suggested that each ton of rice handled by major ocean ports generates $50 to the local economy and $75 to the state economy.

ENVIRONMENTAL CONTRIBUTIONS OF THE U.S. RICE INDUSTRY

Conservation Programs. Conservation programs play an important role in production agriculture by providing financial cost-share and technical assistance to producers in their continual efforts to conserve water, soil, air, and wildlife habitat. The rice industry supports maintaining a strong conservation title in the farm bill. The Conservation Security Program (CSP), the Wetlands Reserve Program (WRP), the Environmental Quality Incentives Program (EQIP), and the Conservation Reserve Program (CRP) each offers valuable resources that assist producers and helps protect the environment and conserve natural resources. All of these programs are important to rice producers.

Rice producers were some of the early participants in the CSP and we see real benefits from continuing this and the other conservation programs. Specifically on the CSP, we would like to see the program implemented on a nationwide basis in an equitable fashion. We look forward to working with the Committee to address any refinements to the program going forward.

While all these conservation programs play an integral and important role in agriculture, any additional funding that may be provided for these programs should not come at the expense of the current commodity programs. The commodity programs provide an important farm safety net and are the first line of defense in ensuring producers remain on the land and can continue to be good stewards of our natural resources.

Water Quality. Modern rice production is critically dependent on a reliable supply of water to flood fields. However, the use of this water in responsible rice farming actually produces several environmental benefits that simple irrigation of alternative crops cannot match. For instance:

• Much of rice irrigation water is returned to its original source. About 25 percent–35 percent of the water used for irrigating rice is "recycled" back into the environment. Outflow irrigation water is either reused, percolates to groundwater to recharge aquifers, or drains back into rivers, thereby conserving water that could otherwise be lost from future beneficial use.

• Modern rice cultural practices preserve water quality. The practices widely adopted by rice farmers are credited with preserving water quality and minimizing ground and surface-water contamination relative to many alternative crops. The flooding of rice fields is itself a powerful means of weed management that decreases the need for herbicide use, and timely planting and rapid establishment of rice plants at the proper spacing also suppresses weeds by eliminating the space and light that weeds need to grow. When pesticides are applied, water retention in the flooded fields helps to biodegrade the remaining chemical substances and minimizes the potential for contamination.

Wetlands, Waterfowl, and Wildlife. Rice farming is one of the few commercial enterprises that actually promotes wildlife habitat and improves biological diversity.

Since the very nature of rice production requires that fields be flooded for many months of the year, evidence shows unequivocally that it plays a vital role in supporting common environmental goals, such as protecting freshwater supplies and providing critical habitat for hundreds of migratory bird species.

Rice fields are typically flooded for at least five months a year, during which time they become temporal wetlands with enormous significance to bird populations wintering and breeding in the rice-producing states of Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. Like natural wetlands, these agricultural wetlands are also indispensable to wetland-dependent bird populations.

Without rice farming, wetland habitats in the United States would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl and a host of other wetland-dependent species.

Arkansas, Louisiana, Mississippi, and Missouri production areas are located in the lower portion of the Mississippi Flyway, which is the continent's most heavily used waterfowl migration route. This Flyway ranks first in abundance of mallards, wood ducks, blue winged teal, gadwalls, and many other migratory birds. The state of Mississippi is among the Flyway's most important waterfowl breeding areas, producing more than 15 percent of the continent's fall flight of ducks during years with good water conditions.

With 95 percent of original wetlands now gone, the waterfowl, shorebirds, and other wildlife along the Pacific Flyway have come to depend on ricelands. At certain times of the year, rice acres now hold up to 60 percent of the millions of waterfowl in the Pacific Flyway. More than one million Northern Pintails have been counted in recent years during January waterfowl surveys in California's Central Valley. The Valley's rice country is now critical habitat for the recovery of this highly valued duck species. In addition, upwards of 300,000 shorebirds are known to use our fields annually.

Rice production areas in Texas correspond with the bird migration corridor known as the Central Flyway, providing important habitat to hundreds of bird species that rely on these artificial wetlands during their migratory journey. According to the Texas Ornithological Society, Texas is home to nearly 650 different bird species, more than half of which can be found in the Texas Rice Belt.

The clear and positive benefits that commercial rice production has for migratory birds and other wildlife species contribute not only to a more interesting and diverse landscape, but also provide economic benefits that support local economies and create jobs.

By providing an environment favorable to wildlife advancement, rice production clearly generates positive benefits to the economy and society.

As commercial development and urban sprawl continue to pressure existing agricultural and wetland resources, rice farming provides an environmental counterweight in the form of "surrogate" wetlands that directly support waterfowl and a wide range of species that would otherwise be even more threatened by habitat destruction. These widely noted environmental benefits accrue not only to current and future generations of wildlife enthusiasts, but also produce economic benefits that support recreational industries and, ultimately, local economies.

Taking rice acreage out of production in favor of other crops would eliminate the environmental benefits of wetland creation and habitat protection. Farmers are good stewards of the land and operate in an environmentally sensitive manner. With regard to rice production, the clear and undisputed benefits of it rank the commodity among the top of all agricultural systems in terms of a positive environmental impact.

TRADE POLICY IMPACTS ON THE U.S. RICE INDUSTRY

The U.S. market for imported rice is virtually an open-border market, with U.S. tariffs on rice imports almost non-existent. The U.S. rice industry supports the elimination of all rice duties in other importing countries, and equitable tariff treatment for all types of rice.

Despite the general continuing trend towards market liberalization, rice outside the United States has remained among the most protected agricultural commodities. The level of government intervention in the international rice market through trade barriers, producer supports, and state control of trade, is substantially higher than for any other grains or oilseeds. High tariff and non-tariff barriers, such as discriminating import tariffs on U.S. paddy and milled rice exports, also are used.

These are major factors contributing to price volatility in the international rice market and a fundamental reason why the U.S. industry needs the stabilizing influence of current Federal rice programs.

Because the U.S. rice industry exports between 40 and 50 percent of annual rice production, access to foreign markets is fundamental to the health of our industry. We believe that multilateral negotiations through the WTO are a way to bring down trade barriers worldwide. However, the Doha Round negotiations are also about agricultural domestic supports. If an agreement is ultimately reached, the U.S. proposal tabled in late 2005 would substantially reduce the allowable levels of Amber Box support. It will also substantially reduce the potential for providing support through the Blue Box. Therefore it will be necessary for a Doha Round agreement to foster an open market that provides for the opportunity of a substantial increase in the world price of rice. Only such enhanced market opportunities can begin to make up for the price and income support we will be losing. In addition, we are concerned about the number of countries that will declare rice a sensitive product to block or delay rice imports.

Merely shifting support to the Green Box in the form of conservation payments will likely not work for commodity support. Currently, 63 percent of U.S. conservation funding goes to operators whose primary occupation is not in agriculture. Conservation support is mostly cost share funding and not price or income support.

With the Doha Round currently suspended, the overall effect of any final agreement on our industry will depend on the overall package that may emerge. We recognize the difficulty in reaching an agreement with 149 countries in the Doha Round that will be beneficial for the US rice industry. Given these factors, Free Trade Agreements on a bilateral or regional basis may be as important an avenue to increase market access for rice.

The United States' share of world rice exports has averaged between about 10 percent and 13 percent over the last 10 years, down from a peak of about 30 percent as recently as 1975.

This decline in world export share reflects increased supplies from traditional exporters like Thailand and Vietnam, among other factors. U.S. sales are also constrained by market access barriers in high-income Asian countries like Japan, Korea, and Taiwan, and the European Union and Latin American countries.

Remember the type of governments we are dealing with when signing trade agreements. We must realize that, unfortunately, they are not always reliable. The U.S. really has limited recourse against a country that fails to follow through on its trade commitments. The EU withdrew a trade concession on brown rice in 2004. It took six to nine months to resolve and they imposed a higher tariff than originally agreed to. Mexico has imposed anti-dumping tariffs on milled rice imports from the U.S., contrary to WTO rules, and is playing the review system as a way to continue these tariffs. Time is of utmost importance when controlling grain inventories. If a surplus arises due to a country's refusal to open its market as agreed to, then our prices start to fall due to over supply.

The recent discovery of trace amounts of GE rice has also raised trade concerns. Even with the strong and continued assurances of our government regarding the complete safety of our rice, concerns have been raised by key importing countries, particularly the European Union (EU), which has put in place a strict requirement for testing of imports of U.S. long grain rice to certify it is free of Liberty Link 601 genetically engineered rice. The EU represents a 300,000 metric ton market annually worth over $100 million. USDA and USTR continue to work on our behalf to help ensure we maintain access to this and other key markets. Given there are no safety concerns with this GE rice and that the Liberty Link protein has been approved in several other crops (corn, soybeans, canola, cotton) in a dozen or more countries also speaks to its safety and level of acceptance. We urge your Committee's support and assistance in working with USDA, USTR and our trading partners to ensure rice exports do not suffer.

We continue to work with USDA as it undertakes its investigation into how the GE rice became mixed with commercial long grain rice. We are also in discussions with Bayer CropScience, the developer and owner of the Liberty Link technology, to help determine the best avenue to address this situation.

Market Promotion Programs

To assist the industry in continuing to promote our product in overseas markets, we utilize both the Market Access Program (MAP) and the Foreign Market Development Program (FMD) to conduct promotional activities. Both of these programs play a critical role in our promotion activities and we support continuing to fund both programs at no less than the current authorized levels. The industry uses MAP and FMD extensively and successfully in one of the Federal Government's finest public-private export development and promotion partnerships.

In several countries, such as in Central America, the U.S. rice industry partners with local governments to "do good while doing well" by collaboratively participating in rural and school feeding and education programs using U.S. rice. Reducing funding for these programs will have immediate negative consequences for the rural poor in these countries, as well as for U.S. farmers. The programs have benefited U.S. rice trade with Japan, South Korea, Taiwan, Mexico, Turkey, and Ghana.

More than 70 U.S. agricultural organizations participate in these important cost-sharing programs. MAP participants have increased their funding share to $1.66 for every dollar contributed by USDA. FMD participants have increased their contributions to $1.39 for every USDA dollar provided. The programs benefit American jobs, help counter subsidized foreign competition, and they are outstanding public-private cost-sharing partnerships. We strongly support their reauthorization and full funding.

Food Aid Programs

The U.S. rice industry is proud to contribute to the humanitarian feeding and food assistance programs that the Federal Government provides to those in need in foreign countries. The P.L. 480 title I and title II food aid programs, the McGovern-Dole International Food for Education Program, Food for Progress, and the Bill Emerson Humanitarian Trust are Federal aid programs that feed the hungry and malnourished overseas. We encourage the continuation and funding of all U.S. food aid programs

Title I of the P.L. 480 Program has provided U.S. food aid successfully for over fifty years. Though funding for the program in FY 2007 is opposed by the Administration and no new funding was provided in the House or Senate Agriculture Appropriations bills currently under consideration, the industry believes the program still serves as an important food aid resource and should be reauthorized and funded.

The U.S. rice industry strongly opposes any attempt to convert P.L. 480 title II food aid donations to a cash food aid program. The industry also strongly opposes any effort to authorize the use of U.S. taxpayers' funds to purchase food grown in foreign countries to be used as U.S. food aid, thereby displacing the use of U.S. farm products for food aid in the process.

The industry wants to work closely with the Congress in achieving reauthorization of P.L. 480 title I and to make sure that the title II Program of P.L. 480 uses taxpayers' funds to procure and provide food donations of U.S.-produced agricultural commodities.

U.S. Trade Sanctions Unfairly Impact the Rice Industry

In addition to the distorted international markets faced by the U.S. rice industry, U.S. policies intended to punish foreign nations or encourage regime change disproportionately harm U.S. rice producers.

Unilaterally imposed U.S. trade sanctions have played a key role in destabilizing the U.S. rice industry and in constraining its long-term market potential. U.S. sanctions have and continue to place downward pressure on market prices to U.S. producers.

Trade sanctions have caused disproportionate harm to rice among U.S. commodity groups. At various times within the past four decades, our number one export markets were closed because of unilaterally imposed U.S. trade sanctions policy:

Cuba: Prior to 1962 Cuba was the largest market for U.S. value-added rice, but since then this important market has been largely closed to U.S. exporters. As a result, China, Vietnam and Thailand have emerged to become major suppliers of the roughly 500,000 metric tons of rice that Cuba imports annually. Recent efforts to ease restrictions on U.S. sales of food and medicine to Cuba under the Trade Sanctions Reform and Export Enhancement Act of 2000 have allowed the United States to regain a share of this market, with U.S. rice exports to Cuba reaching nearly 177,000 metric tons in 2004, valued at more than $64 million. However, even these important gains are threatened by restrictive regulations imposed by the U.S. Treasury Department that have resulted in the volume of rice exports to Cuba declining by 25 percent in 2005. The United States has a considerable freight cost advantage over other exporters, which suggests that the further easing of the restrictions that remain in place could provide substantial opportunities for much larger rice exports to Cuba.

Iran: Similarly, in the 1970's the U.S. rice industry exported on average 300,000 metric tons of value-added rice to Iran. This was the largest U.S. rice export market for value—added rice, and it also was eliminated through the unilateral imposition of U.S. trade sanctions on Iran. But Iran's demand for imported rice continues to grow. In 2004 Iran imported 973,000 metric tons of rice valued at nearly $300 million, mainly supplied by Thailand and Vietnam.

Iraq: In the 1980's, U.S. rice exports to Iraq averaged about 400,000 tons. United Nations sanctions eliminated the market for U.S. producers even while this market grew to nearly 1 million metric tons ($200 million) supplied primarily by Thailand, Vietnam and China through the U.N. Oil for Food program. In 2005, U.S. rice sales to Iraq were resumed with exports of approximately 310,000 metric tons. We appreciate the efforts of our government to reopen this vital market.

The total of these three markets represents more than 2.5 million metric tons of market potential per year that the United States had lost for decades, and that in many cases remains restricted today far below its full potential. This is equivalent to approximately 25 percent of current U.S. production.

In light of significant market access barriers in many key rice-consuming countries, U.S. rice farmers are denied the opportunity to compete openly and fairly. These further restrictions imposed by our own government interfere with the industry's opportunity to discover a market price structure that could reduce the need for government support.

Renewable Energy & Agricultural Research

As you know, there has been considerable discussion and speculation already about the role renewable energy will play in agriculture policy in the future and in the upcoming farm bill debate.. While the ethanol and biodiesel industries are currently expanding at a rapid pace, we believe cellulosic ethanol and the use of cellulose products for energy production is an area primed for growth and expansion. Certainly, resources are now being devoted to research and development of technologies to convert cellulose material into ethanol and other renewable energy products.

As technologies improve, the economics of renewable energy production from cellulose, including rice straw, may be aligning for other regions of the country to contribute towards our increased energy independence. We believe the use of rice straw for ethanol holds promise for both enhancing the financial health of the rice industry and the benefit of the nation's energy needs. And, it stands to reason that the demand for ethanol will track large population centers across the Nation and a number of those are located near the rice growing regions of the country and will offer numerous marketing opportunities.

We urge Congress to include a comprehensive renewable energy title in the farm bill, including new funding for the research, development, and commercialization of the use of rice, rice straw, and other rice byproducts in ethanol and cellulosic ethanol production. In addition, new funding may be necessary to restore our rice research and foundation seed infrastructure as a result of the encroachment of genetically engineered rice into our rice seed supplies and rice crop.

However, in developing and expanding the renewable energy and research titles, any additional funding for these initiatives should not come at the expense of the current commodity programs, which provide the foundation of the safety net for agriculture in general and for rice producers specifically.Conclusion

U.S. farm policy must provide a stabilizing balance to markets and a reliable planning horizon for producers.

We urge you to recognize how well the current Farm Act is working for U.S. agriculture, and to consider ways to maintain its structure as we begin the debate on the next farm bill.

Rice producers: contribute a highly-nutritious food product for the nation;

• contribute to the nation's food security;
• contribute to the local, state, and national economies and the nation's balance of trade;
• contribute to conservation efforts and the environment.

Rice producers call on Congress to continue sound, fair agricultural policies in the next farm bill, including those policies in the current farm act that help to provide:

• producers with stability and reliability; and
• consumers with an abundant, affordable, stable, safe, and secure food supply.

Rice producers look forward to working with Congress and the Administration in the development, enactment, and implementation of a sound, equitable farm bill and rice program.

In the interim, however, in light of the need for a strong safety net as part of U.S. farm policy, the U.S. rice industry supports extending the 2002 farm bill until a Doha Round trade agreement is negotiated to completion and approved by Congress. Thank you, Mr. Chairman, for holding this hearing.

This concludes my testimony.

Statement of Mark Kaiser

Good Morning Chairman Goodlatte, members of the committee, my name is Mark Kaiser. I am a peanut producer from Seminole, Alabama. I am on the Board of the Alabama Peanut Producers Association and am here today representing the Southern Peanut Farmers Federation. The Federation is comprised of the Alabama Peanut Producers Association, the Georgia Peanut Commission, the Florida Peanut Producers Association and the Mississippi Peanut Growers Association. Our grower organizations represent over 80 percent of the peanuts grown in the United States.

I am a proud family farmer. I raise Peanuts, Cattle, Hay, and Timber. My family has been farming in Baldwin County since 1906. I received a BS in agriculture business economics from Auburn University, and I am a member of the Baldwin County Farmers Federation Board of Directors.

First, I want to thank you Mr. Chairman for the House Agriculture Committee's field hearings around the country to hear from our nation's farmers. This includes a hearing in my home state of Alabama. We are proud of our Alabama members of the Committee but especially appreciate Congressman Terry Everett's leadership in moving the U.S. peanut program from a supply-management program to a more market oriented program in the 2002 farm bill. The Committee's foresight protected those U.S. quota holders who had invested their money in peanut quota for many years. These changes allowed our industry to move into the future with a program designed to make U.S. peanut producers competitive in both the domestic and export marketplaces.

According to the University of Georgia's National Center for Peanut Competitiveness, since 2002, the U.S. total peanut domestic consumption has increased by 16.5 percent. The new peanut program has encouraged peanut product manufacturers to develop new products and spend more money on marketing these products. Despite the NAFTA and the Uruguay Round of GATT trade agreements allowing peanut imports to increase significantly, reaching a high of 71,782 metric tons in 2001, the new peanut program has provided U.S. producers the ability to compete with these imports. The 2005 peanut import level was just 12,196 metric tons which is an 83 percent drop in imports. The U.S. peanut industry can compete and be successful.

Unlike the old quota program, the new program has also allowed producers to more readily enter peanut production. In Alabama alone, peanut production has expanded from 15 counties in 2002 to 32 counties in 2005. Alabama is now the second ranking peanut producing state in the United States. Georgia has expanded production to counties that traditionally have been limited in the number of commodity options for producers. The Georgia 2005 peanut crop was valued at approximately $370 million pushing 50,000 jobs into Georgia's economy. Seventy Georgia counties are directly impacted by peanut production. South Carolina and Mississippi are now for the first time important peanut states. Our Florida producers have also expanded production providing new opportunities for young producers.

The Southern Peanut Farmers Federation has met with other segments of the industry including buying points, shellers and manufacturers and each have indicated they were pleased with the 2002 farm bill. Each segment of the industry supported the peanut title of the 2002 farm bill.

As we discussed at the Committee's Auburn hearing, that while the Congress passed a very respectable peanut program in 2002, the administration of the peanut program by the U.S. Department of Agriculture has not been as successful. While the domestic marketplace has seen a healthy increase in demand from consumers and production growth for producers, this has not been the case for the peanut export market.

The USDA has continued to set the loan repayment rate for peanuts too high. Despite language to the contrary in the 2002 farm bill, the Department has relied far too much on data unrelated to the price other export nations are marketing peanuts for in the world marketplace. U.S. peanut producers have lost a significant portion of their export market not withstanding the changes invoked by the 2002 farm bill. Our present export situation is directly related to the high loan repayment rate set by USDA. The 2002 farm bill directed the Secretary to establish a loan repayment rate that the Secretary determines will:

- Minimize potential loan forfeitures
- Minimize the accumulation of stocks of peanuts by the Federal Government
- Minimize the cost by the Federal Government in storing peanuts
- Allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

It is this last point that is most problematic. The Federation believes that USDA is not sufficiently considering the competition in the world marketplace. This lack of response to competition from other origins has critically wounded our export programs.

We have been encouraged by meeting in Washington, DC with USDA Farm Service Agency economists. At this meeting, peanut producers offered three options for achieving a more accurate posted price.

- USDA should use the International Trade Commission methodology to convert shelled stock prices to farmers stock. This has been accepted as a suitable method within the U.S. industry and internationally.
- USDA should ask the Foreign Agricultural Service to collect farmer stock information from U.S. agricultural attaches in peanut exporting countries such as India, China and Argentina.
- Another option may be a percentage value difference of shelled goods from the U.S. versus other peanut origins. Domestic farmers stock prices could be factored to determine the value of other origin farmers stock and those values included in the USDA posted price formula.

The Southern Peanut Farmers Federation is scheduling a series of producer hearings after this crop harvest is complete to discuss the various components of the peanut program and how effective it was for the 2006 crop. We will continue to work with our industry partners and communicate any additional suggestions for the farm bill to the House Agriculture Committee.

At present, we support the continuation of the structure of the current program but will seek to update specific provisions. The current program should be considered the basis for the next program. When the 2002 farm bill was drafted, peanut producers did not envision record high energy prices that impact our major crop inputs including fuel, fertilizer and chemicals. The 2006 peanut crop has felt the full impact of these increased costs. It is important that the next farm bill not rest on the backs of declining farm equity. In Alabama, we saw more than a 26 percent reduction in peanut plantings for the 2006 crop year. High energy costs and weak contract offers are the primary variables for less acreage. Weak contract offers are a direct result of the loan repayment rate being set too high. With a declining export market, peanuts are not moving out of the loan quickly enough resulting in a buyers' market.

As the Committee is aware, the storage and handling fees provided in the 2002 farm bill are eliminated for the 2007 crop year. Producers consider this an integral part of the peanut program. Without these fees, the marketing loan will be reduced, for producers, in excess of $50 per ton. With a 26 percent reduction in Alabama production in the 2006 crop year, peanut plantings could fall below pre–2002 levels in the 2007 crop year if these fees are not restored. I would be remiss not to point out to the Committee that if these fees are not included in the 2007 farm bill, these costs will be passed on to the peanut producer. The $355 per ton marketing loan rate in the 2002 farm bill will now be reduced to an approximately $300 per ton marketing loan rate. Producers in the Southeast will not plant peanuts at this level. If the storage and handling fees are eliminated in the next farm bill, the Federation requests that the Committee consider options for replacing those fees that will prevent this financial burden being placed on the producer.

Most peanut producers are involved in other farm enterprises as well. In our area, most peanut producers are also cotton producers. With the increased pressure on farmers due to markets, fuel prices, etc, I would urge Congress to assure that the benefits of these programs go to the individuals who are assuming the risk associated with farming. This assures that the program is effective for the producer as well as more cost efficient for the government.

Finally, our peanut producers in the Southeast are very concerned about the revival of the World Trade Organization negotiations. The Federation has met with the Office of the U.S. Trade Representative on several occasions but they do not seem to understand that the U.S. peanut producer problem is not closed foreign markets but a USDA loan repayment rate set far too high, assuring that potential foreign buyers find U.S. peanuts cost prohibitive. In addition, to allow Less Developed Countries access to markets import and duty free could severely impact U.S. peanut producers. The list of countries involved in this sector produce over twice as many peanuts as U.S. producers. We appreciated Chairman Goodlatte conveying the Committee's concerns about the Doha Round negotiations to the Administration. U.S. peanut producers believe Congress should set U.S. agricultural trade policy, not the leadership of South America or Europe.

I am grateful for the opportunity to be here today representing peanut growers.

Statement of John Hoffman

Good morning, Mr. Chairman, and Members of the Committee. I am John Hoffman, a soybean and corn farmer from Waterloo, Iowa. I currently serve as First Vice President of the American Soybean Association. ASA represents 25,000 producer members on national issues important to all U.S. soybean farmers. I am also appearing today on behalf of the National Sunflower Association and the U.S. Canola Association. I very much appreciate the opportunity to present the views of U.S. oilseed producers on the 2007 farm bill.

Mr. Chairman, oilseed organizations are very much aware of the challenges you and your Committee face as you prepare to write the 2007 farm bill. These challenges include working with limited funding available under the CBO baseline, defending against the possibility of additional budget reductions, proposals to reallocate resources to other farm bill priorities, and concerns about compliance with WTO requirements and future WTO rulings. Each of these challenges will generate pressure to change the structure and funding of various programs authorized under the 2002 farm bill. They will also affect efforts to adjust or even maintain current commodity support levels under the farm program. As this process goes forward, the Committee will need to decide whether current programs are viable, or whether there may be other approaches that could provide a more effective safety net. Oilseed producer organizations are fully committed to working with you, Mr. Chairman, as you and your Committee make these decisions over the coming year.

Oilseed producer priorities for the 2007 farm bill are to strengthen the current safety net for oilseed crops, support responsible conservation policies, develop new opportunities for expanding production of energy crops, and maintain funding for existing nutrition, research, and trade programs. To achieve these goals, we strongly endorse maintaining the current level of agriculture funding under the CBO baseline. We oppose any efforts to reduce this level of spending, or to shift resources from farm programs to other priorities. We also support enactment of new omnibus farm legislation, rather than a slightly modified one or two-year extension of the 2002 farm bill. Farmers need to make long-term economic decisions, and conditions in agriculture have changed sufficiently in the last four years to justify a comprehensive review of farm policy.

Within the commodity title, we support the basic structure of farm programs under the 2002 farm bill, but believe adjustments are needed in oilseed support levels in the event these programs are reauthorized. Global demand for protein meal for animal feed and for vegetable oil is growing rapidly as the populations and living standards of developing countries rise. We are also seeing a sharp increase in the use of vegetable oils for production of biodiesel, both in the U.S. and abroad. U.S. oilseed producers need to be able to respond to these market signals. So it is important that farm program support levels not have the effect of discouraging producers from planting oilseed crops. We believe low oilseed support levels in the 2002 farm bill relative to supports for other crops and crop market values could discourage producers from planting oilseed crops.

Oilseed producers have strongly supported the Marketing Loan as the most effective tool for ensuring that U.S. crops are competitive with foreign oilseed exports and for supporting producer income when world prices decline. However, loan levels should be established with reference to both recent average prices, and to loan levels for other crops, to avoid distorting planting decisions.

The Counter-Cyclical program provides a viable method for supporting farm income, while decoupling payments from current year production. Current Target Prices for oilseed crops are too low to have triggered oilseed payments under the 2002 farm bill. If this program is reauthorized, these levels need to be adjusted, taking into account the Target Prices for other crops.

Direct Payments are a legacy of the 1996 farm bill, when Congress decided to phase out income support by establishing Production Flexibility Contracts and reducing AMTA payments over time. Since they are fixed and attached to a farm's historical crop base acreage, Direct Payments are factored into land values, which raises cash rents and makes U.S. producers less competitive in world markets.

The support levels for program crops established in the 2002 farm bill are not proportionate to their recent market value, and should be brought within a closer range to reduce the potential for planting distortions. The table attached to my statement compares crop support levels as percentages of the Olympic average of prices for these crops in 2001–2005. As indicated, current Marketing Loan rates for program crops vary from 75 percent to 120 percent of recent average prices. Target Prices range from 90 percent to 180 percent. Direct Payments range from less than 2 percent to 40 percent. In the case of the Marketing Loan and Target Price, disparities of this magnitude can significantly influence planting decisions, particularly when prices are at or below support levels.

The Target Prices and Direct Payments established for oilseed crops in the current farm program are disproportionately low compared to other program crops. As indicated in the table, the Target Price for soybeans is 110 percent of recent average prices, canola is at 101 percent, and sunflower is only 90 percent. The current Target Prices for minor oilseeds are so low that the counter-cyclical mechanism is meaningless. In the case of Direct Payments, the soybean payment is 8.3 percent of recent average prices, canola's payment is 8.0 percent, and sunflower is only 7.1 percent. Both Target Prices and Direct Payment levels for soybeans and other oilseed crops are well below supports for most of the other program crops, and should be adjusted in the event these programs are reauthorized in the 2007 farm bill.

In addition, the Marketing Loan rate for minor oilseeds, at 82.0 percent of recent average sunflower prices, is well below loan levels for other crops. This has resulted in sharply reduced plantings of sunflower and canola under the 2002 farm bill. Minor oilseed organizations strongly support adjusting their loan rate to a level that is proportionate to loan levels for other crops. Using recent average sunflower prices and the current soybean loan percentage of 95 percent, the minor oilseed loan rate would be $10.71 per hundredweight, up from the current level of $9.30 per hundredweight.

In the event competition for limited resources prevents equitable adjustments in oilseed support levels, or would result in cuts in existing levels of support, our organizations support consideration of an alternative structure for supporting farm income that could provide an improved safety net for all crops.

One program alternative we have explored with other farm organizations would guarantee a percentage of program crop revenue, as opposed to offsetting low prices or yields. A 70 percent revenue guarantee would be considered non-production and non-trade distorting, or "Green Box," for WTO purposes. In addition, a net income guarantee would protect a higher percentage of total crop revenue than a gross income guarantee. This approach could be combined with one or several existing programs, including Federal crop insurance, or with permanent disaster assistance, to provide an improved safety net. We encourage the Committee to consider a revenue guarantee approach in the event limited resources prevent addressing our concerns with current oilseed support levels.

I would also like to comment on the potential influence of the WTO on the development of farm programs in the 2007 farm bill. As we know, the WTO panel ruling in the cotton case may require Congress to eliminate the current planting restriction on fruit and vegetable crops if the Direct Payment program is to be continued. We also are aware that producers of these crops are demanding to be "compensated" to offset the potential for lower prices resulting from expanded production of fruits and vegetables on program crop acres. Oilseed producer organizations are concerned about the impact such compensation could have on our effort to seek improvements in the support levels for oilseed crops. Depending on the extent of compensation required, we believe the Committee should consider shifting resources out of Direct Payments to other forms of support for program crops.

Finally, oilseed producers support a farm program safety net that will serve as the basis for long-term economic decisions over the next several years. Accordingly, we believe the Committee should consider the possibility of future WTO challenges to current U.S. farm programs in deciding whether they should be reauthorized or restructured as programs that are less likely to be challenged and are WTO compliant.

Beyond the commodity title, oilseed organizations support reauthorizing and maintaining funding for existing conservation, nutrition, research, energy, and trade programs in the 2002 farm bill. However, any proposal to increase funding for these programs should not come at the expense of commodity programs. To the extent practicable, programs that have been vulnerable to budget reductions in the past should be restructured as entitlements or as front-loaded contracts to minimize the possibility of future cuts.

In the area of conservation programs, oilseed organizations support reducing the acreage enrolled in the Conservation Reserve Program by restricting eligibility criteria to environmentally valued lands. There is growing demand for the viable farmland currently locked up in the CRP, including for production of energy crops. Given the significant advances and acceptance of minimum and no-till farming methods in the 20 years since much of current CRP land was first enrolled, we believe a significant portion of the land currently locked in the CRP could be farmed in a completely environmentally sustainable manner. According to USDA, between 4.3 and 7.2 million acres currently enrolled in the CRP could be used to grow corn and soybeans in a sustainable way. At the average CRP rental rate of $52 per acre, the savings from reducing CRP enrollment by 7.0 million acres would total $364 million per year. These savings could be used for other conservation programs, for research or trade expansion programs, or to promote production of energy crops, possibly through an energy payment, including on former CRP land.

We also strongly support reauthorization and increasing the current funding levels for the Foreign Market Development Program and the Market Access Program. FMD and MAP are key tools in our efforts to keep U.S. oilseeds and oilseed product exports competitive. With no alternative WTO-legal export incentives available, we urge the Committee to preserve these important foreign market promotion programs.

Mr. Chairman, oilseed producer organizations continue to develop specific positions on these and other programs in advance of Congressional debate on the 2007 farm bill. We appreciate the opportunity to present our views today, and would welcome similar opportunities to participate in this process over the coming year. I will be happy to respond to any questions.

STATEMENT OF MIKE JOHN

Mr. Chairman, Ranking Member Peterson, Members of the Committee, thank you for the opportunity to present the cattle industry's perspective on the upcoming 2007 farm bill. My name is Mike John, and I am a cattle producer from Huntsville, Missouri. I am a member of the Missouri Cattlemen's Association and am currently President of the National Cattlemen's Beef Association.

As with most agricultural producers in the country, we've been anxious for work to begin on crafting the 2007 farm bill. As cattle producers, our livelihood is tied to many other agricultural commodities. Livestock consumes three out of four bushels of the major feed grains like corn, sorghum, and barley. Cattle in feedlots account for nearly one-fourth of the total grain consuming animal units, and all beef cattle account for nearly 30 percent. We are dependent upon this nation's agricultural system and infrastructure to feed, transport, market our cattle, and provide beef for America's table; and as such, we are interested in seeing this segment remain healthy and viable.

Unlike other agricultural commodity groups, however, we tend to take a different look at portions of U.S. agriculture policy. Our industry is made up of over 800,000 ranchers in all 50 states, and we have over 95 million head of cattle in this country. Cash receipts from cattle and calves in 2005 are over 48 billion dollars, and those sales account for nearly 40 percent of all livestock sales and nearly half of all farm receipts. Ranchers are an independent lot who want the opportunity to run their operations as they see fit with minimal intrusion from the government. As the nation's largest segment of agriculture, the cattle industry is focused on continuing to work towards agricultural policy which minimizes direct Federal involvement; achieves a reduction in Federal spending; preserves the right of individual choice in the management of land, water, and other resources; provides an opportunity to compete in foreign markets; and does not favor one producer or commodity over another.

The open and free market is powerful, and as beef producers, we understand and embrace that fact. The cyclical ups and downs of the market can be harsh, but the system works, and we remain steadfastly committed to a free, private enterprise, competitive market system. It is not in the nation's farmers or ranchers' best interest for the government to implement policy that sets prices; underwrites inefficient production; or manipulates domestic supply, demand, cost, or price.

Conservation and the Environment

There are portions of Federal agriculture policy that we can work on together to truly ensure the future of the cattle business in the United States. Conservation and environmental issues are two such areas. Some of the cattle industry's biggest challenges and threats come from the loss of natural resources and burdensome environmental regulations. Ranchers are a partner in conservation. Our livelihood is made on the land, so being good stewards of the land not only makes good environmental sense, it is fundamental for our industry to remain strong. Our industry is threatened every day by urban encroachment, natural disasters, and misinterpretation and misapplication of environmental laws. We strive to operate as environmentally friendly as possible, and it is here where we can see a partnership with the government.

The goal of conservation and environmental programs is to achieve the greatest environmental benefit with the resources available. One such program that achieves this is the Environmental Quality Incentive Program or EQIP. Cattle producers across the country participate in this program, but arbitrarily setting numerical caps that render some producers eligible and others ineligible limits the success of the program. Addressing environmental solutions is not a large versus small operation issue. All producers have the responsibility to take care of the environment and their land, and should have the ability to participate in programs to assist them establish and reach achievable environmental goals. Accordingly, all producers should be afforded equal access to cost share dollars under programs such as EQIP.

Secondly, many producers would like to enroll in various USDA conservation programs such as CSP and CRP to reach environmental goals. However, to enroll in these programs requires the producer to stop productive economic activity on the land enrolled. We believe economic activity and conservation can go hand in hand. As such, we support the addition of provisions in the next farm bill that will allow managed grazing on land enrolled in CRP. This will have tangible benefits on environmental quality, for example, helping to improve lands threatened by invasive plant species.

USDA's conservation programs are a great asset to cattle producers. We want to see them continued and refined to make them more producer friendly and more effective in protecting the environment in a sensible way.

Environmental issues are also a huge challenge for our industry. We understand the need for environmental regulations to protect resources downstream, and we believe those producers that knowingly and willingly pollute and violate the Clear Air and Clear Water Acts should be prosecuted to the fullest extent of the law. However, the use of other vehicles, such as EPA's Superfund, to sue agricultural producers in an attempt to get larger settlements is egregious and it threatens the future of agricultural producers both large and small. This, combined with EPA's talk of regulating agricultural dust, animal emissions, and other naturally occurring substances, makes us all concerned for our industry. Although these items are not addressed in the farm bill, we ask that the members of the Committee step in and help agricultural producers in their fight to have effective and sensible environmental regulations.

Activism. In addition to dealing with the misapplication of environmental regulations, our industry is also becoming more at risk from attacks by environmental and animal activist and terrorist groups. Activist groups such as PETA and the Humane Society of the U.S. (HSUS), along with extremist groups such as the Animal Liberation Front and Earth Liberation Front, use extreme measures to try and force their views of vegetarianism and extreme environmentalism on others. Every person has a right to their own views, but to force their views on others using scare tactics, arson, and terrorism is unacceptable. It's not just the extremists, however, that threaten animal agriculture. All we have to do is look at the issue of processing horses for human consumption. All it took was a few celebrities, horse racing groups, and misinformed politicians to pass a law that banned the use of USDA funds to inspect horse processing facilities. The processing of horses is a regulated and viable management option that helps take care of unwanted or unmanageable horses. It would be preferable if there were plenty of people willing to pay for these animals and take care of them, but there are not. Instead, a group of activists have pushed their emotional views on others, and in return are running the risk of allowing more horses to starve or be mistreated, as well as putting companies out of business. This win gives activist and extremist groups a foothold to come after other species. It's no secret that groups, such as PETA, want to put the U.S. cattle industry out of business. It may seem far-fetched, but in today's society, the rural voice is quickly being lost. The farm bill should not be a platform for these activist groups.

Trade. Outside of conservation, environmental, and activist issues, there are several other issues that have the potential to impact the long-term health of the beef industry. One such area is trade. U.S. cattlemen have been and continue to be strong believers in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our product. We support government programs such as the Market Access Program and the Foreign Market Development Program which help expand opportunities for U.S. beef, and we urge sustained funding for these long-term market development efforts.

We also support Congressional and regulatory action to address unfair international trade barriers that hinder the exportation of U.S. beef. We appreciate the Committee's help in working to reopen foreign markets that were closed to U.S. beef after the discovery of BSE on December 23, 2003, in a Canadian cow in Washington State. As you are aware, we continue to fight to get our product into several countries and have seen recent setbacks in places such as Korea and Japan. We ask that you continue to support the effort to see that sound science is being followed in bringing down these artificial trade barriers. To grow our business, we have to look outside of the U.S. borders to find 96 percent of the world's consumers. We encourage the Committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is a party.

Animal ID. In trying to deal with, and mitigate the effects of, animal health emergencies on our business and trade, we believe in participating in a privately held animal identification system. That system now exists and is under the administration of the U.S. Animal Identification Organization or USAIO. Formed in January, they are administering an animal movement database that has the ability to work with animal identification service providers across the country to collect animal movement data and serve as a single point of contact in the event of an animal health emergency. This system will provide real time access to USDA and their State Vets, and will allow trace-back of any diseased animal to start immediately and be completed in less than 48 hours. Confidentiality of the information is paramount and is one of the greatest concerns for producers. This privately held database will keep the information much more safe than a public, or USDA system would. The USAIO is currently recruiting partners and building the amount of data they have in their system. It will be self-funded and will not rely on any Federal funding.

Research. In regards to animal health emergencies, we see a need to keep a strong agricultural research component to the farm bill. USDA's research is critical in all aspects of our business. Their research and extension activities help to find new and improved cattle production methods to help make our business more efficient and effective. Animal health research helps to control and eradicate animal diseases; develop better methods to keep foreign animal diseases out; and to identify, control, and preempt new diseases. These activities keep our national herd healthy and make it easier to export our beef and cattle. In addition, nutrition research is important to show that beef is a healthy part of America's diet and plays an important role in USDA's "My Pyramid" and food guidelines.

Energy. Research is also needed to identify and develop alternative methods of producing energy. Renewable energy is going to become an increasingly important part of our country's energy supply and there are many ways that cattle producers can contribute and benefit. Research and development is needed to find cost-effective methods of utilizing manure and animal waste as a fuel supply. Gasification and other methods hold a lot of promise for our industry. When looking at ethanol, however, we must be careful not to act in a way that is detrimental to the livestock industry. Livestock consume the majority of U.S. corn. As ethanol continues to grow, we must make sure it does not do so at the detriment of the cattle feeding industry. We must take all opportunities to look at ways to balance feed demand, price, and the benefit of renewable fuels.

Property Rights. In turning to business matters, one of the biggest concerns to cattlemen right now is their private property rights. The Supreme Court's ruling in *Kelo* v.*The city of New London* sent a shockwave through the cattle community. The thought that our ranches could be taken by municipal governments and turned over to private developers in the name of economic development is disturbing. Our country is great for many reasons, but one of them is the ability to own property, use it how you see fit, and not worry about it being taken from you on someone else's terms. We believe in the rights of cattlemen to keep their property and applaud the Committee's efforts to protect those rights.

Taxes. Reducing the tax burden on ranchers has always been a top priority for our industry. We continue to support permanent repeal of the Death Tax. Regardless of how many or how few are effected, if even one rancher has to sell off part of their operation to pay this tax, it is unacceptable to us. Cattlemen pay their fair share of taxes, and resent the fact that many are being penalized for wanting to pass their operations on to future generations. Our priority is to keep families in agriculture, and this tax works against that goal. We do not see this as a tax cut for the rich. The rich can afford high priced attorneys and accountants to protect their money now. Ranchers operate in an asset rich but cash poor business environment. Ranchers must spend money that would otherwise be reinvested in their businesses to hire the resources necessary to protect their assets and pass their operations on to their children. At the same time, however, they may have several hundred acres of land whose value has been driven up by urban sprawl and the unintended consequences of Federal crop supports. We also support keeping the Capital Gains Tax at a lower rate, repeal of the Alternative Minimum tax, and full 100 percent deductibility of health insurance premiums for the self-employed.

Marketing Issues. As with the 2002 farm bill, we fully expect to deal with several marketing issues in title X of the bill. Although we believe that the farm bill is not the place to address these issues, they continue to come up and we must be prepared to defeat them. When looking at these issues, it is important to note that we support the critical role of government in ensuring a competitive market through strong oversight. This includes the role of taking the necessary enforcement actions when situations involve illegal activities such as collusion, anti-trust, and price-fixing. The USDA Office of Inspector General's recent report on the audit of GIPSA is concerning, but we have faith in the new Administrator's ability to comply with the OIG's recommendations and tighten up GIPSA's enforcement of the Packers and Stockyards Act.

However, government intervention must not inhibit the producers' ability to take advantage of new marketing opportunities and strategies geared toward capturing a larger share of consumers' spending for food. A ban on packer ownership or forward contracting has been a part of farm bill debates for years. We are staunchly opposed to those efforts because by legislating those conditions, Congress is trying to tell cattle producers how and when to market their cattle. This strikes at the very basis of our business which is utilizing the market and its opportunities to improve our returns and make a living. We do not believe that Congress should tell cattlemen how they can market their cattle. Each producer should be able to make that decision for himself, whether he markets his cattle through traditional or new and progressive channels. The market provides many opportunities and cattlemen should be allowed to access all of them.

Another issue of concern is mandatory Country of Origin Labeling or COOL. Cattlemen across the country realize the benefit of labeling our product because we produce the best beef in the world. The ability to separate our product from everything else in an effort to market its superiority is a fundamental marketing strategy. There are voluntary labeling programs across the country that are being driven by the market, led by cattlemen, and are providing a higher return on their cattle. This is what a labeling program should be about: marketing. Instead, mandatory COOL has turned this into yet another commodity type program that treats all beef the same and does not allow for forms of niche marketing. This will cost producers money, but will not provide them with any return. In addition, mandatory COOL is being pushed by some as a food safety prevention tool and a non-tariff trade barrier. COOL is a marketing tool only, and in no way should be tied to food safety. We have firewalls in place to keep U.S. beef safe. COOL should also not be used as a non-tariff trade barrier. To label our beef in an effort to capitalize on the demand for our premium product is one thing, to label it as a way to block the competition is yet another.

In an effort to enhance the marketplace for cattlemen, we support legislation that would allow meat inspected by state departments of agriculture to be shipped across state lines. Packing plants across this country, both big and small, follow all the same food safety techniques, and state inspectors are effectively trained and competent in their meat inspection skills. This type of provision would create additional competition in the packing sector and create marketing opportunities for family-owned packing companies who are currently limited to simply marketing in-state.

In short, the government's role should be to ensure that private enterprise in marketing and risk management determines a producer's sustainability and survival.

As you can see, we are not coming to you with our hand out. Like I mentioned before, America's cattlemen are proud and independent, and we just want the opportunity to run our ranches the best we can to provide a high quality product to the American consumer, and even more importantly, provide for our families and preserve our way of life. We are coming to you in an effort to work together to find ways to use the extremely limited funds available in the best way possible to conserve our resources, build our industry, and provide for individual opportunity at success. We ask for nothing more than Federal agriculture policy that helps build and improve the business climate for cattlemen. We look forward to working with you on the 2007 farm bill.

Statement of Jim Evans

My name is Jim Evans. I am a farmer of dry peas, lentils, chickpeas, wheat and barley near Genesee, Idaho. I am also the Chairman of the USA Dry Pea and Lentil Council, a national organization representing producers, processors and exporters of dry peas, lentils and chickpeas across the northern tier of the United States. In the audience today is the Vice Chairman of our Council, Greg Johnson. Greg owns and operates Premier Pulses International in Minot, ND. Premier Pulses International is a large processor of peas, lentils, and chickpeas from Montana and both North & South Dakota.

Good farm policy should encourage farmers to take advantage of market opportunities and reward them for crop diversity and management practices that help the environment. Every country protects their agricultural base in some form or fashion. The recently failed WTO negotiations prove that most countries are unwilling to leave their farmers unprotected. If U.S. farmers are to compete against subsidized competition, high tariffs and phytosanitary barriers the following elements of the farm programs must be included in the next farm bill:

Title I—Commodity Programs

1. Marketing Loan Program/LDP—The Marketing Loan Program is the single most important farm program tool used on my farm. This program provides some protection when prices go in the tank and pays me nothing when prices are good. I like this program because it allows me to take advantage of market opportunities and satisfies my banker's need for some downside risk coverage. This useful program needs to continue because it allows me to include environmentally sound crops with targeted market opportunities.

2. Direct & Counter Cyclical Program—I fully support the continuation of the direct and counter cyclical program payments that have sustained my farming operation and the local businesses that support my farm. Farmers do not have the opportunity to set market prices, so Direct and Counter Cyclical Payments provide financial security against things which I cannot control like political decisions blocking access to lucrative markets or like Hurricane Katrina which unexpectedly increased costs of fuel and fertilizer. Direct and counter cyclical payments are a good form of Rural Development because the dollars go directly to rural enterprises that support farming and provide commerce throughout our small communities. The farm bill 2007 should include Direct and Counter Cyclical Payments for Pulse crops.

3. Planting Flexibility—The best part of the 1996 farm bill was the freedom to plant a crop based on market signals instead of base acres. Planting flexibility must be continued and expanded in the next farm bill. Chickpeas (Garbanzo beans), for

example, are currently considered a vegetable crop and are not an eligible crop to be planted under farm program rules. Chickpeas are an important crop to my farm operation and I want the flexibility to grow them as an eligible farm program crop when market signals warrant.

Title II—Conservation Programs

The USADPLC believes that our farm policy should reward producers for managing their soils based on long-term environmental sustainability on working lands.

1. CRP—The Conservation Reserve Program (CRP) has had many environmental benefits but the way it has been managed has been devastating to rural communities. In the next farm bill, CRP should be limited to only the most fragile lands and whole farm bids should be difficult to obtain.
2. CSP—In order to achieve the environmental and conservation goals of this great country, we need to fully fund the Conservation Security Program (CSP) and make it available to all producers at the same time. Sign up for the current CSP program is time consuming, complicated, and it often fails to recognize accepted conservation practices in a local area. The program should reward producers for achieving conservation goals based on systems that are economically sustainable and result in significant improvement in soil, air, and water quality. The CSP should be modified to reward producers for addressing conservation goals in their local watersheds and should encourage farmers to diversify their crop portfolios.

Title III—Trade

1. WTO—In a perfect world there should be no agricultural subsidies, tariff barriers, phytosanitary restrictions, and currency manipulation. Unfortunately, we do not live in a perfect world. The USADPLC supports the current WTO negotiations if the result is an agreement that puts U.S. agriculture on an EQUAL playing field with all other countries. WTO negotiations are on the rocks. Congress needs to write a farm bill that protects U.S. agriculture in the current trading environment. We support an extension of the 2002 farm bill until a fair WTO agreement is reached.
2. Cuba-When people ask me why U.S. farm programs are still needed to protect farmers I tell them we live in an imperfect world and sometimes my own government is working hard against me. Cuba imports over 200,000 MT of pulses each year, mostly from Canada. In the year 2000, Congress passed legislation allowing sales of agriculture commodities to Cuba. A year ago, our industry shipped over 50,000 MT of dry peas to Cuba mostly from Montana and North Dakota. This year the Administration modified the rules of payment from Cuba and dry pea sales have plummeted. Our government has cost the pea and lentil trade millions of dollars in lost sales to Cuba and other countries. We hope the next farm bill will eliminate all trade restrictions with Cuba and other countries.
3. Food Aid-We have a responsibility as a nation to share our abundance with those in need. We support the continuation of all food aid programs in the next farm bill. In order to address the increasing need for food aid in developing countries, P.L. 480 title II funding should be $2.0 billion per year. Our organization does not support cash donations in lieu of purchasing U.S. commodities within the food aid title.
4. MAP & FMD—The Market Access Program and Foreign Market Development Program have allowed our industry to penetrate new markets around the world. This program should be enhanced in the upcoming farm bill.
5. Phyto-Sanitary Barriers—The pea and lentil industry continues to battle phytosanitary barriers around the world. We have been battling fumigation requirements in India for the past two years. In March, China banned all imports of U.S. dry peas claiming excessive selenium levels in our peas. Sound science is not the basis for either of these restrictions. However, access to major markets is restricted with our harvest just around the corner. The new farm bill needs to beef up U.S. enforcement of phytosanitary barriers.

Title VII—Research

To compete successfully in the global economy we need to increase our investment in agricultural research. The USDA Agriculture Research Service and our Land Grant Universities have faced flat or decreasing budgets for years. We support increasing agricultural research budgets in the next farm bill.

TITLE IX—ENERGY

Energy Conservation Program—We fully support programs in the next farm bill to enhance the development of biobased fuels. We are investigating the fit pulse crops will have in the ethanol production market. farm bill policy should not just consider energy products. Rewards for energy conservation should also be included. Legume crops like dry peas, lentils, and chickpeas do not require fertilizer because they fix their own nitrogen in the soil. If the farm bill rewards farmers for planting "energy crops", then it should also reward them for planting crops that conserve energy.

TITLE X—MISCELLANEOUS

Transportation—Cost effective and adequate transportation of our crops to market has emerged as one of our biggest limiting factors during the growth of our industry in the past few years. Most of the pulse processors in our industry are captive shippers on a short line railroad. They provide rural jobs in places like Ray, North Dakota and Chinook, Montana. Competitive rail rates and adequate service is critical to the long-term health of our industry. The BNSF railroad services a large pea and lentil processing facility in the small town of Ray, North Dakota that is about 100 miles from the Canadian border. To ship a box car from Ray to the west coast costs $3,463. The same boxcar on the Canadian Pacific Railroad to the west coast carrying Canadian pulses costs $2,463. It is currently $1,000 cheaper per car to ship Canadian pulses to either west or east ports. Our industry supports the captive rail legislation sponsored by Senator Burns, Dorgan and others. We ask Congress to address the issue of transportation by both rail and water in the next farm bill.

I would like to thank you for allowing the USA Dry Pea & Lentil Council to provide this testimony and for coming to the great state of Montana. Part of my extended testimony is a printed power point presentation with information about our industry and our farm bill policy positions.

I would be happy to answer any questions at this time.

STATEMENT OF GERALD TUMBLESON

Mr. Chairman, Ranking Member Peterson and members of the Committee, on behalf of the National Corn Growers Association (NCGA), I want to thank you for this opportunity to share our member's views on the 2002 farm bill and provide input for the writing of the 2007 farm bill.

My name is Gerald Tumbleson. I farm with my wife and two sons in southern Minnesota, where we produce corn, soybeans and hogs. I currently serve as president of NCGA.

The National Corn Growers Association represents more than 32,000 corn farmers from 48 states. NCGA also represents more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across our country, working together to create new opportunities and markets for corn growers.

America's corn producers continue to make a significant and important contribution to our nation's economy. Over the last five years, the nation's corn crop has averaged 10.3 billion bushels resulting in an annual average farm gate value of almost $22 billion. The relatively stable production over the past ten years, made possible by innovation in production practices and technological advances, has helped to ensure ample supplies of corn for livestock, an expanding ethanol industry, new biobased products, and host of other uses in the corn industry. Moreover, investments by the American taxpayer in our nation's agriculture programs have helped to produce a more stable financial environment for production agriculture and a brighter future for our rural communities. In our view, reliable, abundant, affordable and safe supplies of grain for the food on our tables to the fuel in our cars are generating benefits many times over for our national economy.

COMMODITY PROGRAMS

I must emphasize that the farm safety net provided in the commodity title of the 2002 farm bill and its predecessors is considered a critical component of most producer' risk management plans. The changes to farm support programs adopted in May of 2002 have proven to be more effective in delivering assistance to farmers when it is most needed; during periods of low commodity prices, adverse weather conditions and crop disease. The new counter-cyclical payments combined with direct payments and the marketing assistance loan program has enhanced producers' ability to make long term business decisions, including investments in ethanol production and other agriculture value-added opportunities.

Another important part of the farm safety net is the Federal crop insurance program. Due in large part to additional resources authorized by Congress in 2000 and improvements in revenue coverage, the program has experienced a substantial increase in enrolled acreage and the average level of protection for both traditional multi-peril crop and revenue based policies. Many of our members, however, continue to express concern that Federal crop insurance remains too costly or provides insufficient protection. Because of the diverse production conditions across the Corn Belt, NCGA urges the committee to advance policy changes to expedite the research and development of enhanced revenue based products or innovative program options that may better match the risk management needs of farm operations not adequately served by the crop insurance policies available today.

While the 2002 farm bill has performed well for most corn growers, NCGA has noted in previous hearings a serious flaw or what some economists have referred to as a "hole" in the safety net. First, for producers who have sustained large crop losses or repetitive years of shallow losses during the recent years of record harvests and low prices, the combined support of fixed direct payments, marketing loan deficiency payments and countercyclical payments have provided insufficient income protection, even with the purchase of crop insurance coverage at higher levels. Secondly, growers who have found themselves in isolated areas of drought or other adverse weather conditions and unable to fully benefit from higher market prices, cannot look to countercyclical payments to lessen the adverse impact of lost income and the drain on their financial assets. Third, NCGA remains concerned about the traditional formula of crop disaster assistance in current and past legislation which does little to fill these gaps in today's farm safety net. By redirecting payments for losses already covered by Federal crop insurance to a portion of uninsured losses, we believe reforms proposed by Rep. Sam Graves, in the Companion Disaster Assistance Program Act, H.R. would provide a more effective, sensible delivery of aid without compromising the objectives of our Federal crop insurance program.

In anticipation of last year's budget reconciliation and development of a new farm bill, NCGA decided to undertake a careful review and analysis of the farm safety net. Under the current structure, the distribution of support from direct payments, loan deficiency payments, and counter-cyclical payments appears to be relatively balanced over time. Looking forward, however, changes in the corn industry, particularly an expanding ethanol industry, suggest a significant reduction in price based support from loan deficiency payments and countercyclical payments. Projections for corn and other commodity markets by the Food and Agriculture Policy Research Institute and other experts have underscored the need for NCGA and several affiliated state associations to investigate alternative safety net concepts for our members' consideration.

Based on input we have gathered and the work of our public policy team, NCGA has developed a preliminary proposal for a revenue based safety net that our initial analysis indicates more effective net farm income protection factoring in price, yield and variable production expenses. Two new programs, Base Revenue Protection (BRP) and Revenue Countercyclical Program (RCCP), would work in a complementary fashion and compensate producers when market revenue declines below target levels. BRP provides coverage against declines in farm-level crop net income. RCCP builds on this base and provides protection against declines in revenue measured at the county level, similar to Group Risk Income Protection (GRIP) in Federal crop insurance.

Briefly, BRP guarantees that a grower's per-acre crop-specific net revenue would not fall below 70 percent of the previous five year Olympic average of per-acre net revenue on a farm. The actual per-acre net revenue in any one year would be calculated by multiplying the actual farm level yield by a national market price and subtracting the variable costs of production estimated by the Economic Research Service. A producer would then receive assistance if his net revenue falls below the guarantee. RCCP payments would be triggered whenever the actual county revenue falls below the county revenue guarantee. The county guarantee under NCGA's initial proposal is set at 100 percent of the product of the effective target price (target price less direct payment of crop) and the expected county yield. The actual county revenue determined using the season average price and National Agency of Statistical Services (NASS) county yield. Because RCCP and BRP are a package of programs, the maximum payment for RCCP is capped when the actual county revenue falls to 70 percent of the county revenue guarantee.

Coupled with the current fixed direct payments and a recourse loan program, BRI and RCCP would establish a more effective safety net structured to transfer considerable trade distorting support into a program exempt from WTO domestic support limits. In fact, BRP is designed to meet current WTO rules for income insurance and safety-net programs in the Green Box while the RCCP fits within the Amber Box. This reform, alone, could potentially offer greater flexibility for other agriculture support spending reported as Amber Box Support. Our revenue based concept remains a work in progress, but NCGA is committed to reaching out to the other commodity groups to address their concerns as we further refine our proposal for your consideration.

As important as an adequate safety net is to America's farmers, NCGA views commodity programs to be strongly linked to revitalizing our rural communities. We urge the committee to carefully consider the proven programs in the Rural Development title that are better leveraging our farm support resources for locally owned agriculture based investments. The experience of our members indicate programs such as direct value-added producer grants, loan guarantees for renewable fuels projects and investments in rural infrastructure stimulate economic development generating a wide range of benefits for rural areas. By providing new sources of capital and engaging farmers in value-added processing, production and marketing, the Rural Development title can help enhance farm profitability and creation of new jobs. Unfortunately, we have seen these cost effective programs and other important rural development initiatives in the 2002 farm bill impacted by reduced funding and in a number of cases, no funding at all. If we are to continue the progress in building a more prosperous economy and a better quality of life in Rural America, NCGA believes that the next farm bill can serve as an engine of growth for new business opportunities.

Conservation and Stewardship

Another top priority for NCGA is an agriculture policy that recognizes and promotes the best available practices by farmers to further improve our environment. When President Bush signed the farm bill into law on May 13, 2002, he stated at the signing ceremony: "For farmers and ranchers, for people who make a living on the land, every day is Earth Day. There are no better stewards of the land than people who rely on the productivity of the land." We commend Congress, particularly this Committee, and the Administration for providing a strong emphasis on conservation in the 2002 farm bill, especially on working lands.

Corn growers are very concerned with the health and well-being of American citizens and are mindful of the need to balance environmental stewardship with the need for a long-term, dependable food supply and necessity for long-term profitability in farming. We support the use of sound science to set environmental policy and the use of voluntary programs to assist farmers in meeting environmental goals.

Farmers are making important environmental gains through the use of farm bill conservation programs—we see that in reduced soil erosion, improved water quality, and increased wildlife habitat. Likewise, we support efforts to measure the real results of the conservation practices we've implemented. We applaud the collaborative work thus far on the Conservation Effects Assessment Project (CEAP) to scientifically assess the environmental outcomes from farm bill conservation programs and determine benefits from conservation practices and programs. The ability to develop understandable and relevant performance measures and communicate them to the public will help shape future public and congressional support for farm programs.

Looking Ahead to 2007. In anticipation of upcoming farm bill conservation policy deliberations, NCGA's Production and Stewardship Action Team commissioned research of recent National Resources Inventory (NRI) data, concentrating on sites with a history of corn production. The goal of this research is to determine the level of conservation practices and production practices nationwide that growers have implemented to conserve soil and limit erosion. We are working to identify the remaining conservation practices that might be adopted on corn producing lands to properly address remaining conservation challenges.

For example, initial exploration of NRI data show increases in farm bill conservation title investments to conservation tillage in areas where appropriate may hold the potential for the single largest gains in further reducing erosion from corn lands. Additionally, the overlap between energy conservation, conservation tillage and Natural Resources Conservation Service's (NRCS) own emphasis on improving growers' energy conservation practices all point toward possible and successful initiatives in the next farm bill.

We understand tight budgetary constraints will be a major issue with the 2007 farm bill. While each of the conservation programs utilized by corn growers could benefit from more funding to increase efficiencies, enrollment opportunities, and environmental gains, any increase in funding should not come at the expense of the farm safety net (title I programs). In general, we recommend that the farm safety net should be enhanced with conservation programs but not replaced by conservation programs.

As is the case with many farm bill titles (conservation, research, rural development, energy, etc.), programs that are authorized but never funded are of no help. Likewise, programs that are deprived during the appropriations process never reach their full potential. For example, altering support levels to the 2002 farm bill conservation programs has caused unnecessary disruption across the farming community, and we do not recommend this practice in the 2007 farm bill. Corn growers do not support the notion of one conservation program funded at the expense of another, or title II funded at the expense of title I.

Farm Bill Conservation Programs. Regarding the future of conservation programs, many of our members have expressed concern with how the current programs are being implemented on the state and local level. Many believe their knowledge and expertise are ignored and not wanted. They believe they are essentially shut out of state technical committees, which as a result are dominated by paid professionals who usually do not have the farmer's best interest at heart. Our members also are discouraged by backlogs in funding and seemingly arbitrary funding decisions.

Technical Assistance. The demand for technical assistance continues to increase. Yet, funding for technical assistance has been relatively flat over the years. In general, we recommend the next farm bill provide adequate funding for NRCS field staff to help address conservation challenges on-farm. We encourage the Committee to look at a long-term view of budgeting for technical assistance that balances national priorities with local needs.

Conservation Reserve Program (CRP). The Conservation Reserve Program is one of the most important and widely used conservation programs for corn growers. NCGA supports the full utilization of CRP at its maximum authorized level and the President's goal of sustaining the environmental benefits of the program.

Current NCGA policy endorses the targeted enrollment and reenrollment of the most environmentally sensitive land, such as field borders and filter and buffer strips, and other areas needed for conservation compliance. These targeted areas should be allowed to be managed in such a manner that would not disrupt the normal management of the entire field. Corn growers also recommend the voluntary enrollment of filter strips under the continuous enrollment provision of CRP.

NCGA supports maintaining an equitable balance among soil erosion, water quality and wildlife benefits. However, the program should have flexibility to address local concerns as well. For example, in some parts of the country, it is very difficult to achieve cost-effective wildlife benefits.

NCGA strongly supports the use and further development of state-based Conservation Reserve Enhancement Programs (CREP) as they bring together a broad group of interest to address specific, local concerns. However, CREP's popularity has resulted in an over-subscription of available funds.

We support a CRP that pays adequate and fair rental rates and allows farmers to bring land back into production at the end of their contract if they desire. However, rental rates should be reviewed by USDA to ensure that payments for whole field enrollments do not exceed county average rental rates for similar land capability classes.

Corn growers also have heard concerns from our partners in the conservation community regarding land use implications of dedicated energy crops, especially since increasing land areas for this purpose could affect marginal and ecologically sensitive areas (wetlands, wildlife habitat) and CRP lands. Along with research and development of increased ethanol production capabilities, we encourage this Committee to consider how farm bill conservation programs can mitigate potential unintended consequences in this regard.

Environmental Quality Incentives Program (EQIP). The Environmental Quality Incentives Program is very popular and delivers effective conservation program dollars to assist landowners who face natural resource challenges on their land. Above all, EQIP should preserve the full flexibility needed to adjust the program over time to focus on evolving issues and allow improvements to program features based on national, state and local needs.

NCGA continues to support the requirement that 60 percent of EQIP funds be directed to livestock-related conservation practices. Likewise, we support the environmentally sound use of manure and the use of incentive payments to producers who develop Comprehensive Nutrient Management Plans (CNMPs). CNMPs are sound investments that help ensure livestock effluent is managed responsibly.

However, EQIP should be made available to livestock and poultry facilities without bias to size or location. The intent of Congress was to help all livestock producers cope with the costs imposed by current and emerging local, state, and Federal environmental regulations; however, those producers who manage the majority of total livestock in the United States have not had access to the program.

In addition, limiting EQIP's water quality priority to solely address non-point source pollutants misses the intent of the 2002 farm bill. For example, the National Pork Producers Council has cited in previous comments on EQIP that approximately 80 percent of all the hogs produced in the United States—and therefore 80 percent of all the hog manure produced by these operations—could be classified by the Environmental Protection Agency (EPA) as point sources. In order to improve water quality nationwide, we encourage the Committee to clarify that the program must also provide assistance to help those that produce and manage the majority of animals and manure.

While most of the technical issues addressed by EQIP concern water quality improvement, most of the public perception problems and citizen opposition concern odor. NCGA encourages the use of EQIP funds for odor control systems for livestock operators.

However, NCGA does not support EQIP as a funding source for endangered species protection, especially when other, more effective and well-funded financial assistance programs within the Department address at-risk species habitat recovery, including the Wildlife Habitat Incentives Program.

Conservation Security Program (CSP). The Conservation Security Program continues to be a work in progress. Since its enactment, seven legislative actions on the CSP statue have resulted in funding changes creating a range of implementation challenges. As a result, a number of corn growers have expressed frustration with the continuous changes in the application process, describing it as a moving target. Funding stability is needed in order to fully appreciate the impact of the program.

NCGA supports environmental incentive payments for implementation of conservation practices. The agency's approach of rewarding both existing practices and encouraging the adoption of additional practices with corresponding incentive payments is a positive aspect of the program. We encourage this Committee to review program requirements that phase out the early adopter of conservation enhancements to ensure that this is not counterproductive to "rewarding the best."

Congress should reiterate the need to ensure that enrollment categories and subcategories are fairly and consistently applied to all farmers across the nation. While NCGA is generally supportive of granting states flexibility in implementing conservation programs, the Committee should consider additional oversight mechanisms to manage how states interpret and disseminate information about the program. Inconsistent application of conservation laws, programs and standards can have the unintentional effect of helping one farmer while hurting another, thus diluting environmental benefits.

Very few NCGA members have control of all of the land they farm for the length of time prescribed by CSP. Most corn growers rent land on an annual basis, and the size and make up of their operations vary from year to year. Some states have founds ways around the land control requirements in the program, however, a national, uniform standard should be in place to address this concern. Corn growers recognize the challenges associated in addressing the program's approach to rental lands and will work with the Committee and USDA to find a solution.

Wetlands Reserve Program (WRP). Moving beyond the "no net loss" of agricultural wetlands to have an overall increase in wetland acres each year is a direct result of the work farmers and ranchers have done to create, maintain or enhance wetlands. According to USDA, the greatest gain in wetland acres has occurred in the Corn Belt and Delta States. WRP can help continue to create, improve and protect millions of wetland acres but the program is oversubscribed in many key areas of the nation.

Energy. While the 2002 farm bill is often noted for authorizing a record level of conservation program funding, the legislation was the first in history to contain a separate energy title, reflecting a fundamental policy linking of agriculture to energy. Title IX of the farm bill established new programs and grants for procurement of biobased products to support development of biorefineries; to educate the public about benefits of biodiesel fuel use; and to assist eligible farmers, ranchers, and rural small businesses in purchasing renewable energy systems.

As this committee moves forward with writing the next farm bill, it is important for you to know the high level of support for an Energy title that emphasizes opportunities for growth in renewable fuels production, building new markets for biobased products, and investments in value-added agriculture businesses. NCGA advocates farm bill policies and programs reflective of the current market and rising demand for renewable fuels. It is our view that the next farm bill can be developed to play an even more valuable role in shaping the future of the renewable fuels industry and reducing the country's dependence on foreign energy supplies.

I would like to highlight a few key provisions from the 2002 farm bill that have been beneficial to our corn grower members. However, without adequate funding, these programs cannot be successfully implemented.

First, the Value-Added Agricultural Product Market Development Grants provision makes competitive grants available to assist with feasibility studies, business plans, marketing strategies, and start-up capital. Many farmer-owned ethanol and biodiesel plants have utilized this program. Moreover, with more ethanol plants coming online many rural communities are seeing stronger economies and increased development.

Additionally, the Federal Procurement of Biobased Products provision established a new program requiring the purchase of biobased products by Federal agencies. This program has promoted the growth of biobased consumer goods and has created another value-added arena for commodities like corn. NCGA continues to believe this program requires more attention at the Federal level and support for incorporating biobased chemicals into the parameters of the program.

The Biorefinery Development Grants program provides Federal grants to ethanol and biodiesel producers who construct or expand their production capacity. The 2002 farm bill authorized funding for this program but no money has been appropriated. In today's expanding energy market and a growing demand for homegrown fuels, Federal initiatives to support biofuel expansion and increased capacity would be a welcome benefit for producers.

Another competitive grant program, Biodiesel Fuel Education, was established for facilitating education of government and private organizations with vehicle fleets, as well as the public, on the benefits of biodiesel fuel use. In step with this program, NCGA supports expansion of this program to better inform agencies and other groups about the benefits of ethanol and E85 fuel. Again, the potential benefits of these programs are lost without proper funding and continued Federal support. Additionally, the Renewable Energy Systems and Energy Efficiency Improvements Section, which created a loan guarantee, and grant program to assist eligible farmers, ranchers, and rural small businesses in purchasing renewable energy systems and making energy efficiency improvements has proven useful in some communities. This program can serve as key asset in expanding renewable energy use and mitigating the adverse impact of rising fuel costs on farm income. Lastly, the 2002 farm bill reauthorized the Bioenergy CCC Program and broadened the list of eligible feedstocks. This program which expired June 30 of this year, required the Secretary of Agriculture to make payments through the Commodity Credit Corporation to eligible producers to encourage increased purchases of eligible commodities to expand production of bioenergy and support new production capacity. Overall, this program has been helpful in encouraging expansion and stimulating capacity growth, but there is room to restructure this program to be more inclusive of other feedstocks.

As U.S. agriculture becomes a major player in domestic energy production, research and development will be critical in diversifying the nation's energy portfolio. Our next farm bill should provide direct investment into ethanol and biofuel research and development. For instance, R&D investments in ethanol production technology could have a very positive long term economic impact while immediately decreasing dependence on imported oil. Examples of R&D investment opportunities include improving production and utilization of animal feed, co-production of biobased chemicals, utilization of corn kernel fiber, and reducing natural gas use in ethanol plants. Today, the Federal biomass research program is focused on long-term cellulose research. Cellulose research is one of several potential strategies to increase ethanol production and will need a steady stream of R&D dollars to reach its full potential.

NCGA expects each of these programs to produce significant opportunities for rural economic development, energy diversification, and environmental quality. Clean energy development provisions in the farm bill are providing a new income stream for farmers and ranchers as well as creating new jobs. As we work together to craft the next farm bill, we encourage members of the committee to carefully consider the successes and lessons learned from these programs. U.S. farmers and the towns where we live are excited about the possibilities of producing more renewable energy for our country.

Trade. The farm bill also authorizes two programs, the Market Access Program (MAP) and Foreign Market Development Cooperator Program (FMD), which play integral roles in overall U.S. efforts to further agricultural trade. These programs promote U.S. agriculture products, including corn and value-added corn products, in important foreign markets. The trade of corn and its value-added products is essential to the profitability of U.S. corn farmers. According to the USDA Foreign Agricultural Service (FAS), the U.S. exported almost $4.8 billion of corn during 2005. Additionally, exports of value-added products such as beef, pork and chicken totaled over $6.7 billion during the same year.

The Market Access Program and Foreign Market Development Cooperator Program. NCGA supports both an increase in the funding cap for MAP and a higher level of minimum funding for FMD in the 2007 farm bill. Rural American farmers and ranchers, as the primary suppliers of commodities benefit from MAP. In addition, all regions of the country benefit from the program's employment and economic effects from expanded agricultural export markets. Each year, both of these programs help launch and expand sales of U.S. agricultural, fish, and forest products overseas. However, the most recent FAS data focusing on market development programs similar to MAP and FMD in other countries showed competitors' total spending (government and private sector) exceeded that in the United States by nearly a 4 to 1 ratio during 2002.

MAP uses funds appropriated by Congress to: encourage the development, maintenance, and expansion of commercial agricultural export markets; stimulate and increase interest of small companies in exporting; open new markets; counter unfair foreign competition; and increase commercial sales of U.S. agricultural products. MAP forms a partnership between non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, small U.S. businesses, and USDA's Commodity Credit Corporation (CCC) to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

The FMD Program, also known as the Cooperator Program, uses funds from the U.S. Department of Agriculture's Commodity Credit Corporation to create, expand, and maintain long-term export markets for U.S. agricultural products. The Cooperator program has fostered a trade promotion partnership between USDA and U.S. agricultural producers and processors who are represented by nonprofit commodity or trade associations called Cooperators. Under this partnership, USDA and the Cooperators pool their technical and financial resources to conduct overseas market development activities. These programs help to build international markets for important corn co-products such as distiller's dried grains with solubles (DDGS). Without these programs, it would be difficult to conduct the feeding trials and education programs that help lead to increased DDGS demand in countries such as Mexico. For instance, the results of a feeding trial conducted in Veracruz, Mexico, are used to promote this ethanol co-product at national and regional trade shows. DDGS demand in Mexico increased 269 percent in recent years, moving from approximately 28,000 metric tons in 2002 to 104,294 metric tons in 2005.

Similarly, these programs are creating new opportunities for American farmers in Chinese markets. MAP and FMD fund technical and managerial training to assist in the modernization of China's feed and livestock industries. As these industries expand, their grain demand increases, diverting Chinese corn that might otherwise have been sold on the international market in competition with U.S. feed grains. The effect of these programs is evidenced by increased domestic corn prices in China and the government's decision not to renew corn export quotas since February.

Trade Promotion Authority. Finally, NCGA strongly supports reauthorization of Trade Promotion Authority (TPA) for the President. Our mission is "to create and increase opportunities for corn growers". TPA ensures that an administration has the necessary tools to negotiate good trade agreements for U.S. agriculture. TPA plays an essential role in the success of multilateral trade negotiations, which create and increase opportunities for American corn growers through improved market access for corn and value-added products. Improved foreign market access results in better prices for our growers.

Mr. Chairman and members of this committee, I have been known to say more than a few times that the world is short two things: energy and protein. NCGA is working toward a farm bill to help address this challenge in a changing world and to tap the full potential of our agriculture economy and rural communities as well as provide a stronger safety net for our producers, young and old. We are eager to work with you in the months ahead to advance a farm bill that will ensure United States agriculture is equipped to supply this changing world as we look to the future. NCGA recognizes the difficult task ahead for you and appreciates your steadfast support.

STATEMENT OF RON TRUEX

Mr. Chairman, I am Ron Truex of Creighton Brothers, LLC, of Warsaw, Indiana. We are egg producers and we very much appreciate the chance to appear before the Committee on Agriculture to offer ideas for the 2007 farm bill.

I am honored to testify on behalf of United Egg Producers (UEP). UEP is a cooperative whose members independently market about 90 percent of the nation's eggs. Since 1968, UEP has provided leadership to the U.S. egg industry, not only performing the functions of a trade association, but also providing a number of other services, including facilitating the trading of eggs, and arranging direct export sales to overseas customers.

About the U.S. Egg Industry. The U.S. egg industry generates several billion dollars a year in farm cash receipts, and creates jobs and economic activity in rural America. Cash receipts at the production level are $4 billion to $5 billion a year. For comparison, cash receipts for the nation's turkey industry are about $3 billion, while the larger broiler industry has cash receipts of about $20 billion.

There is some egg production in nearly all states, but about half of all laying hens are in five states: Iowa, Ohio, Indiana, Pennsylvania and California. The next five largest producing states are Texas, Nebraska, Florida, Minnesota and Georgia. These top 10 states account for nearly three-quarters of the laying hens in the country. Our industry is honored that nine of these 10 states are represented on this Committee.

The nation's layer flock produced 76.859 billion table eggs in 2005, or 6.4 billion dozen. Industry statistics are often reported in cases (a case holds 30 dozen eggs). On that basis, 2005 table egg production was 213.5 million cases, of which about 60 percent were sold to retail stores, 31 percent were destined for breaking and further processing as food ingredients or for other value-added uses, and a little more than 8 percent were sold to food-service outlets and other institutional users. Under 1 percent were exported, but the industry is somewhat more export-dependent than implied by this statistic, which does not include exports of processed egg products.

Most newer egg operations are "in-line," which means that several henhouses are attached to a processing plant in which the eggs are cleaned, sanitized, graded and packed into retail cartons or onto flats, or in some cases broken and further processed at the same location. The industry also still has a significant amount of "off-line" production, in which eggs are produced on smaller individual farms and then transported to a central processing plant. Many of these "off-line" facilities involve contract production, but one of the chief structural differences between our industry and other poultry sectors is that contract production is much less common in the egg industry.

Our industry has enjoyed periods of profitability in recent years, notably during 2003 and part of 2004, but unfortunately there have been extended periods of losses as well. We went through one such period this year, with producer egg prices falling off sharply after Easter. Toward the end of August, as reported by Feedstuffs magazine, large eggs in the Midwest were 60–62 cents per dozen delivered to store doors, 3 percent lower than the price a year ago. This has not been a good year for most egg producers.

Farm bill Priorities. The egg industry neither receives nor seeks direct income or price supports. However, our industry has several concerns that we hope you will consider addressing in the 2007 farm bill. The remainder of my testimony will cover these specific points. In general, I ask you to keep in mind the importance of the livestock and poultry sectors to U.S. agriculture. Historically, farm bills have primarily been concerned with support for major crops, and we do not criticize the programs for these commodities. However, we believe a greater emphasis on the needs of livestock and poultry will ensure a balanced farm bill that addresses all the needs of rural America.

Avian Influenza. The media and the public have focused attention on the Asian H5N1 strain of highly pathogenic avian influenza (HPAI) or bird flu, and the Federal Government has expended major resources to prepare for a potential—but so far hypothetical—human pandemic. We commend the Congress and USDA for their efforts to stress facts over fear and perspective over panic.

Our industry has also tried to do its part. The overwhelming majority of the egg industry tests its flocks for avian influenza on a regular basis, through either company or state plans. Our industry is participating in several USDA task forces that are providing advice to the Department on biosecurity, surveillance, control measures and other topics that will be critical if there is ever an outbreak of HPAI in a commercial flock. So far, the disease has not been found in the United States. Although it is quite possible that it will be found in the wild bird population, we also need to keep in mind that commercial poultry are raised in biosecure conditions that are designed to prevent wild birds and other vectors from carrying any disease into our flocks.

I also expect widespread participation in USDA's upcoming monitoring, surveillance and indemnity program for low-pathogenic avian influenza (LPAI). USDA is expected to publish regulations in the near future for this program, which will be operated by the National Poultry Improvement Plan, a public-private partnership led by USDA's Animal and Plant Health Inspection Service (APHIS). Like other poultry organizations, UEP has supported the development of the LPAI program.

Controlling LPAI is directly relevant to our efforts to prevent HPAI. LPAI viruses can mutate—and in the past have mutated—into highly pathogenic forms. The largest previous outbreak of HPAI in the United States, in the Northeast in 1983–84, involved a virus that began as low-path but mutated into a high-path form.

Only two subtypes of AI—those designated H5 and H7, a nomenclature which refers to the hemaglutinin protein on the surface of the virus—have ever shown the ability to become highly pathogenic. For that reason, USDA's LPAI program will only be concerned with H5 and H7 viruses.

Low-path AI can be present in a flock without obvious clinical signs. In contrast to HPAI, where egg production ceases and a very high percentage of a flock will die in a short period, LPAI does not necessarily involve large increases in mortality. It also presents no risk to human health. However, it is extremely important to control LPAI so that it does not have the ability to circulate and mutate into HPAI. From this perspective, it is critical to secure producer cooperation. Whether flocks are destroyed or vaccinated, it is absolutely necessary to take control measures quickly whenever there is an outbreak of LPAI.

The World Animal Health Organization (OIE) now considers H5 and H7 LPAI to be of special concern and includes them in the same category as HPAI. Our government has supported this change in OIE practice. Producers, too, recognize the need to act against LPAI. However, we also believe strongly that producers should be indemnified for the loss of birds and production in a LPAI outbreak, in the same way that indemnities are paid for HPAI and other serious animal diseases in other species.

We hope and expect that USDA's proposed regulation for the LPAI program will provide for indemnities at 100 percent of the value of any birds that must be destroyed, including the value of those birds' future egg production. We also anticipate that the regulation will indemnify the expenses involved in cleaning, disinfecting, vaccinating and other operations that may be necessary in an LPAI outbreak. Unfortunately, in the past, some within the Executive Branch have sought to reduce Federal indemnities sharply for all animal diseases, and we cannot be certain that such proposals will not surface again.

Therefore, we respectfully ask Congress to provide, in the farm bill, that indemnities for LPAI are to be paid at 100 percent of the properly assessed production value of any birds that must be destroyed, and should also cover expenses involved in vaccination, cleaning and disinfection and other measures that state or Federal officials may require to be taken by producers in an outbreak.

National Animal Identification System. Although development of the National Animal Identification System (NAIS) has primarily been motivated by diseases of beef cattle, the poultry industry will also be affected by the NAIS. A workable, nationwide system of identifying premises, animals and movements offers great potential to control and eradicate animal diseases, as well as to facilitate international trade.

UEP and other poultry organizations are active in a working group that advises APHIS on the NAIS. There is a consensus in both private and public sectors that commercial poultry should be identified on the basis of flocks. Clearly, identification of individual birds is neither necessary nor feasible.

Beyond that, UEP members share the concern expressed by many other agricultural producers that information supplied to the NAIS should remain confidential. All of us have become more sensitive in recent years to the potential threat of bioterrorism. We have also become aware of the threat to property and biosecurity posed by activist groups that engage in unlawful break-ins, targeting both laboratory and animal production facilities.

From that perspective, to make large amounts of information about site locations, population numbers and other parameters available to the public does not seem advisable. Yet we continue to hear concerns expressed that if the Federal Government has access to NAIS data—regardless of who controls the actual database—then the information may be subject to public release.

Obviously, NAIS data need to be available to state and Federal authorities, and there are circumstances—such as in an actual outbreak—when some of the data probably would become public. However, we believe that producer participation in what remains a voluntary system will be quite limited unless Congress acts to protect the confidentiality of NAIS data. Therefore, we urge the Committee to provide in the farm bill for the protection of information submitted by producers under the NAIS.

Agricultural Research. Most recent farm bills have included a separate title devoted to agricultural research, and this reflects the critical contribution that research and extension activities have made to our nation's ability to increase food production, enhance agricultural productivity and safeguard the natural environment. We encourage the Committee again to focus on research priorities in the 2007 farm bill.

Within the egg industry, we have found that agricultural research at both land-grant universities and USDA laboratories has helped us respond to all the critical challenges we have faced in recent years. USDA's world-leading expertise on avian influenza, for instance, has allowed us to formulate appropriate responses to the disease, and to demonstrate the safety of properly handled eggs and egg products. Similarly, the industry's Egg Nutrition Center has benefited from the collective advice of university experts on food safety in formulating and providing guidance to the industry about appropriate steps to control and eliminate food-borne pathogens.

The Committee may wish to consider devoting additional resources to agricultural research, in light of the high historical payoff from research that enhances productivity and protects natural resources. A strong emphasis on research that addresses the needs of livestock and poultry producers would likewise be most welcome, from our industry's standpoint.

We would also like to request the Committee's consideration of one area of environmental research that is of particular concern to the egg industry. Like other livestock and poultry enterprises, our members have witnessed increasing concern about air emissions from our operations. We have joined with other commodity groups in a consent agreement with the U.S. Environmental Protection Agency, under which our industry is assisting in the collection of accurate, reliable and representative data on actual emissions, so that any future regulatory actions can be based on sound information. Through the American Egg Board, producers have contributed some $3 million of our own money to this research.

However, we would like to plan for the future as well as assessing the present. Producers need to know how they can mitigate air emissions, not just measure them. Fortunately, a number of promising technologies may help us in this regard. Emission technologies include feed additives, manure amendments, housing design and configuration, and even bird genetics. There is an urgent need, however, to assess these technologies' effectiveness and cost on the farm, not just in the laboratory. In addition, we need initial laboratory work on mitigation technologies as they emerge.

For this reason, we request that the 2007 farm bill authorize a program of research on air emission mitigation technologies, emphasizing on-farm applications, with particular attention to the technologies' efficacy in reducing emission rates, operational feasibility and affordability. We make this suggestion only on behalf of the egg industry, but research might be timely for several livestock and poultry species, and we would support the application of the program to these species as long as the organizations representing them concurred.

Avoiding Harm. Finally, UEP asks the members of this Committee to oppose the inclusion of any provisions in the farm bill that would harm our industry. For example, legislation (H.R. 5557) introduced in the House and referred to this Committee would require all Federal food procurement to be conditioned on animal welfare standards—specified in the text of the legislation, not through any objective scientific procedure. In the case of the egg industry, the legislation appears to require all Federal purchases to be limited to cage-free or free-range eggs, or similar production systems. As an organization, we are not opposed to these systems, and indeed some of our members operate them. But eggs produced in this way are typically two to three times as expensive as conventionally produced eggs. The result of the legislation—not just for eggs, but for milk, beef and other animal products as well—would be either to increase Federal procurement costs dramatically, or to reduce dramatically the quantity of animal products procured under Federal programs.

We doubt that this Committee would welcome either outcome. At the same time, our fundamental objection to the legislation goes beyond the issue of cost: We believe Federal food procurement standards should be built around product quality and food safety, not conditioned on essentially political judgments about appropriate animal care. We urge the Committee to oppose any efforts, which would most likely occur on the House floor, to add such provisions to the farm bill. Unfortunately, some animal rights groups are simply opposed to the existence of the livestock and poultry industries. Congress should be on the alert against policies advocated by these groups that seem moderate but are in fact aimed at the ultimate elimination of animal agriculture.

In fact, science and the marketplace are already addressing production practices so as to maximize both animal and human health and welfare in a commercially feasible manner. Some 87 percent of our industry has adopted the UEP Certified Program developed by an independent, unpaid scientific advisory committee that comprises experts in animal behavior, animal physiology and other disciplines. The committee's work has led to important adjustments in production practices that have enhanced hen welfare, but also has reaffirmed the basic validity of conventional commercial husbandry techniques. The UEP program has been endorsed by the Food Marketing Institute and the National Council of Chain Restaurants, and participants are independently audited by either USDA or a private firm.

Like other egg producers, I am proud to be part of U.S. agriculture in this new century. I am also honored that this Committee has invited producers of many different commodities to testify at this hearing. Coming from a variety of states, you are well aware that producers' concerns are similar across the country. We look forward to working with the Committee on a sound, forward-looking farm policy for coming years.

STATEMENT OF PAUL R. FRISCHKNECHT

On behalf of the 68,000 family farms and ranches that produce sheep in America, I am very appreciative of this opportunity to discuss our nation's agricultural policy with the agriculture leadership of the U.S. House of Representatives.

I am Paul Frischknecht and currently serve as president of the American Sheep Industry Association (ASI), the national trade organization of the nation's sheep industry. I am a life long sheep rancher from Manti, Utah.

The sheep industry of the United States produces lamb and wool in every part of the country. The industry provides half a billion dollars to the American economy and is a mainstay of many rural communities in which sheep are a key use of grazing and pasture land.

Sheep producers have been aggressive and creative in their approach to national initiatives that strengthen the domestic industry.

In 2005, the sheep industry approved a national referendum to continue our American Lamb Board checkoff program. This lamb promotion program is entirely funded by the industry and I am pleased to say that of those who voted, 80 percent voted in favor of the referendum. We collect over $2 million annually from sheep sales with producers, feeders and lamb companies all paying a share of the checkoff.

We are the first livestock industry to use the standing authority for checkoff programs as authorized in the 1996 farm bill and can report to you the system does work.

The American Wool Council launched a wool production, information and marketing program for American wool in early 2001. Our national initiatives have improved competition for American wool. International marketing programs have exposed U.S. wools to the world and exports have grown rapidly to over 60 percent of our annual production. Total exports represented less than a third of production prior to our programs. We now sell into eight or more international markets each year. In addition to expanding market opportunities for producers, the Wool Council has developed new fabrics and treatments for textiles with U.S. companies and America's armed services. We are proud to help provide clothing and uniforms for the men and women of our military. Nearly one fourth of our wool production is consumed by the U.S. military.

The year 2004 marked the first growth in U.S. sheep inventory since 1990. We grew our industry again in 2005, the first year on year increase in sheep numbers since 1987–88. Industry growth improves competitiveness for all segments of the industry from lamb feeders to lamb meat companies, wool warehouses to wool mills, feed suppliers, trucking firms and shearing companies.

I am pleased to comment on the positive impact of the current farm bill as it included the new Wool Loan Deficiency (LDP) program which provides the only safety net for producers in our business. I encourage the Committee to re-authorize the wool LDP and at a base loan rate of $1.20 per pound in order to provide the benefit of the program as intended. While nine loan rates are available, essentially all wool LDP applications are in one non-graded rate category. The research provided in 2002 by the Food and Agriculture Policy Research Institute (FAPRI) supported a $1.20 per pound base loan rate however, the legislation lowered the base to a $1.00 per pound with a budget score of $20 million annually. The total payments for each of the 2002 through 2005 crop years was $7.8 million, $7 million, $7.3 million, and $6.1 million respectively.

The significant difference between the annual cost estimate and the actual payment total each year combined with the fact that nearly all participation has been in only one loan category out of nine, supports the request that the program be authorized at the base rate of $1.20 per pound rather than $1.00 in the current legislation. With a loan rate of $1.20 per pound, total payments are projected to remain under $20 million annually.

I urge the Committee to support re-authorization of the National Sheep Industry Improvement Center.

As established in the 1996 farm bill in the Rural Development program of USDA, the National Sheep Industry Improvement Center provides loans and grants to business ventures for financing programs where normal commercial credit or funds were not available. This program does not provide funds for individual producers or for the purchase of sheep or land, but rather for projects to strengthen the sheep business including loans to wool warehouses, lamb slaughter and processing ventures, and wool processors. The Center has provided 56 loans to 38 entities in 21 states. The total volume of dollars that have been loaned since 2000 totals approximately $15.5 million. The Center has also made 58 grants equaling $20,754,529.

Re-authorization of the Center for the life of the next farm bill is crucial to the efforts to continue re-building the U.S. sheep inventory and infrastructure. $20 million of funding would complete the $50 million authorization of the 1996 legislation.

Additionally, the sheep industry actively participates in the USDA Foreign Market Development, Market Access Program and Quality Samples Program and we encourage inclusion of these in the farm bill.

The United States has no barriers to lamb meat imports and as such has become the market of choice for lamb exporters from around the world. Lamb was never part of the Meat Import Act so other than the brief period of temporary restrictions in late 1999—2001, lamb meat has and is freely traded. However, the playing field is not equitable for U.S. sheep producers. The European Union continues to provide over $2 billion annually in government price support and subsidies to their sheep producers. The European Union maintains strict and effective tariff rate quotas on lamb imports. Our industry looks to both the Agriculture Committee's role in industry programs in the next farm bill and the Committee's role in pushing for aggressive reform of Europe's agriculture programs and barriers to assist the domestic sheep business.

Our industry supports enhancement of the conservation title of the next farm bill with support of prescriptive grazing with sheep.

Weed invasion into rangeland communities often results in reduced biodiversity, increased soil erosion, degradation of wildlife habitat and water quality and reduced carrying capacity for livestock.

Due to the fact there are many challenges when controlling invasive plants on rangeland, including vast roadless areas that limit access for weed control and lands of low economic value that make chemical and mechanical control impractical, these challenges favor biological control methods. One biological control method that is an under-exploited, readily available tool is prescribed livestock grazing, which is quickly proving to be very effective for weed control.

Prescribed grazing is the application of livestock grazing at a specified season, duration and intensity to accomplish specific vegetation management goals. Scientific studies and on-the-ground experiences have clearly demonstrated that livestock are a promising tool in the battle against weeds in pastures, rangeland and forests.

We believe the conservation title should address programs and direction to support prescriptive grazing with sheep both for invasive species and noxious weed control.

Cost-share programs could be directed to prescriptive grazing projects to provide financial and technical assistance through our industry to promote grazing contracts with Federal, state, municipal, tribal or private lands for prescribed grazing. I add that our industry believes prescribed grazing can be expanded to a revenue option for farmers and ranchers which in turn strengthen the economies of rural areas of the country.

As evident in the listening sessions on the farm bill that USDA Secretary Johanns conducted last year, a number of comments were provided by producers in support of a retained ewe lamb program in the next farm bill. The growth of the U.S. sheep industry can in part be credited to the USDA retained ewe lamb program that was in effect for 2002—2004. The incentive payment to producers to keep ewe lambs in their breeding herd rather than sell them for slaughter encouraged producers to expand breeding herds which, in the longer term, will provide increased market lambs to help U.S. producers maintain and increase their share of the American meat case.

Sheep producers have two issues that can preferably be addressed by the Committee earlier than in the next farm bill.

Livestock Mandatory Price Reporting (LMPR) expired nearly a year ago and while the Committee on Agriculture approved a five-year reauthorization, final legislation has not been reached with the U.S. Senate. Many American lamb companies have continued to comply voluntarily with LMPR however, importers have steadfastly refused to cooperate; therefore we lack 40 percent of wholesale lamb price data. We have had no retail prices reported during this lapse and for two weeks last winter, carcass lamb prices were not available. We appreciate the Committee effort to reauthorize LMPR and urge all expediency to finalize legislation in the 109th Congress.

Livestock Risk Protection (LRP) for the lamb industry has been under consideration by USDA since 2004. We request the Committee's support for a pilot program for lamb price-risk protection as has been provided for cattle and swine. The Federal Crop Insurance Corporation board meets September 27–28 and we anticipate a pilot program of LRP for lamb will be considered at that time. The lamb industry does not have any price-risk management tools as slaughter and feeder lambs are not traded on a commodity exchange. We believe the lamb industry to be a great candidate for the price risk management that was intended to be provided by the authority in the "Agriculture Risk Protection Act of 2000, as amended for Livestock Risk Protection.

Thank you for the opportunity to provide the sheep industry priorities for the next farm bill.

STATEMENT OF TOM BUIS

Chairman Goodlatte, Congressman Peterson, Members of the Committee, thank you for the opportunity to testify today. My name is Tom Buis and I'm the president of the National Farmers Union—a nationwide organization representing more than 250,000 farm, ranch and rural residents.

NFU members very much appreciate being included in several of your Committee's field hearings. We were also pleased that the Senate Agriculture Committee held similar sessions throughout the nation. Likewise, NFU held farm bill listening sessions last month. In fact, more than 1,000 people attended one or more of our 13 sessions across the country. Two weeks ago, more than 250 of our NFU members came to Washington to meet with members of the House, Senate and Administration to express their views on issues that arose at the listening sessions. To a large extent, my testimony will address these issues. This, and other information on NFU policies, can also be found at NFU.org.

farm bill Extension—Our members overwhelmingly believe that the 2002 farm bill was a significant improvement over the previous farm bill, Freedom to Farm. They also believe that writing a new farm bill at this time would not result in an improvement, but most likely a farm bill that would be a step back in addressing the challenges we face in rural America. The Federal budget is a sea of red ink, and there are many who want to blame the Federal deficit on farm programs—while in reality, if all Federal programs were as fiscally responsible as the 2002 farm bill, we would have a Federal budget surplus. Farm programs cost roughly $20 billion annually out of a total Federal budget of $2.5 trillion. Eliminating farm programs would only make a small difference, yet there is an organized effort to paint farmers as the root of all evil. There is also a very deep concern that writing a farm bill next year would put us in the position of guessing what happens at the World Trade Organization negotiations. Some groups, some policy-makers, think that we should unilaterally change our programs and hope for a WTO agreement. To our members this is not negotiating from a position of strength. Ronald Reagan, in his negotiations with the Soviets, had leverage because he negotiated from a position of strength. We should do the same on agriculture and not lead with our chins by unilaterally cutting safety net programs.

Finally, and probably the most compelling reason to extend the current farm bill for a couple years is the current economic climate on farms and ranches throughout America. As a result of skyrocketing input costs, without offsetting increases in commodity prices, many farm operations are in a financial bind. The risk of changing farm programs is too great given the financial uncertainty on the farm.

For these reasons the NFU Board of Directors unanimously endorsed a two year farm bill extension.

This does not mean that we like everything in the 2002 farm bill, and that there are not significant opportunities for improvement. NFU will be at the front of the line to make suggested changes, based upon the direct input of our members at the listening sessions throughout the country.

Here are some of the suggestions we have heard thus far. We are still in the process of gathering information, and we will gladly share a more detailed list with the committee later.

Profitability from the Marketplace—Above all else, farmers and ranchers want to receive a fair price from the marketplace. They view the farm bill as an opportunity to help them achieve profitability for their hard work and investment. farm bills often focus on the symptoms and miss the cause of the challenges faced in rural America. Producers' biggest concern is the lack of a decent return from the market for the commodities produced and/or raised. There is a strong feeling that the next farm bill's focus should be on solving the problems that are barriers to a fair, open and competitive marketplace.

Two significant economic opportunities were cited at our listening sessions as means of addressing profitability:

1) Direct farmer-to-consumer sales of farm-fresh, source-verified, natural and/or organic commodities. The "buy local/buy fresh" trend is the fastest growing sector of the food industry and presents an opportunity for farmers to price their products based upon quality. Congress should enact legislation to encourage new-generation food distribution systems. Value-added endeavors should lead the way to ensure that more of the food dollar goes back to those who work the land and the communities in which they live.

2) The same goes for fuels from the farm—renewable, environmentally friendly energy sources like ethanol and biodiesel are helping to rejuvenate rural communities. They also offer added benefits to our nation's energy security and independence, by promoting less reliance on a handful of countries in the most volatile region of the world. Polices should be targeted to ensure that the production of ethanol, biodiesel and wind energy be locally owned, in order to build and maintain our rural communities.

Natural Disaster Assistance—At every listening session, producers expressed frustration at the lack of assistance for natural disasters. A stream of personal accounts made it clear that people are hurting and deserve to be assisted. More than 66 percent of all U.S. counties have been declared primary or contiguous disaster areas by the U.S. Department of Agriculture (USDA) in 2006. A year ago, nearly 80 percent of all U.S. counties were declared weather-related disaster areas by either secretarial or presidential declarations.

The 2002 farm bill was not designed to provide protection or mitigate weather-related losses, and risk management programs are insufficient in addressing production and quality losses. Farmers and ranchers at the listening sessions called for Congress to vote on disaster assistance before the November elections. They also sought a permanent disaster program as part of the next farm bill, so that assistance is not contingent on ad hoc legislation and political volatility. Finally, they felt strongly that disaster assistance should be equitable and that all weather related disasters should be treated the same—a drought is just as devastating to crops as a hurricane.

Fuels From The Farm/Energy—There was a common theme that American agriculture needs to play an even greater role in moving the country toward energy independence. Programs and polices, including tax-based incentives, should ensure that family farm agriculture and rural communities benefit from increased use of renewable fuels from the farm. Linking agriculture and renewable energy is the key to diversifying our energy markets and creating new economic opportunities for rural America.

Conservation—There was extreme frustration that existing conservation-related programs, such as the Conservation Security Program, remain under-funded. Likewise, producers called for increased conservation efforts on working lands and for technical assistance resources, in addition to an expansion of the Conservation Reserve Program.

Trade—Producers at the listening sessions expressed concern that agriculture is being used as a bargaining chip in the overall World Trade Organization (WTO) negotiations in order to get a trade deal on other industry sectors. The farm and ranch families we heard from support negotiating from a position of strength and not unilaterally seeking new limits and disciplines for future domestic agricultural policies. Producers also said that trade agreements must address all factors of trade including environmental standards, health and labor standards and currency manipulation. Finally, many expressed concerns that the U.S. agriculture trade balance has shrunk from a surplus of $27 billion in 1996 to $3 billion today. Competitive imports are outpacing exports so rapidly that the United States may become a net agriculture importer in the very near future.

Competition—Family farmers and ranchers told us that inadequate market competition is one of the most severe problems they face in the agriculture industry. As evidenced by the sharp decline in the number of family farms in the past decade and the increasing trend toward horizontal and vertical concentration in the agriculture and food sector, independent producers cannot succeed in the absence of protection from unfair, anti-competitive practices. Producers expressed concern that mandatory Country-of-Origin Labeling (COOL) was not being implemented as called for in the 2002 farm bill, the need for a ban on packer ownership of livestock, and enforcement of existing antitrust laws.

Agriculture/Rural Budget—Producers sought new and creative programs for conservation, rural development, energy, research and other areas and expressed concern that the agriculture and rural budget not be reduced. The administration and Congress continue to cut funding from farm bill programs through the annual appropriations and budget reconciliation process as a way of reducing the Federal deficit, despite the farm bill saving more than $15 billion in the first three years of enactment. Those speaking at the listening sessions supported keeping the budget for agriculture and rural programs at current or increased levels.

With that Mr. Chairman, I thank you again for the opportunity to testify. I'd be pleased to take any questions and thank all of the Members for their support of and work on these important issues.

National Barley Growers Association

Testimony Submitted by Richard Groven

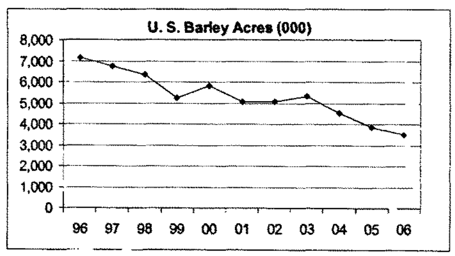
Before a Hearing of the U. S. House of Representatives Committee on Agriculture

September 20, 2006

Mr. Chairman and Members of Committee, thank you for the opportunity to testify before you today regarding policies we believe Congress should consider when writing the next farm bill. I am Vice-President of the National Barley Growers Association (NBGA). I farm near Northwood, North Dakota where we grow barley, spring wheat, soybeans, and other rotational crops.

NBGA has serious concerns regarding the equity of program crop support levels in the current farm bill, and in particular, the level of barley support relative to other crops. NBGA believes that the U.S. barley industry has lost significant competitiveness in its traditional Northern Tier growing region due, in part, to distortions in federal farm program supports. Acreage trends certainly underscore our concerns. The National Agricultural Statistics Service June 30, 2006 Acreage Report repeatedly used the terms "lowest level," "new low," and "record lows" when reporting barley seeded acreage:

> *"Growers (barley) seeded 3.5 million acres for 2006, down 10 percent from the 3.88 million acres seeded a year ago, and the lowest since barley planted acreage estimates began in 1926. Acres for harvest, at 2.99 million... the lowest since records began in 1926. North Dakota growers planted 1.05 million acres, a new low since records began in 1926... In Montana, planted area is down 100,000 acres from last year to the lowest level since 1953, while Idaho's 560,000 planted acres is the lowest since 1967. California, Colorado, Minnesota, and South Dakota... set new record lows for planted acreage, with records going back to the 1920s."*



At NBGA's request, the Senate Agriculture Committee asked FAPRI to analyze whether or not the U.S. Farm Bill is contributing to declining barley acres and identify modifications that could be made in future agriculture policy that would put barley in a more equitable position relative to other program crops. According to FAPRI's findings - published on August 29th and available at http://www.fapri.missouri.edu/outreach/publications/2006/FAPRI_UMC_Report_15_06.pdf - marketing loan benefits under the 2002 Farm Bill have clearly favored corn and soybeans over barley and wheat. In the Northern Plains, the average annual marketing loan benefit between 2000 and 2005 was $4 per acre for wheat, $8 for barley, $12 for soybeans and $21 for corn. At the national level, the combination of marketing loan benefits and market returns can help explain the increase in national soybean and corn acreage since the early 1990s and the decline in small grain production.

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NBGA supports the continuation of the Marketing Loan Program at equitable levels among program crops. If the Marketing Loan were to be diminished or eliminated due to WTO concerns, some form of similar support would need to be developed to take its place to continue providing a viable safety net for producers during downturns in prices or production. We also support continuation of the Direct Payment program, which is the best means to get much needed operating money into the hands of producers. We also support continuation of the planting flexibility provisions that have been in place since 1996.

NBGA believes better risk management programs are needed that will adequately address multi-year losses as well as provide a safety net for the high deductibles we face under current federal crop insurance policies. We have a Barley Risk Management Task Force working hand in hand with the Risk Management Agency right now on innovative ways to address these challenges. With regards to the ongoing drought in much of the country, the NBGA supports disaster assistance for 2005 and 2006 crop losses and a vigorous debate on a permanent disaster provision in the next farm bill.

I am sure the Members of this Committee are aware of the rising fuel and fertilizer costs that farmers must fit into already tight budgets. Producers have seen a 70% increase in fertilizer costs, 30% to 50% increase in farm fuel costs, and a nearly 90% increase in diesel costs. These rapidly escalating costs will likely not be compensated for by the prices farmers receive for their crops. For these reasons, the NBGA supports a flexible safety net that will help offset sharply rising input costs that cannot be passed along to the marketplace. We encourage the Committee to explore ways to address rising energy costs, such as an energy tax credit.

The NBGA supports the Conservation Security Program (CSP) as authorized in the last farm bill. However, the CSP has not been implemented as intended by Congress, and we urge the Committee to work towards full implementation.

NBGA also believes that the Committee should be aware of the transportation problems much of the nation's farmers face. More than half of the U.S. barley crop moves to marketing positions by rail. The majority of our barley production region is now captive to one railroad and we pay freight rates well above those rates paid by other grain suppliers who have competitive transportation options. For example, rail rates in North Dakota (largest barley producer) and Montana (third largest producer) are between 250 to 450 percent of the railroad's variable cost – far in excess of the Surface Transportation Board's threshold of unreasonableness of 180%. Because of these higher rates that are accompanied by often unreliable service, it is very difficult for barley from our traditional production areas to compete with other suppliers in both domestic and foreign markets. This "captive shipper" situation does undermine the positive effects that any farm bill hopes to provide our producers. We urge the Members of this Committee to support legislation that would rectify these problems.

I want to again thank the Committee for the opportunity to testify. NBGA fully understands that the challenges you face – budget deficits and the WTO negotiations – as you write the next farm bill. But if the United States is to maintain a viable domestically grown food supply, farmers must continue to be offered some semblance of protection from collapsed markets and/or adverse weather. NBGA is ready and willing to work with the Committee in the coming year to develop sensible provisions to address these needs. If you have any questions, I will be happy to address them.

Richard Groven
Vice-President, National Barley Growers Association

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INTRODUCTION

The National Pork Producers Council is an association representing 44 state pork producer organizations. NPPC is the voice in Washington for the nation's pork producers, who in 2005 marketed 55 million hogs with total gross receipts of $15 billion. The U.S. pork industry supports more than 550,000 jobs in the United States; these include input suppliers, producers, processors, handlers and main-street businesses. Overall, an estimated $20.7 billion of personal income and $34.5 billion of gross national product are generated by the hog industry based on 2005 levels of production.

PROFILE OF TODAY'S PORK INDUSTRY

The United States pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. The $15 billion of gross receipts from hogs marketed in 2005 represents only a portion of the economic activity generated by the pork industry.

The hog industry in the United States has seen rapid structural changes in recent years, yet total hog numbers have trended up from a decade ago. In 1990, inventories were 54.5 million head; data from December 2005 showed inventories over 60 million head.

The growth of the United States inventory is feeding growing consumer demand. Of processed hog products, 3.6 billion pounds were exported and 24.2 billion pounds were used in domestic markets. Domestic consumption of pork in 2005 was 680 million pounds higher than it was in 1990; exports were 2.4 billion pounds higher than they were in 1990. In 2005, the U.S. pork industry enjoyed its 14th consecutive year of record exports.

Pork producers are deeply committed to local community economic health, growth and development. We proudly call these communities our homes. There are nearly 35,000 direct, full-time pork-producing jobs, including farm workers and farm proprietors. An additional 76,000 harvester and processing jobs and 439,500 jobs throughout the rest of the economic chain are supported by the pork industry.

The U.S. pork industry today provides nearly 28 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide each year. In fact, 2006 will be the fifth consecutive year of record pork production in the United States, and all indicators point to another record in 2007. This is accomplished by nearly 67,000 pork operations in all 50 states, with most production located in the upper Midwest, mid-Atlantic and High Plains states.

2007 FARM BILL

The National Pork Producers Council has established a 2007 Farm Bill Policy Task Force, which has held several meetings, reviewing and evaluating many of the Farm Bill issues that will affect our industry. Pork producers have been actively engaged in the Farm Bill process, participating in several congressional field hearings. We are committed to working with this Committee as a new Farm Bill is crafted.

As the next Farm Bill is written, we hope Congress will consider the needs of the nation's pork producers: 1) maintain the U.S. pork industry's competitive advantage globally; 2) strengthen the industry's competitiveness; 3) defend the industry's competitiveness by opposing unwarranted and costly provisions and regulations.

Pork producers would like to share their thoughts on a number of issues that likely will be part of the debate when Congress considers the next Farm Bill.

Renewable Energy

America's pork producers strongly support the development and use of renewable fuels to reduce the nation's dependence on foreign oil. But the rapidly growing demand for renewable fuels, specifically ethanol from corn, presents a challenge for pork producers. New ethanol plants scattered throughout the country are coming on-line quickly and many more are in the construction and planning stages. Currently there are sufficient corn supplies to meet the demand for feed, fuel, food and exports for the next two crop years. Beginning in 2008, though, ethanol production could be large enough to cause displacement in the domestic pork industry. Given current and projected ethanol prices, ethanol plants likely will be able to outbid pork producers for corn. Additionally, any wide-spread drought would significantly accelerate this problem.

The U.S. pork industry is probably more exposed to the growth of the ethanol industry than any other livestock sector. Be wary of claims that the largest by-product of ethanol production, dried distillers grains (DDGs), can make up any deficiencies in feed from corn. Pigs cannot utilize DDGs as effectively as other livestock species. Dr. Jerry Shurson at the University of Minnesota has reported that high-quality DDGs are worth about $114 per ton to dairy producers, $108 to beef producers, $104 to egg layer operations, $100 to poultry finishers and only $96 to swine grower finishers. DDGs are low in starch and amino acids and high in oil and fiber. Some contain mycotoxins that can be harmful to animal health. Some ethanol plants overheat the DDGs, making them even less useful, and there are vast differences in the quality of DDGs from plants. Additionally, DDGs cause storage flowability problems and are high in phosphorous and protein, resulting in excess phosphorus and nitrogen in manure, which can lead to environmental problems. Furthermore, nutritionists have noted that when DDGs in excess of 10 percent of total feed are given to hogs, a reduction in fat quality can be found, resulting in a less superior product. Therefore, the substitution of DDGs into the nation's feed supply will put the pork industry at a competitive disadvantage.

Further research and development are needed to find other energy alternatives, such as using animal manure and fat and biomass, including lignocellulose, switchgrass and corn stover. NPPC has established a Renewable Fuels working group to evaluate this issue further. The right balance is needed to meet the needs of fuel *and* feed security. The U.S. pork industry needs your support to make sure pork producers remain competitive in this changing world.

<u>Conservation Reserve Program</u>

Pork producers believe the marketplace should decide how to meet the demand for renewable energy, which could mean crop-producing acres currently in the Conservation Reserve Program (CRP) be placed back into production between now and 2010. Without these additional acres being made available for crop production, producers are facing run-ups in feed prices in years to come. Pork producers remain committed to leaving in the CRP, even among its current corn acres, those portions of fields that are planted to filter strips, buffer strips, grass waterways and other partial field enrollments that provide extremely high environmental benefits. Pork producers also support returning CRP land to crop production in a manner that preserves CRP-developed organic matter and minimizes erosion through the use of practices such as conservation and no-till techniques. But the bottom line, in our view, is that much more crop land must be made available to ensure there is an adequate feed supply to meet demand.

Animal Identification

In today's marketplace, adopting new technologies is absolutely imperative for the swine industry to remain dynamic, progressive and aware of market demand. Bio-security remains a cornerstone in our production facilities so that absolute confidence in the safety and wholesomeness of pork can be maintained by domestic and international consumers. U.S. pork producers believe in the establishment of a mandatory National Animal Identification System and are committed to an industry-wide approach in identifying our animals. We believe animal ID enables state and federal animal health officials to address existing diseases, foreign animal diseases and emerging diseases. An ID system will allow for monitoring and establishing efforts to control and eradicate these diseases, and a surveillance system will facilitate tracking and containing the spread of disease. Pork producers believe that the ability to rapidly identify animals and detect, contain and eliminate disease is an essential food security tool that will preserve the domestic and international marketability of U.S. livestock.

Trade

Pork producers are the most ardent promoters of free trade agreements, which have prompted rapid growth in pork exports and record profitability. We realize that as an industry we must continue to work to remove distortions that impinge on the free market. There is a considerable global demand for pork and pork products. Pork represents 44 percent of global meat protein intake, far more than beef and poultry. World pork trade has grown from 3.9 percent to 5.3 percent of total world pork consumption in just the past five years. The extent of any increase in global pork trade in the future will hinge heavily on continued efforts to bring about further agricultural trade liberalization. We support the Market Access Program (MAP) and the Foreign Market Development Program (FMD), which help expand export opportunities for U.S. pork, and we urge continued funding for these programs, which have long-term market benefits. It is important to emphasize the need to strengthen the ability of U.S. agriculture to compete in the global marketplace. American agriculture is among the most competitive industries in the world, but it should not be expected to compete alone in the export markets against foreign governments. Reductions of MAP and FMD funding would put American farmers at a substantial competitive disadvantage. Regardless of the timing in writing a new Farm Bill, Congress should extend Trade Promotion Authority. TPA is very important to U.S. agriculture and the U.S. livestock sector – it sends to our trading partners the message that the U.S. is a willing and open trading partner. We need to strengthen the ability of U.S. agriculture to compete efficiently in the global and domestic marketplaces.

Risk Management

U.S. pork exports in 2006 are estimated to be 15 percent of production, up from 12 percent in 2005. The U.S. pork industry will enjoy its 15th straight record year for pork exports in 2006. Our success in expanding exports has created a new market environment. The downside of growing exports is a larger adverse economic impact should there be any trade disruption. Pork producers understand this dynamic, and Congress must recognize that a trade disruption would be devastating to the U.S pork sector. Iowa State economist Dermot Hayes estimates a $3.6 billion loss for the industry if export markets are lost.

Given that potential significant shock to the U.S. pork industry – and to the U.S. economy – NPPC supports programs to minimize the economic impact of any trade disruptions. We understand that a USDA Livestock Risk Protection program and an Iowa program were placed in the 2002 Farm Bill. Pork producers are evaluating these futures market-based programs and the reasons for their limited success among producers. NPPC is looking at federal revenue-based assurance options that would assist producers should export markets ever be interrupted.

Research

USDA's research is critical to the pork industry, be it improving swine genetics by completing the mapping of the swine genome; testing and deploying new and improved animal vaccines; improving the usefulness of energy production by-products, such as distillers dried grains; further increasing animal productivity; or the development of new environmental management and mitigation technologies such as the means to reduce or mitigate potentially regulated air emissions from swine facilities. Research can assist in monitoring diseases and preventing a disease outbreak.

A significant amount of research has been devoted to other animal genomes. It is time for USDA to do the same for the swine genome. Genome sequencing is only the first step to unlocking key genetic information. Annotation is the identification of the functional genes associated within the sequence of the genome and will provide the industry with tools to quickly and efficiently improve production efficiencies in nutrition, swine health, reproductive physiology, animal welfare, nutrient management and pork quality. In addition, the pig is an excellent model for human research in health and nutritional disciplines. Annotation of the swine genome will assist in the development of research models in human nutrition, physiology and medicine.

We also support establishment within USDA of the National Institute of Food and Agriculture, which would conduct research and studies to "ensure that the agricultural innovation that has been so successful in the past continues in the future."

Conservation and the Environment

Pork producers have reduced the environmental footprint of their operations on the country's natural resources and landscape through the adoption of sound and advanced manure management and utilization practices. The vast majority of the resources pork producers have invested in these practices were provided by producers themselves, without public assistance. But pork producers were and remain very interested in participating in USDA's working-lands conservation programs, such as the Environmental Quality Incentive Program (EQIP), to raise the level of their environmental performance and to address any remaining critical conservation and environmental needs on their operations. During debate on the 2002 Farm Bill, U.S. pork producers took a lead role with other livestock groups to advance major funding increases for EQIP. So we are quite disappointed in how little support EQIP has provided to pork producers over the 2003 to 2005 program years.

After a thorough review of several hog-producing states' EQIP programs, NPPC presented its findings to the Natural Resources Conservation Service. Despite what we believe to have been sincere efforts by NRCS to correct the program's problems, EQIP continues to fail pork producers. Using NRCS data and our own estimates, we calculated that approximately $1.98 billion in cost-share assistance was provided by the EQIP program to both crop and livestock producers from 2003 through 2005. Of this amount, approximately $1.26 billion or 63 percent of the total was provided to livestock producers. This percentage is consistent with the 2002 Farm Bill recommendation that 60 percent of funds go to livestock and poultry. Looking at the 2003 data, pork producers received just 3 percent of the cost-share assistance provided to all livestock producers that year – less than goats, emus, ostriches, elk and bison received. After reviewing the data from 2004 and 2005, we found the same results.

Figure 1: EQIP spending under the 2002 Farm Bill on all livestock, 2003 to 2005 and total over that period, by species

Species	2003-2005 $	'03-'05%	2005 $	'05%	2004 $	'04 %	2003 $	'03%
Horses	$7,147,193	1%	$0	0%	$4,421,244	1%	$2,725,949	1%
Sheep	$16,858,540	1%	$8,883,826	2%	$4,522,929	1%	$3,451,785	1%
Swine	$43,061,095	3%	$17,582,432	4%	$14,569,213	3%	$10,909,450	3%
Other	$46,002,475	4%	$18,867,510	4%	$15,459,060	3%	$11,675,905	4%
Poultry	$73,275,499	6%	$32,524,429	7%	$25,645,002	6%	$15,106,068	5%
Dairy	$248,745,439	20%	$91,143,643	18%	$88,806,934	20%	$68,794,862	22%
Beef	$825,055,530	65%	$327,827,898	66%	$296,134,316	66%	$201,093,316	64%
Total	$1,260,145,771		$496,829,738		$449,558,698		$313,757,335	

Even in the eight states (Iowa, North Carolina, Minnesota, Indiana, Illinois, Missouri, Nebraska, and Oklahoma) that account for 78 percent of the nation's pork output, producers received only 11 percent of the EQIP cost-share assistance funds provided to all livestock producers from 2003 through 2005. While an improvement, it still indicates a significant under-investment in the environmental practices of pork producers. NPPC would like this imbalance corrected and would like EQIP funds to be allocated for specific on-farm practices that have a clear environmental benefit, such as development of comprehensive nutrient management plans and the use of technical service providers; odor and emissions reduction practices; and manure storage, transfer and field application technologies.

Animal Care, Housing and Transportation

America's pork producers established the world-class Pork Quality Assurance (PQA) program to provide responsible animal care through the application of scientifically sound practices. That means proper care and handling at each stage of the production process, with no tolerance for mistreatment of animals, and it means well-kept facilities to allow for the safe and humane movement of each animal and development of herd health programs with veterinary advice. Further, we enhanced our commitment to animal care through the Pork Quality Assurance Plus program. This is a first-of-its-kind animal welfare program in the U.S. livestock sector that combines producer education and on-farm assessments, verified by third-party audits, to ensure the highest levels of animal care. Furthermore, we have a Trucker Quality Assurance (TQA) program that addresses animal care and handling issues during transport. For producers, there is no higher priority than maintaining the well-being of their animals, and they have shown their commitment by funding PQA and TQA through their check-off dollars.

While the pork industry has invested hundreds of thousands of dollars in research and practical applications to enhance swine well-being, our industry is under attack by those who would severely restrict the raising of livestock and poultry for food. We are faced with provocative ad campaigns used to sway public opinion, lawsuits that seek to halt our production practices and scare tactics that question the safety of our product. In the next Farm Bill, we expect so-called animal-rights groups to push to add a number of provisions that, if adopted, would be very detrimental to the well-being and viability of U.S. pork producers, including:

- Extension of an 1870s law, known as the "28-hour rule," to the transportation of all livestock to all destinations. The law was enacted to deal with the movement to slaughterhouses of cattle by train. A lawsuit is pending to force USDA to bring all livestock transported by truck under the "28-hour rule." The pork industry already has adopted a Trucker Quality Assurance program that addresses animal care and handling issues during transport.

- A ban on all non-ambulatory livestock from the food supply. Several animal-rights groups tried in the last three Congresses – including an effort during the 2002 Farm Bill –

to include such a ban. For pork producers, this would be particularly devastating given that previous versions of federal legislation called for the euthanasia at auction markets and slaughterhouses of any animal which, for whatever reason, does not get up and move under its own power at delivery. The physiological makeup of the pig often prompts it to lie down. Under the strict conditions of previous legislation to ban such non-ambulatory animals, these pigs would be killed without regard to their health, the ownership of the animals or the cost to the producer. There is no food-safety risk associated with harvesting pigs that lie down for some period of time.

- A ban on the use of certain animal health products and the adoption of free-range housing, including a ban on stalls for all species. This effort could come in the form of H.R. 5557, a bill that would place severe restrictions on modern pork production for producers who want to sell to the federal government for school lunch, military or other federal facility food services.

Many members of this committee will be dealing with these issues for the first time, and NPPC stands ready and willing to work with you to provide the detailed implications of any legislative initiative that may be brought to you under the guise of "animal protection."

Market Structure and Information

In the past 25 years, the U.S. pork industry has undergone a dramatic transformation in response to pressures to compete, both in the domestic market against competing proteins and in the export market against the pork industries in other countries. Although the process of restructuring is ongoing, and the merits of this industry restructuring are still being debated, the net result is that the U.S. pork industry has held its ground domestically and has made major inroads in export markets. The U.S. now has one of the most competitive pork industries in the world but still faces challenges both from other meat sources and from other countries, such as Canada and Brazil. The pork industry has done well because of the variety of marketing options available to pork producers. Open and transparent hog markets are working well for the pork industry. U.S. hog and pork markets work because pork producers and packers are able to use any of several methods to market and price pigs. These include spot market transactions, cooperatives, bargaining associations and contractual arrangements. We support the right of all producers of any size or type or production system to market access, and we are opposed to anything that hinders that access. Furthermore, we do not believe that U.S. pork producers will be well-served by eliminating or requiring any particular marketing or pricing mechanism. The reason that this wide variety exists is that some producers believe each method is the best for their farm. Limiting their choices can do nothing but hurt their well-being.

Pork producers continue to need accurate and complete price and quantity information such as that found in the reports created by the Livestock Mandatory Price Reporting Act of 1999. It is imperative that this Act be renewed soon to ensure that these data, which help producers make business and production decisions, continue to be available to all market participants. The House last year passed a bill (H.R. 3408) reauthorizing the mandatory price reporting law for five years and adding several swine-specific reporting changes. The measure was strongly supported by pork producers. However, the Senate has yet to take action on the measure, and the law expired on September 30, 2005. Since then, the prices paid for hogs have been reported voluntarily. While this voluntary reporting is maintaining stable prices for pork and beef, sheep industry prices have collapsed under voluntary reporting. We remain concerned about the slow erosion of voluntary reporting in the pork sector. NPPC would like to see the mandatory price reporting law reauthorized before the 2007 Farm Bill is crafted, but should there be no resolve, we support the inclusion of LMRA in the Farm Bill.

An issue that would affect pork producers' ability to adapt to consumer demand is country of origin labeling (COOL). A provision mandating COOL was included in the 2002 Farm Bill. But mandatory COOL, the implementation of which has been delayed, would add costs to producers without providing consumers additional assurances about the safety of their food. Pork producers continue to support a voluntary program similar to the USDA process-certified program used for organics. This approach does not come at the expense of pork producers. To answer consumer demands for specific products, the U.S. pork industry is transforming from an industry with a commodity orientation to one with brand orientation.

CONCLUSION

As the Agriculture Committee begins to craft the 2007 Farm Bill, please keep in mind that pork producers are working to maintain, strengthen and defend their competitive advantage both domestically and internationally.

On behalf of the National Pork Producers Council and the many pork producers we represent, thank you for holding this hearing and allowing us to share our thoughts. We respectfully request your continued and focused attention on the matters we have brought to you today, and we look forward to working with the committee.

House Agriculture Committee
Hearing on 2007 Farm Bill
September 20, 2006

Testimony of
Jack Roney
Director of Economics and Policy Analysis
American Sugar Alliance

I am pleased to have the opportunity to submit testimony on behalf of the American Sugar Alliance, the national coalition of growers, processors, and refiners of sugarbeets and sugarcane.

The policy that Congress provided for the U.S. sugar industry in the 2002 Farm Bill has worked well.

- It has worked well for American taxpayers.
- It has worked well for American sugar consumers.
- And it has given American sugar farmers a chance to survive.

The industry and the policy have survived some major challenges over the past few years.

- A disconcerting 3-year decline in sugar consumption during 2001-2003 coincided with some unusually large crops and caused a huge buildup in producer-held stocks of sugar in 2004 and 2005.

  But sugar consumption has rebounded strongly. After average annual declines of more than 150,000 tons during 2001-2003, consumption has been growing at a robust rate of about 200,000 tons per year since then *(Figure 1)*.

- The threat of large imports of sugar from Mexico under the NAFTA, and from Central America under the CAFTA, and possible mandates for more sugar imports in other free trade agreements caused uncertainty in the market.

  But during CAFTA consideration the Administration assured Congress that it would not allow unneeded imports from Mexico or under other FTAs to jeopardize the no-cost operation of sugar policy for the remainder of the 2002 Farm Bill, and officials said these assurances would be extended if the policy is extended. We are pleased to have these assurances. Nonetheless, challenges on the NAFTA front remain.

- An unprecedented string of natural disasters – drought in the West, excessive rains in the upper Midwest, and three hurricanes that ravaged Louisiana and Florida – sharply reduced domestic production.

But USDA responded to the coincidence of added demand and reduced supply in a manner that has defended both taxpayers and consumers. To their credit, USDA and the industry took immediate, effective steps to avoid a serious supply interruption.

- USDA allowed producers to release onto the market the half million tons of sugar producers had been required to store to balance the market.
- USDA more than doubled imports. We are now the world's second largest sugar importer.
- Cane refiners damaged by the hurricane worked frantically, with important help from USDA, to care for their workers and get their operations up and running again.

Recent USDA actions regarding import access for Mexico, and all quotaholders, appear to have oversupplied the market and raised new uncertainties.

But throughout this past year, American consumer sugar supplies remained reliable and high in quality and U.S. sugar policy continued to operate at no cost to taxpayers. The policy has shown its adaptability to challenging circumstances and that should continue.

Background: Industry Size, Efficiency, Restructuring

The U.S. sugar producing industry accounts for 146,000 jobs in 19 states and generates $10 billion in annual economic activity. Sugar is vital to the economies of many states and localities. In states such as Louisiana and Wyoming, sugar accounts for about 40% of the state's total crop receipts. Sugar accounts for 11-24% of all crop receipts in seven other states. There are small towns in every state that would most likely wither and die if they lost their sugarbeet or sugarcane processing plants.

The United States is the world's fifth largest sugar producer and consumer and second largest importer. U.S. production is about evenly divided between sugarbeets, grown in twelve mostly northern-tier states, and sugarcane, in four southern states.

Two decades of declining real prices for our product have forced U.S. producers to reduce costs. We have done so through investment in yield-improving technology, in the field and in the factory – beet and cane sugar yields per acre are up by more than a third since the early 1980's – and through a wrenching industry restructuring over the past several years.

Beet and cane growers throughout this nation are among the most efficient sugar producers in the world. We are particularly proud that we achieve this efficiency while complying with the world's highest labor and environmental standards and despite the strong dollar relative to the developing countries that dominate the world sugar market.

According to LMC International's global 2004 survey, beet growers in the Red River Valley of Minnesota and North Dakota are the most efficient beet growers in the world. U.S. beet sugar producers, as a whole, are third lowest cost of 41 producing countries or regions; U.S. cane sugar producers in the top third in efficiency among cane-producing countries, virtually all of them developing countries with low social standards and costs.

In the late 1990's, even nominal sugar prices were extremely low *(Figures 2, 3)*, and this accelerated the industry restructuring. Just since 1996, more than a third of all U.S. beet and cane processing mills and cane sugar refineries have closed *(Figure 4)*. Independent beet processors and cane sugar refining companies sought to exit the business. When no potential buyers emerged, beet and cane growers, alarmed they would have no place to deliver their sugarbeets and raw cane sugar, organized cooperatively to purchase beet processing plants and cane refineries. Growers are the last investors in the U.S. sugar industry – a warning sign of how fragile the industry has become.

Just between 1999 and 2005, the grower-owned share of U.S. total sugar refining capacity more than doubled, from 34% to 84%. Growers' share of cane sugar refining capacity shot up from 14% to 73%; beet growers' ownership of beet processing capacity became complete, climbing from 62% to 100%. While this enables the growers/processors to achieve greater efficiencies, the enormous amount of investment involved makes the growers more dependent than ever on maintaining a stable sugar market in the U.S.

Background on U.S. Sugar Policy

In the 2002 Farm Bill, the United States Congress, by resounding majorities in both chambers – 71% of the votes cast in the Senate and 57% in the House – passed a successful sugar policy. Congressional support of U.S. sugar policy is growing. The House defeated an anti-sugar amendment in June 2005 with 66% of the votes cast. In May 2006, the House defeated an anti-sugar policy amendment by a vote of 281-135, or 68% of votes cast – the widest margin of any House sugar vote in decades.

U.S. sugar policy is unique among U.S. commodity programs. Under all commodity programs, the government offers farmers operating loans which they can satisfy by repaying the loan with interest or by forfeiting to the government the crop they put up as collateral. While other programs also provide income support to farmers when market prices fall below the loan rate, sugar policy does not, and is designed to run at no cost to the government by avoiding loan forfeitures.

Sugar policy is an inventory management program. The Secretary of Agriculture has two tools to manage the market: a WTO-legal tariff-rate quota (TRQ) to control imports, and a marketing allotment program to control domestic supplies.

The TRQ is a tool of limited use. The government cannot reduce imports below the minimum to which it has committed in trade agreements. At the time the 2002 Farm Bill was written this minimum was: 1.256 million short tons in the WTO and up to 276,000 tons of surplus production from Mexico in the NAFTA. Since then, the U.S. has conceded guaranteed access for 120,000 tons from six CAFTA countries, growing by 3,830 tons per year.

Essentially by subtracting required imports from anticipated consumption, and allowing for reasonable stock levels, USDA calculates the amount of sugar that could be marketed each year without the risk of depressing prices and inviting loan forfeitures. Farmers can plant as many acres of beets and cane as they want, and process as much sugar as they want, but they may not be able to sell it all onto the market. Sugar processors must store, at their own expense, whatever USDA judges to be in excess, until the market requires the sugar.

When Congress designed sugar policy in the 2002 Farm Bill, it specified that marketing allotments would be triggered off if imports rise above 1.532 million short tons, the total of U.S. import requirements at that time, and if those imports forced a reduction in allotments. Congress essentially was sending a message that this required import amount, about 15% of U.S. sugar consumption, was enough. Imports could grow if U.S. sugar consumption growth outstrips U.S. production growth, or if there is a crop shortfall. But U.S. producers should not have to cede larger minimum shares of their market to foreign producers.

CAFTA and Sugar Policy. CAFTA or other bilateral or regional free trade agreement (FTA) concessions, on top of the WTO and NAFTA concessions, could trigger off marketing allotments and endanger no-cost operation of sugar policy. The additional 120,000 short tons of access granted to CAFTA countries exceeded the limits on the import concessions that Congress envisioned.

The Administration did, however, prior to CAFTA's passage in July 2005, promise that the new FTAs would not jeopardize no-cost operation of U.S. sugar policy, at least in the short run.

In a June 29, 2005, letter to Chairman Goodlatte and Senate Agriculture Committee Chairman Chambliss, Secretary Johanns provided assurance that "the DR-CAFTA will not interfere with USDA's ability to operate the sugar program in a way that provides the full benefit to domestic growers through the remainder of the 2002 Farm Bill. If the Farm Bill import trigger is exceeded and the domestic market is adequately supplied with sugar, then the excess imported sugar up to an amount equivalent to DR-CAFTA imports will be purchased by CCC and made available for conversion to ethanol." Secretary Johanns also promised a USDA study on "the feasibility of converting sugar into ethanol," which was issued in July 2006.

Secretary Johanns noted that his assurance would apply to "imports from NAFTA, CAFTA, and other trade agreements" in addition to the import trigger amount of 1.532 million short tons. This assurance is valuable because of the added danger to the program's operation posed by above-quota imports from Mexico and by additional concessions since negotiated in FTAs with Colombia (55,115 short tons) and Peru (12,125 short tons) *(Figure 5)*.

The U.S. sugar market was able to absorb additional CAFTA sugar and Mexican above-quota imports this past year because of the sharp drop in domestic production in 2005/06, and USDA has not needed to divert any imported sugar to nonfood uses. But a return to more normal domestic production, as we appear to be witnessing this year, could result in excessive NAFTA and CAFTA imports creating serious oversupply problems.

If the sugar provisions of the 2002 Farm Bill are extended in next Farm Bill, as we recommend, we are pleased that we have the commitments the Secretary made during CAFTA consideration that the Administration would continue to take steps to protect the no-cost operation of U.S. sugar policy.

Trade Policy Concerns

American sugar producers are rueful about the reality that, while they are efficient and would like to become more so by increasing throughput and minimizing unit costs, U.S. trade policy constrains them from doing so. With a large segment of the U.S. market reserved for imports, American producers are residual suppliers of their own market. To make matters worse, there is enormous political pressure to increase imports and no prospect of reducing them.

FTAs. In addition to the CAFTA, which cedes 120,000 short tons of our market in the first year, growing to 169,000 tons per year within the next 15 years, the Administration is at various stages of negotiating bilateral or regional FTAs with 21 other sugar-exporting countries. These countries produced an annual average of 50 million tons of sugar during 2003/04-2005/06. They exported 25 million tons per year – nearly triple U.S. sugar consumption. All these countries already enjoy guaranteed shares of the U.S. sugar-import quota, essentially duty-free.

The Congress, and the American sugar industry, do not believe the U.S. sugar market should be carved up for subsidized foreign sugar producers, particularly without addressing the subsidies in those countries. The U.S. sugar industry urges that the Administration either exclude sugar from future FTA negotiations, or ensure that the import concessions that are granted in these agreements do not depress the U.S. sugar market. These agreements do nothing to level the playing field in the highly distorted world market for sugar.

WTO. Sugar is the most distorted commodity market in the world. The government in every country that produces sugar intervenes in its sugar market in some way. The biggest producers, and subsidizers, dump their surplus on the world market for whatever price it will bring. As a result of this pervasive dumping, so-called world market prices for sugar have averaged barely half the world average cost of production over the past two decades *(Figure 6)*.

A table attached to this testimony summarizes an extensive study on direct and indirect subsidies among the major sugar producing and countries. It illustrates how pervasive and diverse these many forms of sugar subsidy are *(Figure 7)*.

No producer could survive at prices so low. But government intervention ensures that domestic wholesale prices, at which most sugar is sold, are well above world dump market levels. Globally, domestic clearing prices for sugar average 22 cents per pound – double the historic world dump market price and virtually the same as the U.S. refined beet sugar support price of 22.90 cents per pound *(Figure 8)*.

The sugar subsidy problem is a global problem. It must be addressed globally in the WTO – comprehensive, multilateral, sector-specific negotiations – all countries, all programs. The industry has supported the WTO approach since the onset of the Uruguay Round in 1986.

Piecemeal market access concessions in bilateral and regional free trade agreements will *not* help solve the global sugar subsidy problem. Such concessions could, however, put the U.S. sugar industry out of business while foreign subsidies continue unchecked.

Doha Round. Doha Development Round negotiations are suspended. Talks could be resumed, but changes in the Doha Round approach must be made if fundamental reform of the world sugar market is to be achieved. There are at least three areas where the Doha negotiations seem likely to fall well short of serious foreign sugar policy reform:

- **Indirect subsidies.** Many of the most highly distorting foreign sugar policies are indirect and non-transparent and, thus, not easily reached by the formulaic approach being pursued in the negotiations. It seems highly unlikely that, if agreement on the basic modalities is reached, there will be sufficient energy, time, or leverage to pursue sectoral approaches.

- **Special treatment for developing countries.** Developing countries account for 75% of world sugar production and exports. But, given the extensive commitments to special and differential treatment and the opaque nature of most developing-country policies on sugar, such policies will be little affected by Doha.

- **"Special product" exemptions.** Furthermore, most sugar-producing developing countries will likely claim "special product" status for sugar to avoid opening their own markets to imports.

In the absence of comprehensive reform of the policies distorting the world sugar market, there is little justification for major changes in the U.S. sugar program or for weakening U.S. protection from the world "dump market" for sugar.

NAFTA. The 15-year NAFTA phase-in will end in 2008 with the elimination of all barriers to trade in sugar and corn sweeteners. Up until then, U.S. imports of Mexican sugar are limited to up to 250,000 metric tons of surplus Mexican sugar – surplus production defined as Mexican sugar production minus Mexican sugar and corn syrup consumption.

Under NAFTA, U.S. producers of U.S. high-fructose corn syrup (HFCS) should have enjoyed duty free access to Mexican since 2003. Mexico, however, levies a 20% tax on soft drinks made with anything but cane sugar and the tax has acted as a barrier to U.S. HFCS shipments to Mexico. The WTO has ruled the tax illegal. Absent the tax, unlimited imports and use of corn sweetener in Mexico could displace as much as 2 million tons of Mexican sugar, wreck the Mexican sugar industry, and displace hundreds of thousands of Mexican sugar farmers. A flood of Mexican sugar into the United States would destroy the U.S. market.

The Mexican sugar industry, nearly half of which is still owned and operated by the Mexican government, is also concerned about competition with efficient American sugar producers. The U.S. enjoys duty-free access to Mexico for only 7,258 metric tons of sugar per year now, but we will be permitted to send unlimited quantities beginning in 2008.

U.S.-Mexican Agreement. The U.S. and Mexican governments announced a deal last July aimed at smoothing the transition to free trade in 2008. Mexico agreed to lift its soft-drink tax in 2007, and to import large quantities of U.S. HFCS -- 250,000 metric tons in 2006/07 (Oct-Sep) and at least 175,000 in the final quarter of 2007. The U.S. agreed to accept like quantities of Mexican sugar. The agreement also called for the creation of a joint industry/government task force to develop a program for stable sweetener market integration beyond 2008.

The U.S. sugar industry endorses full compliance with international trade rules and commends Mexico's promise to lift its soft drink tax. We have, however, expressed some misgivings to the Administration regarding the July agreement.

- The U.S. has ignored explicit NAFTA rules limiting Mexican duty-free sugar access to the U.S. to Mexico's surplus sugar production. Published USDA statistics show Mexico to be a significant *deficit* producer in 2005/06 and 2006/07; moreover, the Mexican government recently announced it is increasing Mexican sugar imports by 110%.

Nonetheless:

- The U.S. had already granted Mexico 340,000 metric tons of guaranteed duty-free access in 2005/06.
- The U.S. has granted 250,000 tons of access in 2006/07.
- The U.S. has granted 175,000-250,000 tons of access in the first quarter of 2007/08, though no statistics are available yet for that year.

➢ The guaranteed amounts granted to Mexico appear likely to exceed U.S. sugar market needs. U.S. sugar prices are off sharply since the agreement was announced – strong evidence the market regards the amounts granted as overly generous.

Other victims of providing excess access to Mexico are the other 40 quotaholding countries, virtually all developing, that have traditionally been guaranteed access to the U.S. sugar market. Some of these have expressed their concern to the Administration that the amounts granted to Mexico are their expense and are in violation of NAFTA and WTO rules.

Nonetheless, the U.S. sugar industry is encouraged by the agreement's planned formation of a task force to consider U.S.-Mexican sugar trade beyond 2007. The governments of both countries apparently recognize the danger that unmanaged trade flows could pose to their sweetener industries – market oversupply, price collapse, and vulnerability to subsidized world dump market sugar. The U.S. marketing allotment system may prove to be the model for the future for both countries. We look forward to pursuing these discussions.

Sugar policy survival after 2008. Some observers have predicted that U.S. sugar policy will collapse under a deluge of Mexican sugar after 2008 when restrictions are lifted on U.S. corn sweetener exports to Mexico and on Mexican sugar exports to the U.S. These circumstances do pose a major challenge to the continued no-cost operation of sugar policy. But reports of our pending demise are exaggerated. There are a number of reasons U.S. sugar policy may be able to continue in basically its current form beyond 2008:

1. **Sugar trade with Mexico becomes a two-way street.** The U.S. can send Mexico unlimited amounts of sugar, duty-free, beginning January 1, 2008. Mexico is an appealing market for U.S. producers:
   - Sugar prices in Mexico are higher than here and have been for years.
   - Mexico's population and income growth rates are high.
   - U.S. producers are more efficient and market oriented, and unsubsidized by our government.
   - The U.S. produces a higher quality refined sugar.

2. **Mexico may not have much sugar to export.** The domestic market is in deficit and the industry has not been able to fulfill generous concessions the U.S. has provided for duty-free access to the U.S. sugar market. The Mexican government is aggressively importing sugar from the world dump market to satisfy domestic needs and while it sends Mexican production to the U.S. The substitution of foreign sugar for Mexican is technically not illegal, but it represents another example of Mexico abusing the intent of the NAFTA.

3. **The quality of Mexican refined sugar is low.** American sugar users who imported large quantities of Mexican refined sugar last year were keenly disappointed in its quality.

Impurities, such as metal shavings, fiber from burlap sacks, and other trash, meant the sugar had to be re-refined in the U.S. Users accustomed to bulk refined sugar deliveries from U.S. producers also had problems with Mexican sugar in large bags. These factors could significantly limit U.S. demand for Mexican refined sugar.

4. **Mexico may not allow unlimited quantities of U.S. HFCS into its market.** Mexico has promised to lift its soda tax, through Congressional action, in 2007. But President Fox has repeatedly asked the Mexican Congress to lift the tax in years past, and it has never done so. If the soda tax is not repealed – or it is replaced by some other creative trade barrier – and the Mexican beverage industry continues to use sugar, Mexico could have little, if any, surplus sugar available to send to the U.S.

5. **The U.S. may not have large quantities of surplus HFCS to sell to Mexico.** USDA's chief economist recently told a Congressional Committee he expects U.S. corn prices to hit record levels because of soaring demand for ethanol. Competition with the livestock and ethanol sectors for increasingly costly corn supplies could limit the growth of U.S. HFCS operations.

6. **The Mexican industry is egregiously subsidized.** In 2001, years after the NAFTA had been negotiated, the Mexican government nationalized nearly half the Mexican sugar industry, primarily to save it from bankruptcy. The U.S. industry and government will not look approvingly at a flood of sugar from an industry where nearly half the sugar mills continue to be owned and operated by the Mexican government.

7. **The U.S. can stop Mexican dumping.** A flood of Mexican sugar could ruin the U.S. sugar industry and undermine the long-term security of our homegrown food supply. The U.S. would respond to a flood of subsidized Mexican sugar with anti-dumping and countervailing-duty petitions to prevent injury. With the Mexican government's extreme involvement in its sugar industry and Mexico's higher price structure, the U.S. would have overwhelming justification for this type of trade remedy.

8. **Sugar and corn industries in both countries could be harmed.** Wholesale refined sugar prices are currently around 40 cents per pound in Mexico and 30 cents per pound in the U.S.; U.S. spot prices for HFCS-55 (the sweetener equivalent of sugar) are 17-18 cents. World dump market sugar prices, meanwhile, have been running about 11 cents per pound, raw value. Floods of excess sugar that push U.S. and Mexican sugar prices down to world dump market levels would not only wreck the sugar industries of both countries, but would also seriously undermine the profitability of the U.S. corn sweetener sector.

9. **Both governments are committed to orderly markets beyond 2008.** In the agreement forged last July, the Mexican government requested, and the U.S. government concurred, that a joint government-industry task force should be created to monitor the market. This government-industry task force could provide a framework for preventing a North American sweetener trade disaster in the future.

These factors do not guarantee there will be smooth sailing for U.S. Mexican sweetener trade after 2008. But they should indicate it is unfair to assume that U.S. sugar policy will necessarily implode at that time.

Sucrose Ethanol Solution to Trade Policy Pressures?

With oil, gasoline, and ethanol prices at record highs, and with sugar and other agricultural commodities generally in surplus, a sucrose ethanol program deserves serious examination. USDA released a study on the efficacy of a sucrose ethanol program in the United States last July.

USDA did not lay out a plan for a U.S. sucrose ethanol program, but it did examine some relative cost issues. Based on USDA findings and our own views, we would make the following observations:

- Ethanol can be produced competitively from U.S. sugar, at U.S. sugar prices, but only when ethanol prices are high. U.S. ethanol prices have declined over the past two months from $4.00 per gallon to about $2.50 per gallon. USDA found that ethanol can currently be produced from U.S. cane and beets for $2.35-2.40 per gallon; from U.S. corn for $1.03-1.05 per gallon; and from Brazilian cane for $0.81 per gallon. Ethanol prices cannot be expected to remain high indefinitely, and potential U.S. producers are unlikely to invest in building production capacity on the assumption of long-term high prices. The exception is Hawaii, where added state incentives are encouraging investment in the adaptation of cane mills for ethanol production.

- The lowest cost ethanol production in the world is in Brazil, from sugarcane. Brazil benefits from 30 years of government subsidies, investment, and consumption mandates that have eliminated Brazilian dependence on foreign oil. Brazil is the world's largest cane producer and more than half its cane goes to ethanol. This makes sugar a byproduct of the Brazilian cane industry and allows Brazil to price sugar extremely cheaply, for food or for ethanol. Brazil's cheap-sugar policy and years of government and private sector investment in capacity and technology have made Brazil the low-cost ethanol producer.

- U.S. ethanol production from corn is more costly than Brazilian ethanol from cane, but less costly than U.S. ethanol from sugar. The U.S. maintains relatively low corn prices to be competitive in world export markets. But, like all other sugar-producing countries, the U.S. maintains sugar prices higher than Brazil's. This puts U.S. sugar at a disadvantage to U.S. corn for ethanol production. U.S. corn also benefits from about 20 years of federal ethanol tax credits, plus state, and now federal, mandates for ethanol consumption, which have encouraged investment in ethanol mill construction and technology.

U.S. ethanol demand is growing so rapidly that feedstocks in addition to corn need to be considered. If the Administration or Congress is determined to reduce U.S. dependence on foreign oil and shift to domestic renewable resources, sugar should certainly be among the feedstocks considered. Future breakthroughs in the development of ethanol from cellulosic materials could make ethanol from sugar crops much more competitive.

The Administration has made clear that in order to complete trade agreements with sugar-exporting countries it will concede access to the U.S. market for sugar we do not need. An ethanol program for that surplus sugar could prove to be a viable complement to U.S. sugar policy relative to the Administration goals regarding trade policy and reducing U.S. dependence on foreign oil.

We would emphasize that any sucrose ethanol program the Administration might propose would be complementary to U.S. sugar policy. The U.S. sugar industry remains overwhelmingly committed to producing sugar for food and to maintaining the current structure of U.S. sugar policy.

U.S. Sugar Policy: Success for Taxpayers

American sugar farmers are proud of the fact that sugar is the only major U.S. commodity program run at no cost to taxpayers. We derive all our returns from the marketplace. We receive no income supports from the government to cushion the blow when market prices drop. We have not had an increase in our support price in 21 years, though inflation since 1985 has been 81%.

U.S. Sugar Policy: Success for Consumers

American consumers get a great deal on sugar. Consumer prices are low and affordable by world standards, and extremely stable. Foreign developed-country consumers, on average, pay 30% more for their sugar than American consumers do. And, remarkably, U.S. retail sugar prices are essentially unchanged since the early 1990's. In terms of minutes of work to purchase a pound, sugar in the U.S. is about the most affordable in the world (*Figures 9, 10*).

The retail sugar prices in Australia and Canada are worth noting. These countries tout their free-trade nature and their exposure to low-priced world dump market raw sugar, and imply consumer benefits from this exposure. Yet their consumer prices for refined sugar are virtually identical to the United States' 43 cents per pound: Australia at 43 cents and Canada at 42 cents. As would be the case in this country, the benefit of access to low-priced raw sugar clearly accrues to food manufacturers and retailers, not to consumers.

Even after the shock to the U.S. sugar supply chain from the weather disasters in 2005, U.S. retail prices still averaged 43 cents per pound – the same level as in 1990 and even in 1980.

American consumers' savings on sugar could be even greater, but history has shown that consumers do *not* benefit when producer prices for sugar fall: Grocers and food manufacturers routinely absorb their savings as higher profits rather than passing the lower sugar prices along to consumers. Food manufacturers have enjoyed retail price increases for sweetened products at least in line with inflation, while paying producers lower prices for the sugar the manufacturers buy (*Figure 11*).

Even if food manufacturers passed *all* their savings from lower sugar prices along to consumers, consumers would hardly notice. For example, there is about 1 cent worth of sugar in a 72-cent candy bar. If sugar prices were to fall by 10%, and the candy manufacturers and retailers passed along *all* the savings, the price of that 72-cent candy would fall to 71.9 cents. *If sugar producers gave the sugar to the candy manufacturers for free*, and the passthrough were 100%, the price of the 72-cent candy bar would plummet to 71 cents. The attached charts depict sugar's tiny share of retail product prices and similar potential price changes for a host of other sweetened products *(Figures 12, 13)*.

Higher Wholesale Prices in 2005/06

Food manufacturers complain that wholesale refined sugar prices have risen and that at times during the post-hurricane period supplies were tight. It is important to put these developments in perspective.

- The wholesale price increase has been only the third significant rise in the past 21 years – on a par with modest rises in 1989-90 and 1996 related to weather-related crop disruptions. Corrected for inflation, prices food manufacturers paid for sugar in 2005 were 30% lower than in 1985 *(Figure 3)*. A number of sweetened food manufacturing corporations announced record profits in 2005 – some noted sugar was an insignificant cost for them, others that they had booked their 2005/06 sugar purchases at low pre-hurricane price levels.

- Food manufacturers have, in effect, been victims of their own success. In bringing policy pressure to keep producer prices for sugar low the past two decades, they have forced many producers out of business (38% of all sugar production facilities have closed just since 1996) and reduced capacity. Manufacturers have demanded just-in-time delivery, shifting storage burdens from the manufacturers to the producers. The low prices and reduction in storage costs have reduced food manufacturers' overall costs, but made them more vulnerable to transportation and producer-facility disruptions.

- The food manufacturers have demanded extremely high-quality sugar and this has made them vulnerable to the type of quality problems they have experienced with imported refined sugar.

- Their first market price rise in 10 years is enabling producers to cope with soaring costs for fuel, fertilizer, and weather damage and, perhaps, buy down some of their debt.

The lesson to the food manufacturers, and to Congress, is clear: If food manufacturers are to expect reliable high-quality supplies of refined sugar, they cannot afford to force more U.S. beet processors or cane refiners out of business.

Policy Alternatives?

Despite sugar policy's continued success, even after being tested by last year's natural disasters, some would like to change the policy. Food manufacturers and retailers have been the biggest beneficiaries of the change in U.S. policy since 1996 for most commodities. Commodity prices have been allowed to fall, but farmers are kept afloat by government payments.

The food manufacturers get the cheapest possible raw commodities from reliable American farmers and, by not passing their savings along to consumers, increase their profit margins. The taxpayer cost of subsidizing food manufacturers this way has totaled over $200 billion since 1996.

The U.S. sugar industry in no way is critical of the cash payment programs now operated for other commodities, and we are pleased that approach may be working well for those producers. But we reject the suggestion this is a model that sugar policy should follow. The sugar industry is different and a payment approach does not fit.

The U.S. sugar industry is more vertically integrated and characterized by larger farm operations in some areas of the country. For example, payment programs designed for farmers would have to be adapted for sugar processors, which are the entities that put sugar under loan. Payment limitations would also be a huge hurdle, since cane operations tend to be quite large, and many diversified beet farmers may already be at their payment limits for the other program crops they grow.

With the agricultural budget under enormous pressure for reductions, other commodity programs would have to be cut to make the money available to convert sugar policy from no cost to high cost.

As history has shown with sugar and other commodities, consumers do not benefit when raw ingredient prices fall. A conversion to the income-support approach for sugar would be another boon for the food manufacturers, but these already profitable corporations would be the sole beneficiary.

A recent independent analysis puts the cost of converting sugar to a standard program at $1.3 billion per year ("*The Future of U.S. Sugar Policy*," McKeany-Flavell Company, Inc., Oakland, CA, June 14, 2006). The study assumes that U.S. sugar prices fall to world dump market levels, which have averaged about 10 cents per pound for the past 20 years, but that U.S. sugar producers are kept afloat through income transfers from the government.

The Sweetener Users have suggested the study's world price assumption is too low, and the estimated cost of the program too high, because world prices rose to the upper teens earlier this year. But prices have since fallen back to 11 cents, reinforcing the volatile, dump nature of that market and the reasonability of the study's world price assumption. Should prices continue to fall, to below 10 cents, the cost of the standard program for sugar would be still higher than the estimated $1.3 billion.

We would like to submit for the record an Issue Brief explaining in more detail why the payment approach does not fit for sugar – it is entitled: "*Sugar Subsidy Checks are Unworkable.*"

Food manufacturers' sugar policy proposals. The Sweetener Users Association, which testified before this Committee a week ago, has acknowledged the importance of maintaining a viable and efficient U.S. sugar-producing industry. They have testified they do not want to see our industry shrink any further. We are pleased with their commitment to the continued viability of the producer industry. We have met with them about the future of sugar policy and may continue to meet.

Their policy proposals are geared to achieve the noble goal of preventing further decline in our industry, but at they would do so at considerable taxpayer cost.

The Users have suggested three policy alternatives:

- Standard Commodity Program (direct payments, countercyclical payments and loan deficiency payments);
- Revenue Assurance;
- Direct Payments.

In each case, the U.S. price would be permitted to drop to the world price, but government payments to sugar producers would compensate for their drop in income. The Users assume that, unlike all other standard commodity programs, payment limitations would not apply to sugar producers. The Users have not estimated what each approach would cost, but annual taxpayer costs around the $1.3 billion estimated by McKeany-Flavell would be likely.

In our view, the political and economic costs of converting a no-cost sugar policy to a no-payment-limitation, high-taxpayer-cost policy would be insurmountable. We welcome the Committee's views on this issue.

Moreover, the cotton case has shown that the U.S. standard program is vulnerable to WTO challenge. The revenue assurance and direct payment approaches may be as well.

At a time when Congress is facing two key hurdles to maintaining a strong safety net for farmers and ranchers – budget pressures and WTO compliance – these proposals could add costs, as well as WTO exposure, where little to none exists today.

Developing-country damage. Perhaps the biggest loser from the Sweetener Users' approach on sugar policy, after the American taxpayer, would be the 41 foreign quotaholder countries – 39 of which are developing countries. The U.S. government would supposedly compensate American sugar producers for the drop in their price to the world dump market level, but these sugar-exporting countries would receive nothing.

The real value of these countries' guaranteed access to the U.S. market – a premium of about 10 cents per pound – would disappear. Aside from Brazil, with its ethanol subsidies, none of these countries can produce sugar at traditional world price levels and the sugar industries in the countries most dependent on access to the U.S. market – such as the Dominican Republic, the Philippines, Jamaica, Mauritius, and others – could collapse.

Conclusion

U.S. sugar policy is working for American taxpayers and consumers. It is giving American sugar growers a chance to survive in a highly subsidized and distorted world market.

The greatest threats to continued no-cost operation of this successful policy are NAFTA integration and the horde of FTAs with sugar-exporting countries that could carve up our market to subsidized foreign producers, without addressing any of the foreign subsidies that so badly distort the world market. NAFTA challenges have the potential to be addressed through reasoned U.S.-Mexican dialogue. And foreign distortions can be addressed, but that can only occur in the multilateral context of the WTO.

We urge that the highly successful no-cost U.S. sugar policy be allowed to continue.

Figure 1

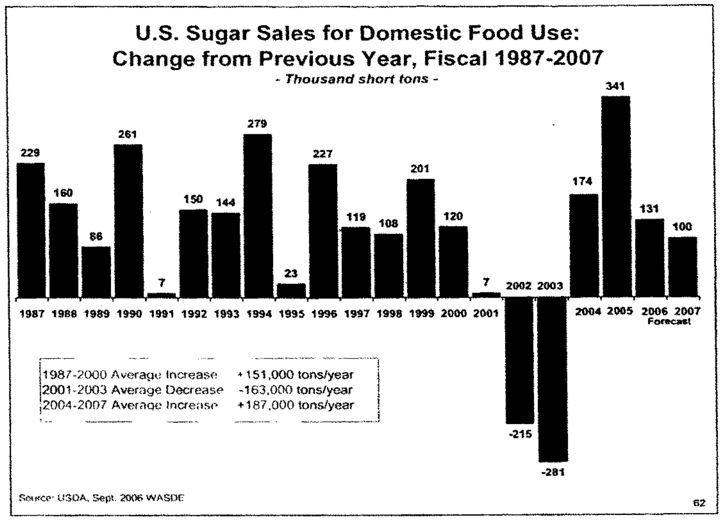

Figure 2

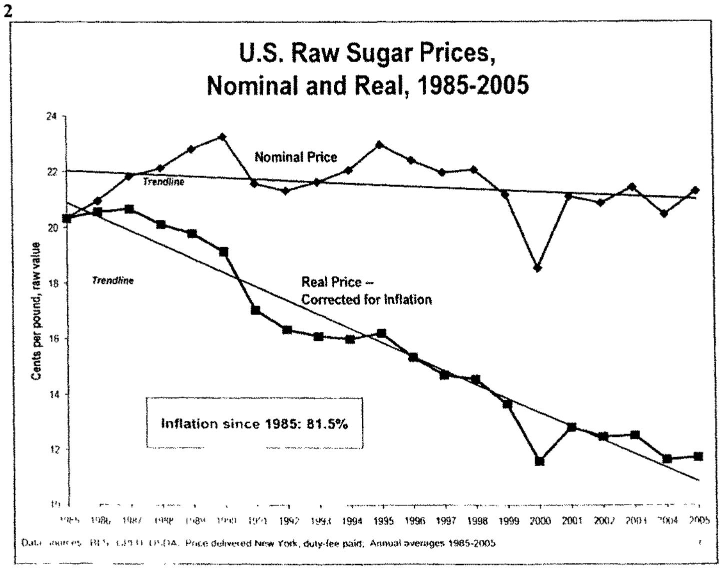

Figure 3

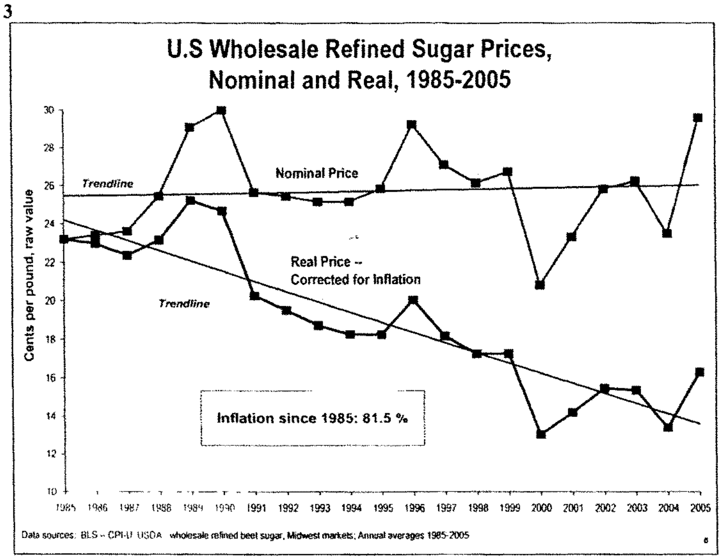

Figure 4

33 Sugar Mill and Refinery Closures Since 1996

BEET CLOSURES	CANE CLOSURES	
Spreckels Sugar, Manteca California, 1996	Ka'u Agribusiness Hawaii, 1996	Evan Hall Sugar Cooperative Louisiana, 2001
Holly Sugar, Hamilton City California, 1996	Waialua Sugar Hawaii, 1996	Caldwell Sugar Cooperative Louisiana, 2001
Western Sugar, Mitchell Nebraska, 1996	McBryde Sugar Hawaii, 1996	Glenwood Sugar Cooperative Lousiana, 2003
Great Lakes Sugar, Fremont Ohio, 1996	Breaux Bridge Sugar Louisiana, 1998	New Iberia Sugar Cooperative Louisiana, 2005
Holly Sugar, Hereford Texas, 1998	Pioneer Mill Company Hawaii, 1999	Jeanerette Sugar Company Louisiana, 2005
Holly Sugar, Tracy California, 2000	Talisman Sugar Company Florida, 1999	U.S. Sugar, Bryant Florida, 2005*
Holly Sugar, Woodland California, 2000	Amfac Sugar, Kekaha Hawaii, 2000	Cinclare Central Facility Louisiana, 2005*
Western Sugar, Bayard Nebraska, 2002	Amfac Sugar, Lihue Hawaii, 2000	Atlantic Sugar, Belle Glade Florida, 2005**
Pacific Northwest, Moses Lake Washington, 2003	Hawaiian Commercial & Sugar, Paia Hawaii, 2000	
Western Sugar, Greeley Colorado, 2003	**CANE REFINERY CLOSURES**	
Amalgamated Sugar, Nyssa Oregon, 2005**	Aiea, C & H Hawaii, 1996	Sugarland, Imperial Texas, 2003
Michigan Sugar, Carrollton Michigan, 2005**	Everglades, Imperial Florida, 1999	Brooklyn, Domino New York, 2004

*Phasing out operations, 2005-07. **Suspended operations for 2005/06.
Note: In 2006, 23 beet factories, 19 raw cane mills, and 8 cane refineries remain in continuous operation, a 39% drop since 1996.
American Sugar Alliance, March 2006.

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Figure 5

U.S. Import Concessions:
In Place, Proposed, or Being Negotiated

	Import Amount *-Metric tons-*	Comment
In Place		
WTO (41 Countries)	1,154,192	Could rise in Doha Round
NAFTA - Mexico[1]	250,000	Unlimited in 2008
CAFTA	109,000	Grows by 3,475 mt/yr years 2-15; by 2,640 mt/yr thereafter
Not yet approved		
Peru	11,000	Grows by 180 mt/yr forever
Colombia	50,000	Grows 750 mt/yr forever
Being, or to be, negotiated		
Panama	?	Exports 40,000 mt/yr, 3/4 to U.S. duty free
Ecuador	?	Exports 48,000 mt/yr, 1/4 to U.S. duty free
Thailand	?	World's 3rd largest exporter
South Africa/Swaziland	?	Export 1.4 mmt/yr
FTAA[2]	?	Exports 22 mmt/yr

[1] Up to 250,000 tons of surplus production, through 2007.

[2] Free Trade Area of the Americas -- 24 sugar exporting countries.

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Figure 6

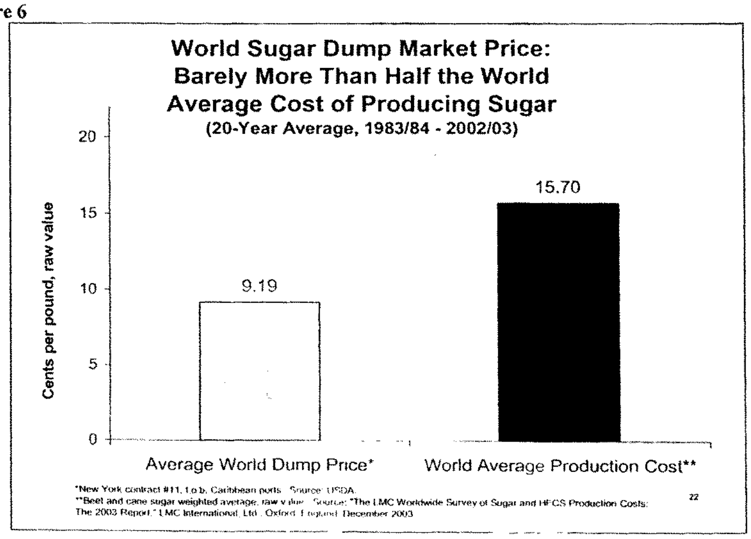


Figure 7

Summary of Support for Sugar Industry in Selected Countries, 2002[1]

	Australia	Brazil[7]	China[8,9]	Colombia	Cuba	EU[10,11]	Guatemala	India[12]	Indonesia	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
TRANSPARENT SUPPORT															
Domestic Market Controls															
Production Quotas						✓									✓
Guaranteed Support Prices			✓			✓		✓	✓	✓				✓	✓
Supply Controls								✓							
Market Sharing/Sales Quotas				✓			✓				✓		✓	✓	
Import Controls															
Import Quota			✓						✓			✓	✓		
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licences			✓						✓					✓	✓
Quality Restrictions							✓			✓					
Export Support															
Export Subsidies				✓		✓		✓							✓
Single Desk Selling	✓			✓	✓								✓		
NON-TRANSPARENT SUPPORT															
Direct Financial Aid															
State Ownership					✓						✓				✓
Income Support	✓	✓				✓				✓				✓	
Debt Financing[1]	✓	✓									✓	✓	✓	✓	
Input Subsidies[2]								✓	✓		✓	✓	✓	✓	✓
Indirect Long Term Support															
R&D Subsidies								✓					✓		✓
Efficiency Programs	✓														
Ethanol Programs/Subsidies		✓		✓		✓								✓	
Consumer Demand Support					✓						✓				✓
Average Production, 2000-02 (mmt, raw value)	4.9	19.3	7.9	2.3	3.8	18.0	1.8	19.9	1.6	0.8	5.1	1.7	2.7	5.8	2.3
Rank Among World Producers	8	2	4	13	9	3	16	1	20	24	7	18	11	6	12
Average Exports, 2000-02 (mmt, raw value)[3]	4.5	9.5	0.4	0.9	3.0	5.7	1.2	0.1	-	-	0.7	0.1	1.1	3.0	0.4
Rank Among World Exporters	3	1	15	8	4	2	6	42	-	-	9	33	7	5	13
Domestic Wholesale Sugar Price (cents/lb)[10]	13.5	8.1	16.9	21.1	0.1	30.4	18.0	12.7	19.8	65.4	25.6	16.5	17.3	11.8	27.9
Import Tariff Level (refined, a.v. or equivalent)[11]	0%	18%	75%	20%	10%	164%	20%	68%	20%	71%	172%	50%	46%	96%	138%

Notes:
1. Policy information for countries was collected in June 2003, with the exception of Indonesia, which is based on the 2004/05 season.
2. Includes low interest loans, interest rate subsidies, debt relief and debt rescheduling.
3. Includes crop pre-financing, irrigation provision, land maintenance and inventory financing.
4. Japan is an importer of sugar only. It is the world's fourth largest importer of sugar, importing 1 6 million metric tons per annum on average between 2000 and 2002.
5. The Cuba wholesale price represents the heavily subsidised ration entitlement. All prices are for refined sugar.
6. Import tariffs reported in this line applied as of July 2005.
7. Brazil provides direct subsidies (income support) to producers in the North/North East region only.
8. Chinese cane and beet prices are controlled at the provincial level.
9. State trading companies account for 70% of domestic sales in China.
10. The EU provides an income support subsidy to refiners of cane sugar.
11. The EU Commission provides directives on ethanol use, though these are not binding.
12. India provides a transport subsidy for exporters.

Figure 8

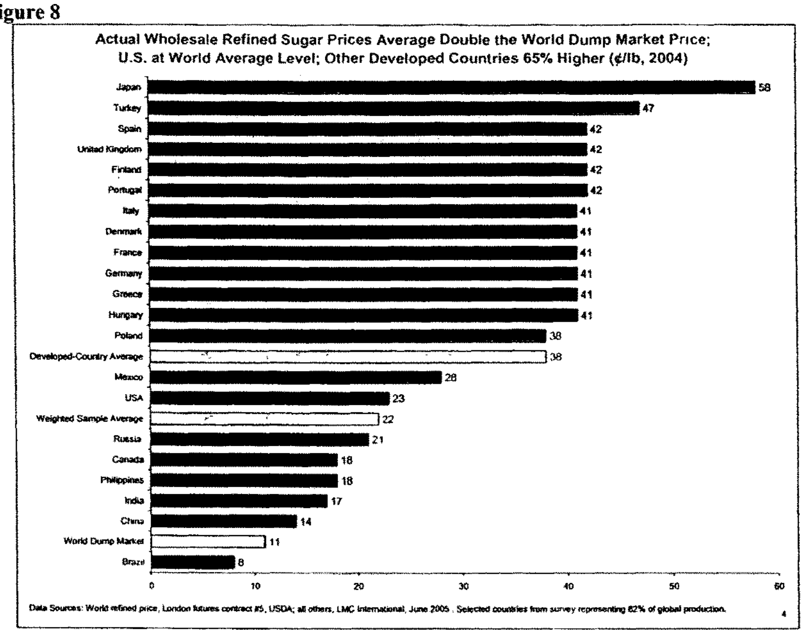


Figure 9

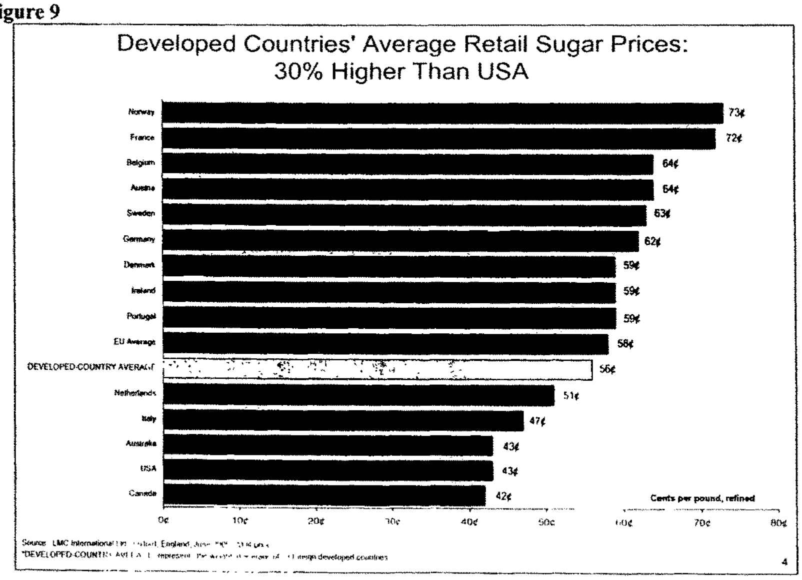


Figure 10

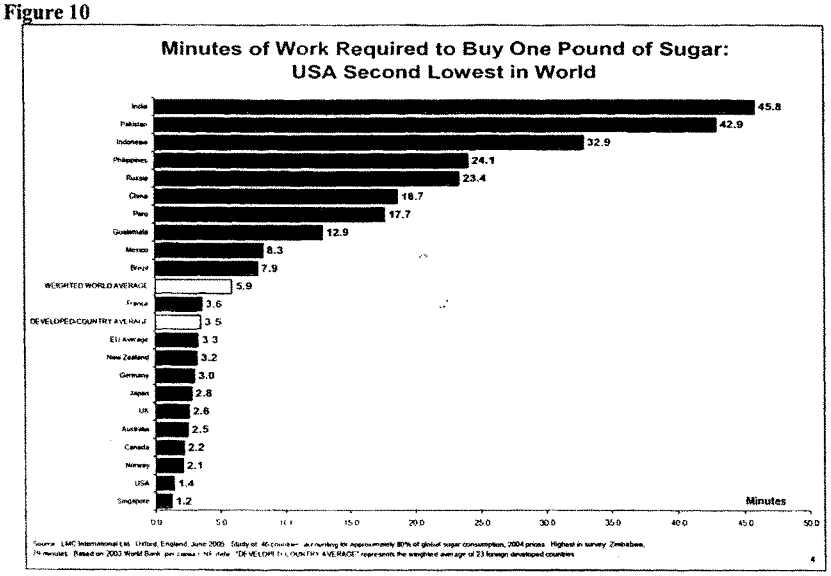


Figure 11

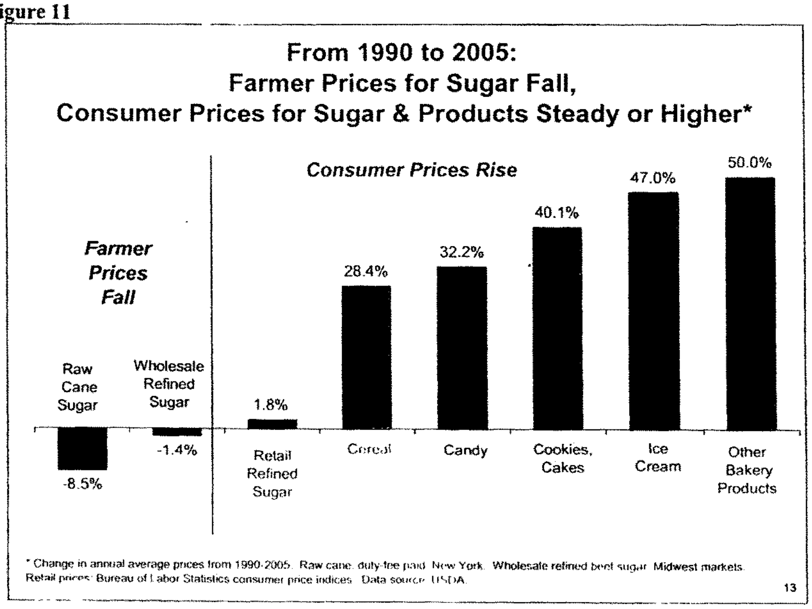


Figure 12

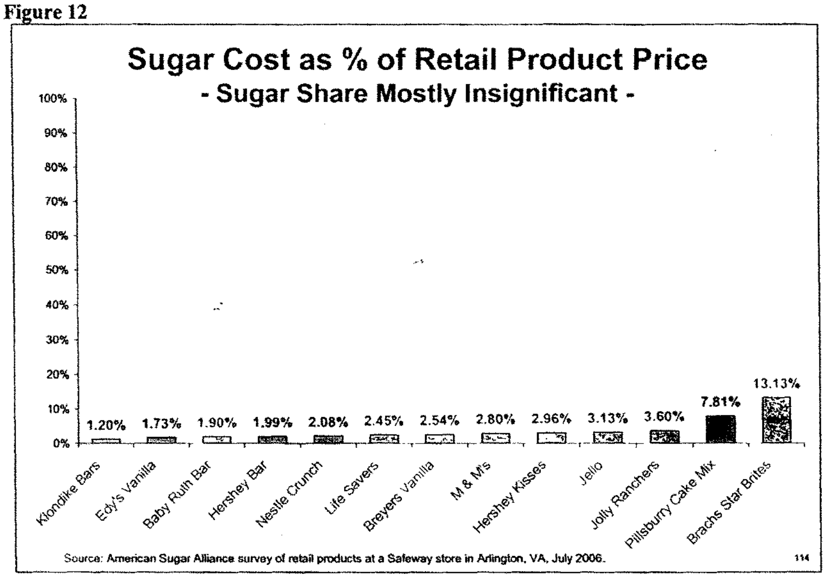
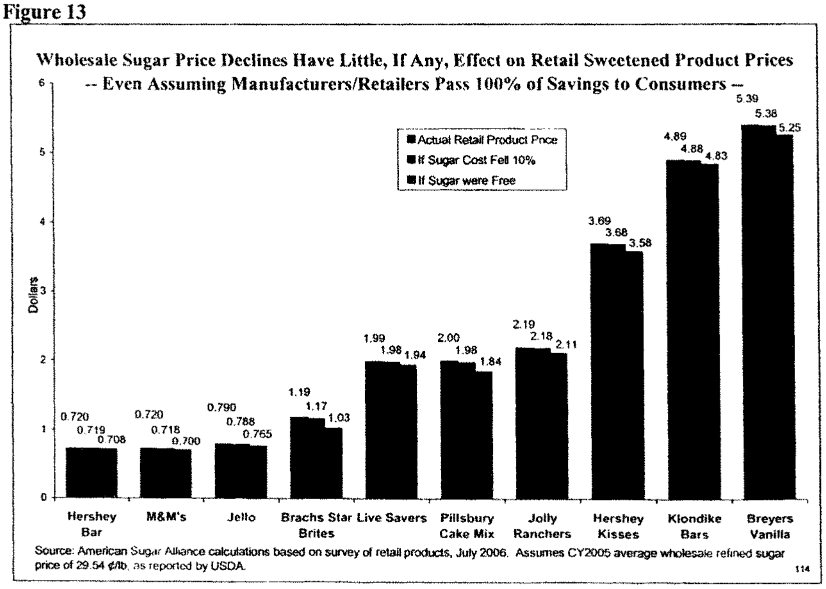


Figure 13



National Association of Wheat Growers

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Dale Schuler, President
National Association of Wheat Growers
before
the House Committee on Agriculture
Review of Federal Farm Policy
September 20, 2006

Mr. Chairman, Members of this Committee, my name is Dale Schuler, I am a wheat farmer from Carter, Montana and am currently serving as President of the National Association of Wheat Growers, or NAWG. Thank you for this opportunity to be here today to share the thoughts of the growers I represent on farm policy.

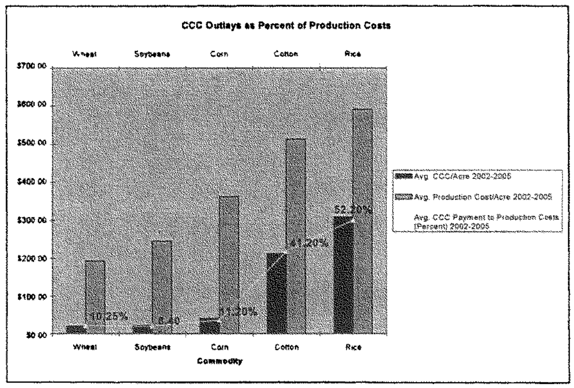
Effective farm legislation is essential, not only for wheat growers, but also for rural economies and American consumers. Farm programs were designed to cushion the boom and bust cycles that are inherent to agricultural production and to ensure a consistently safe, affordable and abundant food supply for the American people.

The 2002 Farm Bill has strong points, and the wheat growers that I represent here today believe that the next Farm Bill should build on these strengths. However, while wheat growers generally support current policy, much of the "safety net" provided by the 2002 bill has not been effective for wheat farmers.

Since 2002, wheat growers have received little or no benefit from two key components of the current bill, the counter cyclical program and loan deficiency payment program, for two main reasons. First, severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure. The loan program and the LDP are useless when you have no crop. Secondly, the target price on the counter cyclical program for wheat was set considerably lower than market conditions indicated, and severe weather conditions in some areas have created a short crop, which has led to higher prices in other areas. As a result, there has been very little support in the form of counter cyclical payments.

As you can see by the chart in my testimony, the support level for wheat compared to other commodities for the 2002 to 2005 crop years, even as a percentage of production costs, is relatively low.

	Wheat	Soybean	Corn	Cotton	Rice
AVG CCC/Acre '02-'05	$19.76	$20.67	$40.67	$212.67	$308.88
AVG Production Costs/acre '02-'05	$192.64	$245.25	$362.61	$513.81	$638.76
AVG CCC to Production costs (%)	10.25%	8.4%	11.20%	41.20%	52.2%



Source for CCC outlays: http://www.ers.usda.gov/publications/agoutlook/aotables/2006/03Mar/aotab35.xls
Sources for production costs/acre: http://www.ers.usda.gov/Data CostsandReturns/testpick.htm

We are not, in any way, suggesting that other crops receive too much support – far from it, they face the same problems our growers face and rely heavily on this safety net. We are simply stating that wheat producers need a viable safety net also. There is no doubt that America's farmers would rather depend on the markets than the government for their livelihoods, but the current economic and trade environments do not offer a level playing field in the global marketplace. Many of our trading partners support their farmers at a much higher rate than in the U.S. At the same time, we face continually increasing production and transportation costs. Fuel and fertilizer prices are up an estimated 24 to 27 percent for wheat growers just from last year, as estimated in a recent FAPRI report, and the current disaster situation, including droughts, floods and fires, has been especially troubling for our members.

These issues have led us to begin looking at the effects of making minor alterations to the 2002 Farm Bill to put wheat in a more equitable position in the farm support system.

For instance, we are examining the impact of increasing the direct payment to more accurately reflect the economic situation wheat growers are currently facing. Fuel and fertilizer costs continue to skyrocket, yet the price of wheat, for the most part remains stagnant. While there has been a small increase in price this year due to drought, this doesn't help the many wheat farmers who had no crop, and still does not cover the cost of production for those who did have a crop. The direct payment is the most reliable cash flow of all program components and, as such, greatly aids in securing operating credit. We believe therefore, that more emphasis should be placed on this component of the commodity support system for wheat growers.

In addition to an increase in the direct payment, we are currently examining the impacts to both farmers and the government of increasing the target price to be more aligned with today's market conditions.

Also, our members would like to see the conservation programs continue as presently authorized, but with full funding, and we would like to explore opportunities to streamline program sign-up to be less time consuming and more producer friendly. We also believe strongly in the pursuit of renewable energy from agricultural sources and support additional incentives for further research and development of renewable energy initiatives, specifically cellulosic ethanol.

In closing, I must state that we are firmly committed to developing an effective 2007 farm bill and welcome the opportunity to work with you to do so.

Thank you for this opportunity. I am ready to answer any questions you may have.

Introduction
On behalf of the National Sorghum Producers, I would like to thank the House Committee on Agriculture for the opportunity to discuss the farm bill and its impact on the sorghum industry and my farm.

My name is Greg Shelor, and I am third-generation farmer near Minneola, Kansas. I raise dry-land sorghum, wheat, and I have 100 cow-calf pairs with my son on our grassland. My 1700 acre cropping system is a wheat-sorghum-fallow rotation which enhances water conservation and prevents wind and water erosion.

This year has been a very trying year in my area of the country as we are significantly behind last year in rainfall. Over the last 30 days, my land has been blessed with 8 inches of rainfall. But for the 12 months prior, I only had 7 inches. The recent rains will help later-planted sorghum, but comes too late for the crop planted earlier. Our grasslands have recovered nicely.

Also, I should add that I marketed all of last year's sorghum production to a hog farm for use in their feed ration. This was my best local market, even though I still had to transport grain 100 miles south of my farm.

Regarding the sorghum industry, ethanol production is the fastest growing value-added market for the sorghum industry. Producers are working to attract ethanol plants to their areas because it can increase the local cash price. Sorghum is a good fit for ethanol production because one bushel of sorghum produces the same amount of ethanol as one bushel of corn. In the state of Kansas, we produce more ethanol from sorghum than from corn.

My written testimony will follow the titles of the farm bill. However, the sorghum industry is interested in the energy title and ready for energy production opportunities that are available for agriculture industry. Including sorghum in the energy title expands the ethanol industry outside the traditional Corn Belt, as one bushel of sorghum produces the same amount of ethanol as one bushel of corn. I ask that this Committee give serious consideration and discussion to this growing segment of the industry. While the commodity title remains the most significant title to most sorghum farmers, the energy title and energy legislation are drawing an increasing amount of attention.

NSP represents U.S. sorghum producers nationwide. Our organization is headquartered in Lubbock, Texas, and our major responsibilities are to increase the profitability of sorghum producers through market development, research, education, and legislative representation.

NSP is committed to work with the Committee and its staff as it works to reauthorize our nation's farm laws. The organization and industry is very supportive of the current farm bill. However, we believe that Congress can clarify rules so that USDA interpretation does not impact producers' ability to use sorghum in a profitable cropping system.

A Brief Description of Sorghum
I would like to give you a brief history of sorghum and outline for you some of the unique opportunities that we have in sorghum. Sorghum originated in Africa and continues to be a staple in the diet of many Africans. Benjamin Franklin first introduced sorghum to the United States in 1725. In the 1850s, the U.S. government began introducing various forage varieties from China and Africa.

This versatile crop is used both in human food systems and, primarily in the United States, as an animal feed. It is currently a non-GMO crop though NSP supports work on moving new technologies into the crop. Industrially, sorghum, like corn, is valued for its starch content. A prime example of this is the ethanol industry, which can use both corn and sorghum interchangeably in ethanol production. Its co-product, distiller's grain, is a valuable and widely accepted feed for both cattle feeders and dairies.

Industry Overview
The U.S. grain sorghum belt is primarily made up of nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Sorghum is produced in many of the states that you represent. This includes Kansas, Georgia, Nebraska, Mississippi, Missouri, Texas, Louisiana, Arkansas, Colorado, South Dakota, Oklahoma and California. Over the past ten years, grain sorghum has ranged from a high of 13.1 million acres in 1996 to a low of 6.2 million acres planted in 2006. Production from the last 10 years has ranged from 360 million bushels to 795 million bushels, with an approximate value of 1.1 billion dollars annually. In addition, sorghum utilized as silage, hay and grazing represents another 5 million acres of production. The USDA reported that in 2005, 311,000 acres of sorghum were harvested for silage, producing approximately 3.5 million tons of silage.

The U.S. is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly 45% of the crop is exported. Of the 55% of the crop that is not exported, 36% goes into pork, poultry, and cattle feed; 15% goes into ethanol production; 3% goes into industrial use; and 1% goes into the food chain. In fact, sorghum's newest market is the exponentially growing ethanol industry. We have seen a 57 percent increase in that market over the last 2 years.

The growth of the ethanol industry in the sorghum belt has been phenomenal. For example, more than 86 percent of Kansas sorghum production is in a county that is within 50 miles of a proposed, under construction or producing ethanol plant. On a national average, more than 60 percent of sorghum production fits this scenario. And, my fellow sorghum producers in New Mexico and Texas tell me that based on current sorghum production and the ethanol plant construction, they expect they could only produce enough sorghum to supply 15 % of the all the plants' needs.

Worldwide, approximately half of total production of grain sorghum is consumed directly as human food. In addition, the U.S. dominates world seed production in sorghum with a billion dollar seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sorghum is a unique, drought tolerant crop that is a vital component in cropping rotations for many U.S. farmers.

Title 1 -Commodity Programs

Our sorghum producers have been strong supporters of the 2002 farm bill due to the equitable treatment given sorghum producers relative to other feed grains, and would favor extension of the current bill. When a new farm bill replaces our current farm legislation, maintaining equitable direct payments and loan rates are high priorities.

Most of the sorghum growing region is in the High Plains region. Due to the extreme weather conditions that our farms are vulnerable to, on my own farm I would like to see more emphasis placed on a well funded and policed disaster provision that would supplement the limited safety net that crop insurance provides.

In preparation for the reauthorizing of farm laws, there has been a lot of discussion about what a Green farm proposal would look like and how it would operate. This task has been more difficult than we anticipated since the program cannot be based on price or production. Because of that fact, we ask that any new programs that may be developed or discussed to replace the current Commodity Title be thoroughly vetted with the agriculture industry.

Also, if another new policy option, revenue assurance, becomes part of serious policy debate, then it will be important for Members of the Agriculture Committee to understand that drought can impact the baseline period for the semi-arid sorghum belt. Seventy percent of a zero yield is still zero revenue - no matter how high the price. This method of delivering farm benefits may not be "bankable" to many lenders.

Title II - Conservation Policy

Because of WTO issues, more emphasis may be placed of conservation funding in farm policy discussions. However, Kansas sorghum producers would be very, very anxious about switching from our current commodity based farm programs and farm policy to a completely conservation-based payment policy, if that new program would be operated similar to the current administration of the current programs. Our Kansas membership is frustrated with the operation of the Conservation Security Program in the state. Only a few Kansas farmers have even been allowed to apply for conservation programs under the CSP because of the limited geographical areas approved, and only a few of the applicants have been accepted.

Our members feel strongly that serious problems exist with the program. First, sorghum farmers consider sorghum a conservation crop because it uses less water and works very well on marginal lands around the country.

Their next concern is that USDA started funding the top tier of the programs and focused the programs on what looks like an all or nothing concept. Either farmers were in all tiers or he was not in the program at all. Next, our livestock members say that they have numerous more hoops to navigate to be in the program, than they have for the crop side of the program. Finally, the CSP Tiers need to be designed to meet the dynamic management needs of an individual farm and maintain a degree of flexibility to meet the needs of the farm. Our organization feels that a CSP-type program can be an important part of a farm program; however, the rules of the current program and the implementation of the current program are causing a significant amount of frustration among our membership.

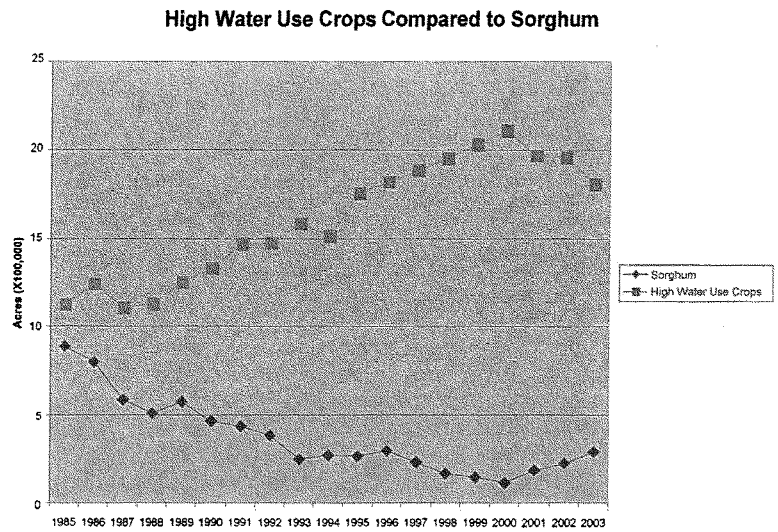
Conservation programs must be flexible enough to meet the diverse needs of different cropping systems and climatic conditions.

Water Use is Increasing

NSP applauds the Committee for giving serious consideration to the future of water supplies in the semi-arid regions of the Plains, a region highly dependent upon sorghum, by creating the Ground and Surface Water Conservation Program as part of the Environmental Quality Incentive Programs (EQIP). However, more can and must be done to conserve water in the country's semi-arid agricultural producing region. NSP leadership believes that water quantity issues will continue to grow in importance and urgency as non-agricultural uses compete with agricultural uses in the sorghum belt.

Sorghum is known as a "water-sipping" crop. According to research conducted at the USDA Agricultural Research Service facility in Bushland, Texas, sorghum uses approximately 1/3 less water than either corn or soybeans, and 15% less water than wheat. It is a crop that is adapted to semi-arid agricultural regions; that is, regions that may receive less than 20 inches of rain a year or in higher rainfall areas that have soils with poor water holding capabilities. Corn and soybeans, on the other hand, are primarily grown in areas that receive 30-40 inches of rain a year. Because of its excellent drought tolerance and varied uses, sorghum is a viable option for producers in the Plains states.

Demand for water is increasing in the semi-arid regions of the U.S., especially for non-agricultural uses. NSP is concerned that the demand for water for both agriculture and non-agriculture use could create a climate of tension that is not productive for either group. Since 1985, five million acres of high water-use crops have replaced sorghum acres throughout the country. A prime example of this is Western Kansas, which has had serious drought for the last 5 years. Yet, irrigated acres for high water-use crops continue to increase. As a result, since 1985, Western Kansas has lost 600,000 planted acres of irrigated sorghum. Sorghum producers in Kansas and in other sorghum states believe that this trend needs to be reversed. The following chart shows the decrease in sorghum acres and the increase in higher water-use crops (USDA, NASS 2003 data).



Increasing water demand for agricultural and non-agricultural use is also a global concern. According to the National Water Research Institute (NWRI), 25 percent of the world's population will be facing a severe water shortage by 2025. However, the NRWI says that 50 percent of the increase in demand for water by 2025 can be met by increasing the effectiveness of irrigation and by growing more water-use efficient crops like sorghum. This projection shows that appropriate crop selection and conservation efforts can save water.

Policy Changes

We have some particular concerns that we would like to share with the Committee in our efforts to strengthen federal government support for sorghum. Unfortunately, concentrating solely on improving irrigation technologies and increasing efficiencies does not necessarily translate into less water usage. NSP supports conservation programs that encourage planting of appropriate crops based on decisions that are environmentally sustainable and market driven. **Overall, NSP believes that Congress and USDA need to emphasize water quantity, as part of water management, in both current and future conservation programs.**

How Much Water Can be Saved?

A Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for 524,243 acres spread over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water if irrigated corn acreage were converted to irrigated sorghum. On average, that's 147,200 acre-feet saved per year. An acre-foot of water equals 325,850 gallons, roughly enough to supply two, four-person homes with water for a year. Theoretically, this 50-year water savings would amount to 147,200 acre-feet per year, enough to supply water to 294,400 four-person homes in a year. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994, according to the U.S. Census Bureau.

On a broader geographic basis, the economic impact of converting irrigated corn and soybean acreage in the semi-arid regions to grain sorghum could be astounding. As you can see, encouraging the production of crops that are suited for a given area can save an enormous amount of water.

Current Water Situation
Currently, agriculture uses approximately 95% of the water drawn from the Ogallala Aquifer. Towns and cities within the region have aggressively educated citizens and in some cases implemented new laws that are forcing homeowners and businesses to conserve water. According to NRCS's National Water Management Center (NWMC), water use for irrigation has increased by 125% over the past fifty years. NWMC also found that some aquifers have been permanently damaged because the full recharge of depleted aquifers storage may not be possible where compaction has occurred. The sorghum belt remains in a long-term drought, and the water table continues to drop as ground water supplies dwindle. NSP encourages NWMC to proactively consider long-range planning that focuses on ground water, because agricultural and non-agricultural users are critically dependent on water.

Because of these concerns, NSP encourages the Committee to promote conservation programs that save water. We have members that tell the organization that they find that they use more total water as they increase the efficiencies of their existing irrigation and add more new irrigation systems. NSP views this as contrary to the goals of a program like the Ground and Surface Water Conservation Program, and contrary to the best interests of producers. We believe that the best way to conserve water is to lower the amount of water used within an agricultural system, not to just improve irrigation delivery technologies.

Improving Current Programs
NSP has encouraged USDA to develop a Ground and Surface Water Conservation Program that includes support for cost share-funds to significantly increase water conservation. NSP believes that EQIP and other conservation programs should be playing an integral part of a system-wide approach that encourages and rewards lower water consumption. For example, the program could encourage producers to change from an irrigated high water use crop that on average uses 30 inches of irrigated water from a center-pivot watering 125 acres, to dry-land sorghum. This would save 3750 acre-inches of water a growing season. An incentive equal to the difference between irrigated land rental rates and dry-land rental rates could entice farmers to make the conversion and help save water.

NSP members are concerned that concentrating solely on the use of efficient irrigation technologies may actually lead to an increase in overall water use. NSP leadership believes that the main priority of conservation programs should be to provide incentives to farmers to recharge ground water by lowering water use. With that in mind, another significant water saving conversion would be the production of less water intensive crops on irrigated land. Using our center-pivot irrigation example previously mentioned, switching from a high use water crop to a water sipping crop saves over 912 acre-inches of water a growing season. NSP members believe that an incentive to compensate farmers for changing to a less water intensive crop would result in significant water conservation. NSP urges NRCS to work with the local office and state committees to accurately determine the appropriate payment rate for different regions of the U.S.

Title IX – Energy

Sorghum can, and does, play an important role as a feedstock in the renewable fuels industry. The sorghum industry fully supports the President's call in his State of the Union speech to replace 75% of our imported petroleum products with domestic energy sources, like ethanol, by 2025. The sorghum industry believes that the federal government should provide significant research resources, as stated by the President, to the development of cutting-edge methodology for producing renewable biofuels. These technologies must be both economically competitive and feasible in order to meet the stated goal of reducing our "addiction" to fossil fuel by 2025.

The sorghum industry encourages the Agriculture Committees of both the House and Senate to present bold energy concepts and ideas when it re-authorizes the Energy Title of our nation's farm laws. We believe that the starched-based ethanol industry will play an important role in the renewable fuels industry, even after the cellulosic or biomass technology is perfected.

Background on Sorghum in the Ethanol Industry

Currently, 15% of the grain sorghum crop is used by the ethanol industry to make ethanol, and the number is growing each year. That production provides a source of ethanol and jobs outside of the traditional Corn Belt. Ethanol processing plants routinely mix corn and sorghum together in the production of ethanol. Expanding ethanol production outside of the traditional Corn Belt is a priority for the sorghum industry. Sorghum producers are working to expand their role in the renewable fuels industry.

Biofuels production in the United States has been fairly limited to the use of grain for production of ethanol. Research efforts within the United States have focused on improving efficiencies of the use of grains through optimization of enzyme technologies and feedstock improvements. The USDA and the Department of Energy have been investigating the use of biomass for production of biofuels. That research should translate into any crop that produces high biomass yields.

Sorghum has a unique role in bioenergy since it can and does fit into all three schemes for production of biofuels: grain, sugar-based, and biomass feed stocks. Hybrid grain sorghum is routinely used as a grain feedstock in the U.S., sweet sorghum is used widely as a sugar feedstock in India and China, and the potential to produce high tonnage biomass from sorghum silages is well documented in our forage industry in the U.S.

Starch to Ethanol Production

In the U.S., almost all of the current ethanol production is based on starch conversion, using primarily corn and sorghum grain, to produce ethanol. To the ethanol production process, starch is starch; it does not matter if the starch comes from corn or sorghum. Both starch sources yield identical amounts of ethanol from a bushel, and the distiller's grain has almost identical nutritional value when it is fed to livestock.

Sweet Sorghum Conversion to Ethanol

Most Americans know of sweet sorghum as the type that is used to make syrup or molasses. In addition, it is also used worldwide in the production of ethanol. India and China are producing ethanol from sweet sorghum. DOE is currently supporting a sweet sorghum pilot study in Florida to explore the potential of sweet sorghums as a feedstock for ethanol production.

Under current systems, the sweet sorghum is harvested, and then the stems are crushed and juice extracted at a mill. Some harvesters, though not economically viable at this time, are being developed to extract the juice in one operation and leave the residue in the field to be gathered at a later time. Once the juice is extracted, it is fermented and ethanol is produced. This ethanol is then distilled and dehydrated using the same equipment that is being used in ethanol production from starch sources.

Forage Sorghum's Role in Biomass

Forage sorghums can play a significant role in both cellulosic and lignocellulosic technologies that produce ethanol from biomass. Biomass production is based on utilizing the whole plant (or other organic waste) by breaking down most of the plant's major biological components to produce ethanol. In most cases, tons per acre of convertible biomass would drive the feedstock equation in the conversion to ethanol.

The federal government has been conducting research on the role of switchgrass in biomass production. Switchgrass and sorghum are both from the family Poaceae and probably diverged from each other sometime before the divergence between sorghum and corn. Switchgrass is a perennial plant that can spread by both seed and rhizomes. Though sorghum is thought to be primarily an annual plant, there are related species that are also rhizomatous and perennial. Both plants have open panicles and can be tall and very leafy. Forage sorghums excel in water use efficiency.

Conclusion

You have a big challenge on your hands rewriting our Nation's farm laws and I expect that farm policy in the next five years will look significantly different than it does today because of a potential WTO agreement, efforts to cut the deficit and increased interest in the Energy Title of the farm bill. My industry looks forward to working with you during these efforts. Again, thank you for your interest in sorghum.

Introduction

Good morning Mr. Chairman and members of the Committee, my name is Jim Wysocki and I am Chief Financial Officer of Wysocki Farms. Wysocki Farms is a family farming and potato packing operation in the central sands area of Wisconsin. We grow 2,700 acres of potatoes and 10,000 acres of other crops. We also operate a potato packing and marketing facility. I am the current president of the National Potato Council. I appreciate the opportunity to testify before the Committee regarding the future direction of the 2007 Farm Bill and what role Congress and the Administration will play in shaping policy for specialty crop growers across the United States. Today I will wear more than just my potato hat and will be providing comments on behalf of the members of the Specialty Crop Farm Bill Alliance. More than 75 organizations representing growers of specialty crops have indicated their support for the Farm Bill priorities developed by the Specialty Crop Farm Bill Alliance. A list of those groups is attached to this testimony.

Industry Overview

The specialty crop industry is a dynamic industry characterized by constantly changing supply and demand conditions. We have worked hard to remain profitable, satisfy consumer demands, and develop new technology in order to be competitive in the domestic and the global market place.

Most of our products are highly perishable or storable for no more than one year. Our crops are characterized by high costs of production, high crop value, and generally inelastic demand which can result in large price decreases based on small amounts of excess production. Markets for specialty crops are highly volatile, yet our growers have never relied on traditional farm programs to sustain our industry. While it is the clear intention of the Specialty Crop Farm Bill Alliance to be more actively involved in establishing policy in the 2007 Farm Bill, Alliance members continue to reject direct payments to growers as a policy option.

The marketplace in which we operate is growing more difficult. Meeting the demands of consumers is increasingly complicated and requires growers to address challenges in logistics, product packaging, and changing lifestyles and preferences. Regulatory challenges from state and local governments have also become exponentially more challenging. The threat of crop loss or trade disruption from the accidental or intentional introduction of pests of concern has expanded as the volume of trade has increased.

As the policy discussion for the 2007 Farm Bill takes shape we look forward to working with you to develop new programs and enhance existing programs that will improve the competitiveness of the specialty crop industry. We are working with members of Congress to develop specific legislative language consistent with our priorities and expect to have a bill introduced in the House later this month. We expect this to begin a constructive discussion of specialty crop farm policy and allow us to fine tune the legislation prior to reintroduction in the 110th Congress.

Timing of the Next Farm Bill

The Specialty Crop Farm Bill Alliance believes that government policy should provide incentives for private investment, tools to increase profitability, help to those producers who are committed to better serving consumer needs, and to maintaining environmental quality. Ultimately, the goal of specialty crop farm policy should be to enhance the tools necessary to drive demand, increase consumption, and not distort the production of those products with respect to domestic and international markets. The Alliance believes that Congress should complete the process of establishing U.S. farm policy prior to the planting of the 2008 crop. We should develop policies based on the needs of our growers and not on the expectations of future developments in bilateral or multilateral trade agreements.

Key Specialty Crop Priorities

Prohibition of Planting Fruits and Vegetables on Contract Acres

The specialty crop industry strongly supports maintaining or strengthening the current U.S. policy, which restricts producers from growing fruits and vegetables on acres receiving program payments. Specialty crop producers are concerned that any alterations in this provision would allow program crop producers to reduce the risk inherent to fruit and vegetable production resulting in unfair competition. The market conditions and the potential for market disruptions that led to the industry's support for this provision in 1985 have not changed. If anything, they have worsened and the need to retain this provision has become even more critical. Currently, there are several studies being conducted to determine the potential economic impact on specialty crop growers from the loss of the planting flexibility restrictions. Preliminary results indicate that the impact would be in excess of $3 billion per year.

Disaster Assistance Policy

The current $80,000 payment limit on disaster payments is not equitable for specialty crop producers. Due to higher input costs, the loss per acre experienced by specialty crop producers as a result of a disaster is generally significantly greater, on a per acre basis, than for program crops. We believe that cost of production and crop value should be used to index disaster assistance payments to allow specialty crop producers to receive more equitable disaster payments.

Conservation Policy

Consumers want an agricultural production system that not only produces abundant, affordable, and safe food supply but also conserves and enhances the natural resource base. The public benefits of working land conservation programs are a more stable and productive farm economy and an improved environment.

For the specialty crop industry, there continues to be decreased availability of crop protection tools. Environmental regulations continue to put pressure on the industry's ability to be competitive in a world economy. Because of these factors, the industry supports expanding cost share and incentive programs such as the Environmental Quality Incentives Program and the Conservation Security Program that encourage producers to invest in natural resource protection measures they might not have been able to afford without such assistance. There is also a need for targeted technical assistance to help specialty crop producers access conservation programs. This assistance should provide both education on available programs and technical assistance in preparing the documentation and farm assessments that are necessary to apply for the conservation programs.

International Trade Policy

The economic well-being of the specialty crop industry and other agricultural commodity sectors depends heavily on exports which account for one-third or more of domestic production, provides jobs for millions of Americans, and makes a positive contribution to our nation's overall trade balance. This year, the value of U.S. agriculture exports is projected to be a record $64.5 billion compared to imports of $61.5 billion. The 2006 agriculture trade balance is likely to be at its lowest level in the past 20 years. Without improved international trade policies that advance open and fair trade practices in the global market, the U.S. surplus in agricultural trade, which has declined over 90 percent since 1996, will continue to fall.

U.S. specialty crop growers face significant obstacles in the development of export markets for their commodities and unique challenges due to the perishable nature of our products and the complexity of the phyto-sanitary issues that are often raised by potential trading partners. Without further commitment to export market development by the federal government and focused efforts to reduce tariff and non-tariff barriers to trade, the U.S. specialty crop industry will continue to lose market share to global market competitors. Farm Bill programs that have worked well to increase access to foreign markets for domestically produced specialty crops are the Technical Assistance for Specialty Crops and the Market Access Program. These programs should be continued and expanded in the next Farm Bill.

Invasive Pests and Disease

Due to the tremendous volume of plant material that moves in domestic and international commerce the potential for introduction of pests of concern into the United States is great. In addition, many of our potential trading partners are either unwilling or unable to complete the analysis necessary to develop risk mitigation strategies to allow the shipment of domestically produced specialty crops to their countries. We support enhancing the structure and resources of APHIS to better identify and prioritize foreign pest threats, provide timely adequate compensation to producers impacted by emergency eradication programs, and create an export division to more quickly process export petitions from U.S. specialty crop growers.

Research Policy

Federal investment in agricultural research dedicated to improving the competitiveness of the U.S. specialty crop industry has been shrinking in real terms and is not adequate to meet the needs of the industry. Fruit and vegetable crops and their research needs are unique. We support expanded federal investments in research and development for fruit and vegetable crop production, including plant breeding, pest management, production, physiology, food science, mechanization, marketing, product development, food security, food safety, and processing. Additionally, funding that emphasizes nutrition will provide a significant return on investment through better health for the U.S. population.

Nutrition Policy

Fruits and vegetables offer consumers healthy and nutritious food options that are critical to preventing cancer, reducing obesity and diabetes, and maintaining overall good health. The *Dietary Guidelines for Americans* call for the consumption of 5 to 13 servings a day of fruits and vegetables as a cornerstone of good health. Yet, on any given day 45 percent of children eat no fruit at all, and 20 percent eat less than one serving of vegetables.

To this end, future farm policy will not only support American agriculture; it will support and encourage the health and well-being of all Americans. The School Fruit and Vegetable Snack Program is an effective and popular nutrition intervention program proven to increase fresh fruit and vegetable consumption among children in participating schools. This program should be significantly expanded in the 2007 Farm Bill in order for all states to participate in this program.

State Block Grants

The industry supports continued expansion of the State Block Grant Program for Specialty Crops that was authorized in the 2004 Specialty Crops Competitiveness Act. This program allows states to invest in programs and projects that support production-related research, commodity promotion, food safety, and other programs that enhance the competitiveness of specialty crop producers. Due to the variety of crop production among states, the "state grant" nature of the program is essential to the success of the program.

Conclusion

We look forward to working with the Committee on the development of the next Farm Bill. We believe that the policy options we have outlined for specialty crop producers can improve our long-term competitiveness. We ask for your assistance in building a successful, constructive partnership with the government.

Thank you.

2007 Specialty Crop Farm Bill Alliance
Industry Supporters

Alabama Watermelon Association
American Mushroom Institute
Arizona Winegrowers Association
Blue Diamond Growers
California Association of Wine Grape Growers
California Citrus Mutual
California Grape and Tree Fruit League
California Strawberry Commission
California Table Grape Commission
California-Arizona Watermelon Association
Cherry Marketing Institute
Colorado Potato Administrative Committee
Colorado Wine Industry Development Board
Connecticut Farm Wine Development Council
Connecticut Vineyard & Winery Association
Empire State Potato Growers
Florida Citrus Mutual
Florida Citrus Packers
Florida Fruit and Vegetable Association
Florida Strawberry Growers Association
Florida Tomato Exchange
Florida Watermelon Association
Georgia Fruit and Vegetable Growers Association
Georgia Watermelon Association
Grower-Shipper Association of Central California
Idaho Grape Growers and Wine Producers Commission
Idaho Grower Shippers Association
Indian River Citrus League
Indiana-Illinois Watermelon Association
Maine Potato Board
Maryland-Delaware Watermelon Association
Minnesota Area II Potato Growers Research and Promotion Council
Minnesota Grape Growers Association
Missouri Wine & Grape Board
Missouri-Arkansas Watermelon Association
National Berry Crop Initiative

National Potato Council

National Watermelon Association
National Grape and Wine Initiative
New England Vegetable and Berry Growers
New Mexico Wine Growers Association
New York Wine & Grape Foundation
North American Blueberry Council
North American Bramble Growers Association
North American Strawberry Growers Association
North Carolina Grape & Wine Council
North Carolina Potato Association
North Carolina Strawberry Association
North Carolina Watermelon Association
Northern Kentucky Vintners & Grape Growers Association
Northwest Horticultural Council
Northern Plains Potato Growers
Ocean Spray Cranberries, Inc.
Ohio Wine Producers Association
Oregon Raspberry & Blackberry Commission
Oregon Strawberry Commission
Oregon Winegrowers Association
Peace River Valley Citrus Growers Association
Peerbolt Crop Management
South Carolina Watermelon Association
Sunkist Growers, Incorporated
Tennessee Farm Winegrowers Association
Texas Citrus Mutual
Texas Produce Association
Texas-Oklahoma Watermelon Association
The National Grape and Wine Initiative
U.S. Apple Association
United Fresh Fruit & Vegetable Association
Virginia Wineries Association
Washington Association of Wine Grape Growers
Washington Red Raspberry Commission
Washington State Potato Commission
Western Growers
Wild Blueberry Commission
WineAmerica
Winegrowers Association of Georgia
WineMichigan

ADDITIONAL STATEMENT FOR THE RECORD BY MR. WYSOCKI

Dear Mr. Chairman:

I am responding on behalf of the Specialty Crop Farm Bill Alliance to the written questions submitted for the record by Congressman Mike Pence at the September 20, 2006, committee hearing on the 2007 farm bill.

The Alliance is in the process of completing the final version of the economic study referenced in my testimony at the hearing. This study, when completed, will be published and made available to the committee. The economic study addresses the overall economic impact of the so-called planting flexibility restriction.

The Alliance supports the continuation of the planting flexibility restriction as a matter of equity. This provision has been included in every farm bill since 1985 and has not differentiated between products sold fresh or for processing. All growers of crops which receive direct payments have been subject to this restriction and it was clear that crops which were added to those receiving direct payments would also be subject to the restriction. In the 2002 farm bill, new program crops i.e., soybeans and peanuts, were made eligible to receive direct payments. In addition to continuing and even expanding the exceptions to this restriction, soybeans were allowed a 1-year phase in so that existing crop patterns, particularly non program crops grown on contract land for processing, could adjust to the change.

The Alliance does not believe that there is a difference in the economic disadvantage placed on a non program crop producer competing with a producer receiving program benefits regardless of whether the products are sold fresh or sold for processing. Growers who do not grow fruits and vegetables on program acreage but compete for processing contracts with growers who do are economically disadvantaged. Any exception which provides for the continuation of payments or maintenance of base acres, even when interrupted during the year the fruits or vegetables are planted, creates an economic playing field that is tilted in favor of those receiving payments.

Loren Forrest
Rural Energy Marketing, LLC
500 Russell St.
Suite 2
Luverne, MN 56156
(507) 290-0630

August 10, 2006

To the House of Representatives Agriculture Committee:

My name is Loren Forrest and I am a farmer from Southwest Minnesota. Over the last 6 years I have been pursuing a biomass ethanol plant. I have now settled on a thermo-chemical conversion process to accomplish this. This process takes biomass and uses heat to break the molecules down into hydrogen and carbon monoxide. With the aid of pressure and a catalyst we put hydrogen, carbon, and oxygen back together in a molecule of ethanol. We have tested corn stover for the amounts of hydrogen, carbon monoxide, carbon dioxide, and methane. These are the basic chemicals needed to engineer a commercial plant. The numbers from our testing showed positive results. The next step is to build demonstration plants in a multitude of states to show the ag community the feasibility of harvesting biomass for the purpose of turning it into liquid fuels.

I was at the House of Representatives Ag Committee hearing in Marshall, MN on July 22. The question being asked of this committee was what needed to be put in the 2007 farm bill. I heard numerous things including:

- Wall Street taking over in the ethanol business, thus having farmers lose control of the ownership and losing the value added aspect for the farmers
- Agreement about corn supply being short in a drought year. This was voiced most strongly by the livestock industry, in particular the hog and turkey growers.
- DDG doesn't replace corn or soy in the turkey diet. Hog producers were concerned about quality of the DDG varying greatly. The panel responded that the committee would like to see a reserve program for ethanol as well as feed for livestock.
- The energy costs are rising. The committee said they would like to see energy be part of the next farm bill. This was said on more than one occasion.
- Afterward Stephanie Herseth was talking and said the problem with young people investing in ethanol plants was the requirement that they be accredited.
- There was also concern about getting the next generation into farming.

What I am proposing will address the concerns of getting the young farmers into ag whether it is ownership or employment, replacing the use of a food product to make energy, keeping the farmers' ownership in the business of ethanol conversion, and promoting rural economy. The next farm bill should include a section that funds biomass to ethanol conversion.

My best estimate of the cost of the first plant is $40,000,000 in capital costs. Engineers usually take 10% of a project, which would be about $4,000,000 in this case. After engineering is done, one will have a very close range as to what the actual cost will be for construction. The first plants will not be greater in size than 10,000,000 gallons. This will require about 70,000 tons of biomass. That equates to 233 feedstock providers each providing 300 tons per year (150 acres at 2 tons per acre). The farm program should provide funding through the C.C.C. Of $172,000 to each feedstock provider. The feedstock provider will return of $80 per ton on 300 tons equaling $24,000 per year to the C.C.C. until the $172,000 is fully paid back. This results in the funding being a loan, but if the plant doesn't produce the projected amount of ethanol there is no recourse by the C.C.C. to the feedstock providers for the loan. The $24,000 payments could go for 10 years, netting the C.C.C. $240,000, or about $68,000 worth of interest collected.

This program would be limited to 15 projects and no state can have more than one. This would jump start biomass conversion to ethanol while letting the government absorb the risk. This does a few things for the citizens of the U.S. Including:

- Putting them at risk to a new energy source if not working as planned.
- Leading the path to less dependency on foreign oil. Using the thermo-chemical process on all the corn stover in the USA could replace all of the gasoline.
- Generating income and taxes for the USA
- Providing jobs.
- Substantially reducing the CO_2 going to the atmosphere. If corn stover is left in the field it goes to the atmosphere as carbon dioxide during harvest and tilling so this would be a substantial reduction.
- Structuring it as outlined in this letter should allow it to cost the taxpayers nothing in the long run.

By adding this to the Farm Bill of 2007 it could jump start a new industry of converting biomass to ethanol. It could also put the feedstock provider in control of the profits so they can come back to the land and the people that work the land.

I am enclosing an article from the New York Times. In May, Chevron announced that it was creating a business entity to research and invest in ethanol and bio-diesel fuels. In June, BP said it would spend $500 million to create a research center for bio-fuels. Chevron announced last month that it would finance cellulosic research for the next five years at the Georgia Institute of Technology. With these players coming into the arena of cellulosic ethanol it drives the farmers out of the projects and they never realize the profit from their projects. If what I am proposing made it into the next farm bill it would benefit the farmers. I encourage you to consider this for the next farm bill.

Thank you,

Loren Forrest

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Two more for you! Love D

An Unlikely Spark In Alternative Energy

By NORM ALSTER

AFTER a year of stellar performance, producers of alternative energy — from ethanol to solar and wind power — took a beating in the stock market this spring.

Up more than 80 percent from May 2005 to May 8 this year, the **PowerShares WilderHill Clean Energy** fund, an exchange-traded fund that tracks the sector, tumbled more than 20 percent by June 30.

The sell-off unnerved the managers of some mutual funds that own alternative energy stocks. David J. Schoenwald, co-manager of the **New Alternatives** fund with his father, Maurice L. Schoenwald, acknowledged being fearful and uncertain of the causes or likely duration of the stock slide. "I don't know what's going on," he said. For the first six months of this year, the fund was still up 18.9 percent.

At the **Winslow Green Growth** fund, Matthew W. Patsky, co-manager of the portfolio with Jackson W. Robinson, said high stock prices had been the issue. "There was obviously froth in the market," he said. "You saw excessive valuations in some areas like solar." Winslow Green Growth was up 8.8 percent for the first half of the year.

Despite the spring sell-off, there were some reassuring developments for investors in alternative energy, and they came from what might seem unlikely sources. In May, **Chevron** announced that it was creating a business unit to research and invest in ethanol and biodiesel fuels.

"We like to form business units around key strategic objectives," said Donald L. Paul, vice president and chief technology officer at Chevron. "We're going to spend a significant amount of money in this area to get going."

In June, **BP** said it would spend $500 million to create a research center for biofuels. It also said it was forming a biofuels partnership with **DuPont** that would produce a sugar-based fuel for the British market in 2007. In November 2005, BP announced that it would invest $8 billion over the next decade in wind and solar power and in other technologies that produce electric power with lowered carbon emissions.

Chevron, Mr. Paul said, wants to find its place in the developing supply chain of biofuels, beginning with the sourcing of raw materials and extending to production, distribution and marketing. BP, a spokesman said, wants to address environmental concerns while developing longer-term supply alternatives to petroleum-based fuels.

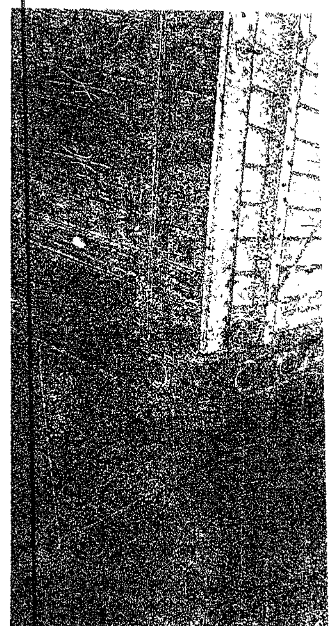
Big oil's entry could change the face of the biofuel industry.

The fact that major oil companies are scouring the field for investments could help create a floor for alternative energy share prices, said Stuart Bush, an analyst at RBC Capital Markets. For the major companies looking to hedge their bets with biofuels, "it would be easier to buy than to build capacity," Mr. Bush said. For example, Chevron announced in May that it was taking an equity position in Galveston Bay Biodiesel, which is building a plant to turn soybeans into diesel fuel.

Mr. Bush likes the prospects of a broad range of alternative energy stocks. He predicts a 35 percent increase in the next year for the WilderHill Index, a basket of 40 stocks mirrored by the PowerShares E.T.F.

Wind is "the most economically viable" alternative technology, Mr. Bush said. He favors **Zoltek**, which makes carbon fibers used in wind turbine blades. Blades made of carbon fibers can be longer than steel blades, allowing them to sweep a larger area and generate more electricity.

In solar power, Mr. Bush likes **MEMC Electronic Materials**, which supplies silicon for building solar cells. Silicon has been in short supply, and MEMC has taken advantage of the situation to lock up customers with long-term contracts at today's high prices, he said.



Tim Miller delivering corn to the Xethanol biofuel pl

Though solar, wind and ethanol stocks have moved largely in concert, ethanol has been perhaps the most controversial industry sector. Ethanol is in great demand because of the high price of gasoline and because of a rush to replace MTBE, a gasoline additive intended to cut air pollution but now the subject of several lawsuits that say it contaminates groundwater.

In the United States, ethanol is generally made from corn. Those skeptical of the prospects for ethanol say that only so much farmland can be used to grow corn for fuel and that any rise in corn prices or drop in oil prices would jeopardize the profits of ethanol producers.

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UTUAL FUNDS REPORT

Brian Ray for The New York Times

:ing corn to the Xethanol biofuel plant in Blairstown, Iowa. The company has plans to make ethanol from waste plant matter.

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& Poor's, said in June that most ethanol companies deserved only B-grade "speculative" ratings because of the up-and-down nature of the business.

"At its best, it could be very high margins," Ms. Acar said. "At its worst, it could be negative margins."

But while the S.& P. analysis focused on corn, Mr. Paul and other long-term ethanol investors are betting that cellulosic ethanol, derived from nonfood plant matter like grasses and farm waste, will one day be cheaper to convert into fuel. Producing cellulosic ethanol could also take far less energy than ethanol made from corn and yield considerably less pollution.

"There's big opportunities potentially in cellulosic," Mr. Paul said. Reflecting that outlook, Chevron announced last month that it would finance cellulosic research for the next five years at the Georgia Institute of Technology.

For all its promise, however, cellulosic ethanol does not offer simple investment choices. There are few publicly traded companies with cellulosic technology. **Diversa** of San Diego and **Novozymes** and **Danisco** of Denmark have reported progress in reducing the cost of enzymatic conversion of plant matter to fuel. **Xethanol**, in New York, has plans to use waste plant matter to make ethanol. **Pacific Ethanol** of Fresno, Calif., is one of several companies building corn-processing plants that could also make cellulosic ethanol if it could be produced at a competitive cost. But valuations on these companies are rich by most conventional measures. And because cellulosic technology is still evolving, it is difficult to identify eventual winners.

Finding any ethanol stock that is cheap is not easy, said Tim Guinness, manager of the **Guinness Atkinson Alternative Energy** fund. But he thinks he has one in **Australian Ethanol**, which is building production in Australia and the United States and is priced far more reasonably, he says, than American producers.

Investors in alternative technology stocks, Mr. Guinness asserted, must look beyond current market gyrations. "You need to take a medium-term view — at least two to four years," he said. Nobody, after all, can displace petroleum overnight. ☐

STATEMENT OF ALLEN HELMS

Chairman Goodlatte, Ranking Member Peterson and members of the committee, thank you for holding this hearing and for providing me the opportunity to present testimony on current and future farm policy.My name is Allen Helms. I serve as Chairman of the National Cotton Council. I operate a diversified farming operation on which I produce cotton, corn, soybeans, rice and wheat in Clarkedale, Arkansas. I also am president of a grower-owned cotton gin.

In recent years, cotton acreage in the United States has fluctuated between 13.5 and 15.5 million acres as farmers adjust acreage based on agronomic practices and relative returns between cotton and competing crops. In 2004 and 2005, growers in many areas of the Cotton Belt were fortunate to have above-average yields, and as a result, the U.S. produced record crops in excess of 23 million bales. Unfortunately, weather in 2006 has not cooperated, and growers in several parts of the Cotton Belt are facing much lower yields.

The demand base for U.S. fiber has shifted from the domestic market to the export market as increased imports of cotton textile and apparel products have reduced domestic mill use. In 1997, the U.S. textile industry consumed more than 11 million bales of cotton, or 60 percent of total disappearance. For the current marketing year, U.S. mill use is estimated at 5.5 million bales, which is 25 percent of total use, with export markets accounting for the remainder. Exports of raw fiber are estimated to exceed 16 million bales. With the removal of textile import quotas and China's continued emergence as the largest spinner of raw cotton, the reliance on exports is expected to continue for the foreseeable future. The U.S. position in the global market has remained relatively stable over the past 30 years, averaging 15 percent and 19 percent of world area and production, respectively.

Mr. Chairman, the 2002 farm bill enjoys considerable support among cotton producers. That support appears to be widespread. Over the past six years, no farm organization has called for major modification of current law nor has Congress approved any major changes.

The current farm bill provides a stable and effective national farm policy. The combination of direct and counter-cyclical payments provide an effective means of income support, especially when prices are low, without distorting planting decisions. The primary shortcoming of the 1996 law was the lack of a counter-cyclical payment that triggered when prices are low. As a consequence, farmers were forced to request emergency assistance from Congress year after year. This has been alleviated by the counter-cyclical program.

The direct payment mechanism helps provide financial stability required by our lenders and suppliers, also without distorting production decisions.

The cotton industry believes it is important to maintain a balance between these two mechanisms. Higher direct payments can have unintended impacts. They can provide an incentive for landlords to take land away from producers; they can create unexpected payment limitation issues; and they can cost the taxpayers more than is necessary to ensure agricultural stability.

It is also important to consider that sudden, significant program changes can have different regional impacts due to historical differences in cropping patterns and yields.

We strongly support continuation of the marketing loan. It is clearly our top priority under all circumstances. The marketing loan responds to low prices, it does not cause low prices. It ensures that U.S. cotton farmers are not residual suppliers in the world market.

It is also especially important that all production remain eligible for the marketing loan so farmers can make informed, orderly marketing decisions. And, it is important to continue to administer the marketing loan in a manner that minimizes forfeitures and allows U.S. commodities to be competitive in domestic and international markets. For example, an ineffective price discovery mechanism or arbitrary limits on loan eligibility signal our competitors that the United States will be competitive on a portion but not all of our production. This is an open invitation for foreign competitors to increase production, even in the absence of, or in spite of, market price signals-and would return U.S. farmers to being residual suppliers.

In addition, we are disturbed by continual claims that 80 percent of all program benefits go to fewer than 20 percent of the producers and that only the so-called program crops receive direct benefits from farm law. These comments are misleading and serve to divide rather than inspire cooperation. First, it's important to remember that program benefits do not just come as direct payments. Virtually every commodity receives some type of support, whether through direct income payments, price support programs or barriers to import. For example, for some commodities, the U.S. imposes higher tariffs on imports during times when domestic supplies are the most plentiful. In addition, some commodities receive support through government purchases of the product or by mandating use of the product. Favorable tax laws also are used to provide support for certain products but the benefits are not directly attributed to individual farmers. It also should be recognized that our current farm programs provide very real benefits to the livestock sector. Livestock interests benefit because our current farm programs facilitate preservation of a reliable, safe and affordable supply of feedstuffs such as corn, soybean meal and cottonseed.

It is also misleading to compare payments going to the number of farmers. With the natural consolidation of agriculture, it is inevitable that the majority of program benefits will go to the farmers who account for the majority of production. However, it is also true that per-pound or per-bushel support is consistent across producers regardless of size. Plus, payments to producers represent just a fraction of the costs and risks incurred to enable farmers to produce. This is especially true in the current environment of increasing fuel and energy costs. Today's program benefits are an important safety net and not a windfall.

The cotton loan structure and world price calculation have served the industry well. There have been minimal forfeitures and robust exports, but some modification may be necessary to respond to the new emphasis on export markets and the termination of Step 2. Simplification of the loan rate schedule and modification of the calculation of a world price should be reviewed as part of any new farm law. We also support elimination of the longstanding prohibition on USDA projecting cotton prices for the purposes of administering the program.

Pima producers support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

A sound farm policy is of little value to the cotton industry, as well as merchants, cooperatives and processors, if arbitrary, unworkable limitations are placed on benefits. Current law requires USDA to determine if individuals meet certain eligibility requirements and there are statutory limitations on each category of benefits. Unfortunately, these limits have been dictated by public perception, not the requirements of efficient, internationally competitive farming operations. Because there is continuous pressure on USDA to streamline and downsize, it is reasonable to question the cost and efficiency of USDA administering and farmers complying with complicated limitations provisions. Frankly, we believe limitations should be eliminated but at the very least any limitations in future law should not be more restrictive or disruptive than those in current law.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary, cost-share basis and are a valuable complement to commodity programs. However, they are not an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Programs are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive based programs.

Access to an affordable crop insurance program also is an important tool for most farmers. However, given the continued inequities of coverage and service in different regions and for different crops it is probably time for another thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program. This is especially important as the concept of a whole-farm, revenue insurance program is gaining attention as a way to devise a new program that is potentially WTO-consistent. While we welcome the discussion, I cannot tell you that a majority of cotton farmers will embrace crop insurance as a major component of future farm policy without a great deal more information. In fact, there are those who would support establishment of a permanent disaster assistance program in lieu of funding crop insurance programs.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export dependant agricultural economy. It also is valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets—but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

The U.S. cotton industry understands the value and benefits of effective promotion. In addition to being original and continuous participants in FMD and MAP, growers finance a very successful promotion program through a self-assessment (check-off) program. In large part, and as a result of effective promotion, the average U.S. consumer purchases 38 pounds of cotton textile and apparel products each year. In the rest of the world, consumption is less than six pounds per person per year. Promotion works! It is important that the authority for farmers to operate self-help, self-financed promotion programs be continued.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft the next farm bill.

The suspension of the Doha negotiations, coupled with (uncertainties) stemming from the cotton dispute panel decision, appear to have created doubt as to the best way to steer domestic farm policy. However, I think two things are very clear:

We are far better off constructing a new farm bill under current WTO spending ceilings than we would be under the kind of reductions contemplated in the U.S. offer. We would rather have a $19.1 billion amber box ceiling and current rules, than a $7.6 billion ceiling and worse rules.

We should ensure the next farm bill continues to allow the United States to negotiate from a position of strength.

The Doha negotiations were moving forward only when the U.S. made more concessions. Our trading partners have clearly “pocketed” the generous U.S. offer on reductions in agricultural support and demanded further U.S. reductions while making it clear they would not agree to significant increases in market access. In fact, several G–20 countries have worked to undermine trade liberalization as the primary goal of the Round.

By refusing to agree to equitable levels of market access, the EU and the developing world walked away from a U.S. offer of a 60 percent reduction in the ceiling applicable to the most trade distorting subsidies.

That offer directly targeted the support category containing the marketing loan program, the dairy program and the sugar program. The National Cotton Council has estimated that this level of reduction, placed within the current farm bill structure, could lead to a 10–15 percent reduction in marketing loan rates. As growers face rising energy costs, make no mistake—a 15 percent reduction in loan rates is real and would immediately affect the financial structure of rural America.

The Doha Negotiations were leading toward an agreement with rigid, inflexible, poorly defined limits and no real gains in market access. It is worse for U.S. cotton farmers as the negotiators have unwisely carved out cotton for inequitable treatment while threatening to exempt China, the largest cotton market in the world, from meaningful market access commitments.

A Doha Agreement that cuts U.S. amber box support by 60 percent, targets U.S. cotton for inequitable cuts, provides little or no real market access gains for agriculture in general, and exempts the biggest cotton user in the world from liberalizing its cotton quota system will not benefit U.S. cotton or U.S. agriculture.

Each concession offered by the United States simply generated a call for an additional concession. The next farm bill, therefore, should enable the United States to negotiate from a position of strength. We should not unilaterally disarm.

These inequitable demands by our international partners will not work for U.S. agriculture. If other countries cannot match the U.S. level of ambition for market access, while continuing their calls for even deeper cuts in U.S. domestic supports, we should either withdraw or reduce our offer on domestic support. We sincerely appreciate the continued, clear commitment of this Committee for an equitable agreement. I am certain that your vocal support for a strong U.S. position has enabled our negotiators to be more effective during the meetings.

We remain concerned that cotton continues to be singled out for inequitable treatment. Cotton has already given more than any other commodity in these negotiations. The Step 2 program has been eliminated, the subsidy component has been removed from the Export Credit Guarantee program and in Hong Kong, least-developed countries were assured of receiving duty-free, quota-free access to the U.S. raw cotton market as soon as an agreement is reached. An agreement that singles out U.S. cotton for even more inequitable treatment cannot be supported by the US cotton industry.

Our longstanding customers, the U.S. textile industry, have faced tremendous competition from low-cost imported apparel. Despite significant gains in productivity and efficiency, U.S. textile manufacturers have found it difficult to compete with imported apparel products from primarily Asian sources. Cotton farmers are deeply concerned with the loss of our manufacturing customer base. We will continue to work with U.S. textile manufacturers to ensure that there are policies in place that promote and reward fair competition. We also are committed to continue supplying the top quality fiber necessary for U.S. manufacturers to produce internationally competitive textile and apparel products. The loss of the Step 2 program had an adverse impact on our domestic manufacturers given their fragile financial conditions. The remaining manufacturers have indicated strong interest in making revisions to our Step 3 import policy and in developing a possible WTO compliant alternative to Step 2.

The rapid decline in raw cotton consumption by domestic mills has created challenges for all cotton farmers who must identify new export markets to replace domestic consumption lost to imported products. The market has placed new and added pressure on our infrastructure including surface transportation and port facilities. We are working with the industry and with USDA and Congress as appropriate to meet those challenges.

Although cotton fiber is our primary product, cottonseed and its products account for 12 percent of the value of the crop at the farm gate. Cottonseed processing facilities provide important markets for our seed, add economic value and create employment. The increasing emphasis on renewable fuels can have varying impacts on cottonseed markets. Growth in biodiesel increases demand for vegetable oils, thus increasing the value of cottonseed. Also, the production and ginning of cotton produces cellulosic product that is suitable for the production of renewable fuels. However, our members are also closely watching the expansion in ethanol production. Interestingly, as ethanol production increases, one of the by-products—dried distillers' grain—has depressed the value of cottonseed and meal in feed markets. This is clearly an unintended consequence of policies and programs designed to stimulate production of renewable fuels, and also an example of unforeseen impacts due to dramatic policy changes.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft future farm policy, but we appreciate that the next farm bill will be written in Congress by the agriculture committees and not dictated by the WTO.

In closing, I would reiterate the cotton industry's overall support for the current farm bill. Frankly, most cotton farmers and a majority of the industry would be satisfied with an extension of current law. We also know, however, that an extension will face hurdles, both domestically and internationally. I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

Thank you for the opportunity to testify today. I will be pleased to respond to your questions at the appropriate time.

**STATEMENT OF THE
AMERICAN FARM BUREAU FEDERATION
TO THE
HOUSE COMMITTEE ON AGRICULTURE
REGARDING THE FARM BILL**

September 20, 2006

Presented by:
Bob Stallman
President, American Farm Bureau Federation

Good morning. My name is Bob Stallman. I am a rice and cattle producer in Texas and the President of the American Farm Bureau Federation.

There is no question the existing Farm Bill is popular with farmers and ranchers throughout the country. Continued maintenance of its structure and funding is a high priority for Farm Bureau. By an 89 to 11 percent vote, American Farm Bureau Federation voting delegates cast a resounding vote in support of extending the economic safety net of the current Farm Bill until a new world trade agreement is reached that would increase foreign market access for U.S. farmers and ranchers. One of the most important reasons for this extension is the current stalemate in the World Trade Organization (WTO) negotiations.

Trade Implications:

America's farmers and ranchers believe a significant expansion of trade opportunities is the only acceptable outcome of the WTO negotiations. An agreement on agriculture must achieve a balanced, ambitious outcome in which the benefits from new market access and the removal of trade-distorting policies provide net gains for U.S. agriculture. Any useful agreement for U.S. agriculture requires a balance between the gains in exports due to the lowering of tariffs around the world and the reductions in income to producers from lowering spending limits on certain domestic support programs. This balanced outcome, with a trade-expanding, market-access component, can only be achieved by maintaining an effective domestic farm program.

The outcome of the negotiations, particularly as they relate to domestic support commitments, must be known and taken into account before we begin crafting a new Farm Bill. We must negotiate a WTO agreement that accomplishes our objectives and then modify our Farm Bill accordingly – and to the extent necessary – based on the final outcome of the negotiations. Why?

<u>1. This approach provides U.S. negotiators the strongest negotiating leverage.</u> United States agriculture does not compete on a level playing field. In today's world market, the anti-competitive trade practices employed by foreign governments against U.S. farmers are not fair. Foreign tariffs average 62 percent on our agricultural exports – more than five times higher than the average U.S.-imposed agricultural tariff of 12 percent. Additionally,

the European Union uses 87 percent of the world's export subsidies – which severely disadvantages U.S. exports. The U.S. utilizes only 3 percent and the rest of the world uses the remaining 10 percent.

Each year, the Organization for Economic Cooperation and Development (OECD) estimates average subsidy levels to producers for the world's richest 30 countries. The OECD defines "Producer Support Estimate" as subsidies as a percent of farm receipts. This calculation is likely the most comprehensive and accurate way to truly measure the support provided to a nation's agriculture through tariffs, export subsidies, export credits, domestic support programs, and the various other ways countries provide support to their producers. In June, OECD released its projection for percentage of Producer Support Estimate (PSE) by country for 2005. The average percentage PSE for the world's richest 30 countries is 29 percent. The U.S. falls far short of the average – at only 16 percent. The European Union and Japan – two countries that are critical to successful completion of the WTO negotiations – both far exceed the average OECD number for support to their producers.

OECD PSE Percentages Projected for 2005	
Australia	5
Canada	21
European Union	***32***
Iceland	67
Japan	***56***
South Korea	63
Mexico	14
New Zealand	3
Norway	64
Switzerland	68
Turkey	25
United States	***16***
OECD	***29***

The primary component the U.S. has to offer in the negotiations are reductions in our domestic support programs. The leading component for many other countries is primarily reductions in high tariffs. If we reduce our domestic supports in an upcoming Farm Bill budget reconciliation debate, we have less leverage to use to convince other countries to reduce their tariffs and exports subsidies. Our strongest negotiating leverage is to maintain our current programs until we agree to a WTO Round that is beneficial for agriculture.

2. We are simply not far enough along in the negotiations to anticipate a likely WTO outcome and to make changes to the Farm Bill. Critics of our Farm Bill say that any successful WTO negotiation will require reductions in our farm programs near the 60 percent of trade-distorting domestic support level offered by the U.S. a year ago. While Farm Bureau strongly supports conclusion of a successful WTO Round, we will not

unilaterally cut our domestic programs without a commensurate reduction in tariffs, supports and subsidies from other countries.

In addition, we do not know what will be agreed to at the end of the negotiations. There may be smaller average tariff cuts and a larger number of sensitive products than the U.S. had previously sought. While those proposals were evidently never formally offered, they may indeed be offered in the future. If that is the case, we must look again at whether the market access gains we receive from those reductions outweigh the losses in reducing our allowable domestic supports by 60 percent. Altering our farm programs now to reduce supports by 60 percent -- just in case that is what is included in the final agreement -- makes no sense. It is important to remember that a similar "stalemate" in negotiations occurred during the Uruguay Round. The stalemate lasted three years. In the end, the impasse was broken after an agreement was forged that was less than what many had expected or hoped. If that happens in these negotiations, we could be looking at reducing our authority for domestic supports far less than 60 percent.

It is also important to remember that there is still a huge amount of negotiation and follow-up implementation work that must be concluded before we can accurately estimate how much the U.S. could gain from more market access. Using the U.S. proposal for tariff cuts as a reference, our analysis concludes that trade gains could be large. However, gains could be heavily concentrated in a few key country/commodity markets. With the U.S.'s proposed 60 percent average cut in global tariffs, for example, we estimate that China could make up as much as two-fifths of our export gains from a successful WTO Round, followed by the European Union at a quarter. These two markets alone could account for over two-thirds of the added product we could expect to export in a more open market setting.

To go a step further, it appears now that the top 25 country/commodity pairs account for about 67 percent of all estimated U.S. export gains from a WTO agreement. For example, rice exports to China represents 8 percent of our potential trade gains. Corn exports to Mexico makes up 2.4 percent and beef to France makes up 2 percent of those gains. We are a long way away from negotiating decisions at the country/commodity levels where the real potential gains will be known. Making cuts in our domestic support programs prior to those decisions is not the best alternative for the U.S.

3. Reforming the Farm Bill now absent a final agreement offers no assurance that additional reforms would not be required when an agreement is finalized. I have heard some say that "a question American agriculture is going to have to answer is, if we have to change our agricultural policy, are we going to do it on our own terms, or perhaps have someone else influence those terms more than we would like?". A few years ago, the European Union decided to change their policy on their own terms and adopted their Common Agricultural Policy. These reforms shifted many of their programs from more trade distorting programs to programs that qualified for the non-trade-distorting "green box". Many Europeans believed by doing so that their changes would suffice as their contributions to the Round. Virtually no country is giving the European Union "credit" for those changes. Indeed, it appears the more common theme is to ask the Europeans,

"what have you done for me lately?" In a similar vein, the U.S. offered a bold reduction in our trade distorting domestic supports only to have it viewed as a "starting point" for the negotiations rather than a down payment. If we attempt to pre-judge our contributions to a successful WTO Round in an upcoming Farm Bill, we could fall prey to the same outcome as the Europeans.

Farmers and ranchers are willing to lower farm program payments via the World Trade Organization negotiations if -- and only if -- they can secure increased opportunities to sell their products overseas. However, we are not willing to unilaterally disarm. Any revamping of the farm safety net must be done in concert with a WTO agreement that reduces tariff and non-tariff barriers, reduces and harmonizes trade-distorting domestic supports and eliminates export subsidies among other features.

Since the WTO talks were indefinitely suspended in July and it is uncertain when the talks will resume, Farm Bureau is seeking an extension of the current farm bill for at least one year. We will support making minor adjustments to the bill in order to comply with recent WTO rulings. In the meantime, U.S. farm policy should continue to help level the playing field with assistance to America's farmers until trade negotiations achieve a truly fair world market.

On a related issue, there are those who say we must change our farm programs now due to the Brazilian cotton case. While the U.S. could face new WTO litigation on our support programs, the question to consider is how vulnerable other crops are to similar challenges since those commodities benefit from many of the same programs as cotton.

Only cotton is immediately affected by the WTO cotton panel's serious prejudice rulings. For other commodities to be affected, new cases would have to be filed by countries attempting to demonstrate the same or similar adverse effects, and those cases would be heard by different panelists over an extended period of time.

Panels examining whether other crop programs are causing serious prejudice to other WTO member countries will be considered on a case-by-case basis, taking into consideration the type and aggregate level of subsidization for a given crop, the subsidization as a percentage of the value of production, the trends in subsidies and production, the portion of the crop exported, world market shares, price effects of the subsidies on the world market and whether exports have displaced other supplying countries.

We have looked at most of these questions and believe that it will be more difficult to prove serious prejudice in other crops than it was for cotton. Subsidies of the type that were found to be causing serious prejudice in cotton are quite low in the cases of wheat and soybeans and have generally declined in recent years. Although such subsidies for rice have been substantial in the past and remain significant, they too have declined in recent years. Subsidy levels for corn have grown in recent years, but remain lower than for cotton relative to the value of production. U.S. production and exports have generally not grown, or at least not to the extent they did in cotton, and market shares have remained generally flat or actually declined.

Of course, our analysis was neither a full-fledged econometric analysis nor a legal brief of the type that would be done in an actual case. Our examination of the facts is just a snap-shot in time. Vulnerability can change as subsidy levels change. In the end, it is impossible to predict how a panel will rule, as we found out in the case of cotton. However, to alter farm programs now because a country "might" file a case against our farm programs – and it "might" succeed and be implemented in two or three years – is not a good reason to alter current farm policy.

Economic Implications:

Farmers and ranchers often tell this Committee they are on the edge of their next disaster. Indeed, they can see their futures turn on a dime, almost entirely due to circumstances beyond their control. The rice industry recently saw their financial condition turn quickly. The cattle industry is still living with the Christmas present one cow left us three years ago. Today, however, I'd like to discuss a slightly different view of agriculture, one that is backed up more by numbers and less by rhetoric.

The overall agricultural economy is in reasonable fiscal shape. Certainly there are individual producers who face challenges and who have gone through tough economic straights. Those include producers faced with the storms and fires of the last two years and those who are now working through years of drought, as well as those who have lived through hurricanes and too much moisture. The cattle and rice industry are two more examples, but the overall numbers display an industry operated by sound and prudent business managers.

If we review the farm sector balance sheet between 2002 and 2006, there is solid numerical evidence that producers have done an outstanding job of managing the business of agriculture. The debt-to-equity ratio for agriculture in 2006 is projected by USDA to be the lowest level since this statistic was first kept in 1960. In 2002, farm assets were pegged at $1.3 trillion. In 2006 they are expected to grow by more than $600 billion to $1.9 trillion. Producers have not gone wild with borrowing. The rise in their equity was achieved with an increase of only $23 billion in farm debt during that same five-year period. Farmers and ranchers have been outstanding business managers during this time. They have been sensible in the use of support they have received from the citizens of this country. On behalf of all the producers who have received that support, we say thank you.

OTHER IMPLICATIONS:

As we turn to the future and the circumstances that will likely be in place when we craft the next farm bill, one has to have both a strong sense of excitement and concurrently a sense of significant concern. This uncertainty, coupled with the trade issues discussed before, justifies the call for extension and continuity in our farm programs. In addition:

1. Many of us see a tremendous opportunity coming to the sector in the next few years. The explosive growth in demand for agricultural products for biofuels production will create more change than the sector has seen for decades. Thanks again in large part to the vision of several members of Congress representing both political parties, last year's energy bill created the environment that is letting the market respond to this year's sharply higher energy costs. Farmers and many others in rural America have responded by investing in ethanol and bio-diesel plants. Based on the investments already made, steel and concrete being poured right now, we will process more corn into ethanol in the 2007-2008 crop year than we export. We will significantly exceed the Renewable Fuels Standard mandate provided for in the 2004 legislation. What we need next is the drive to make the product available to the consumer.

This tremendous demand shift will require producers to make a fundamental adjustment in land use to draw a third or more added acres into corn production. The economics will determine which crops and what other uses for arable land including improved pasture and reserve programs will ultimately lose the acreage necessary to produce enough corn. USDA's farm income surveys indicate that this shift to corn will require significant added short and long term investment on farmers' part. Even shifting acreage already in soybean production to corn will require the commitment of substantially more capital. For example, the surveys indicate that the typical mid-western operator shifting 500 acres from soybeans to corn would have to double the investment in annual operating capital from $48,000 to $105,000. Longer term investment in machinery and possibly storage also would go up a third from $235,000 to $305,000. The added short and long term investment needed to shift acreage from other uses could be even higher. Don't get me wrong. Farmers want additional domestically produced energy. Farmers want to step up and provide all the supply they can. But, recognizing how volatile this market can be, these same producers would like some revenue guarantees before making investments of this magnitude.

2. Our producers are also faced with considerable uncertainty on other fronts. One of the biggest of these are high fuel and fertilizer costs. As recently as 2003, production agriculture spent $6.8 billion on fuel and oil. In 2006, USDA projects that expense to reach $11.5 billion. In fact, from 1996 through 2003, the life of the 1996 Farm Bill and the early years of the 2002 bill, fuel and oil costs averaged $6.4 billion. Today, farmers are facing costs that are nearly double that level.

This cost increase is not limited to fuels and oils. Overall, manufactured inputs are projected by USDA to total $38.3 billion for 2006, nearly a $10 billion rise from 2003 levels. Another component most expect to rise over the next few months is interest costs. Farmers' outlays on interest expenses were $12.7 billion as recently as 2003, with USDA projecting $16.3 billion for 2006.

Clearly, the cost of inputs, whether they be fertilizer or money, are expected to be much higher for the upcoming farm bill period than was the case during this Farm Bill. The higher cost of steel and other inputs will likely add to other capital costs as well. With a significantly different cost structure, at a time we are asking these same producers to make significant investments to help provide for our nation's energy future, changing policy structure does not provide the kind of solid footing our producers need.

3. Trade in all its components also must be considered. Opening markets to our products is a tremendous opportunity for our nation's ranchers and farmers, an opportunity our membership has strongly supported for years. While trade represents a tremendous opportunity, there are also some significant risks for the individual producer. Recall what one case of BSE did to our largest export markets more than three years ago, what some mute swans did to our poultry markets to South Korea, and what the recent rice biotechnology incident has done to our rice producers. In each case – and we could cite many, many others – markets that had been serviced with high quality product for years, were yanked away from producers at a moment's notice, for circumstances over which they had no control. In fact, the producers had essentially been working hard to provide the investment and high quality product demanded by the foreign market. Until and unless we get these non-tariff barriers to trade managed with a science-based standard and convince other countries to adhere to that standard, our producers are going to continue to face arbitrary market manipulations by foreign governments. We need to consider some form of protection for our producers from these acts as well.

4. The 2002 Farm Bill was carefully constructed to provide predictable support for commodity, conservation, nutrition and export promotion programs. Congress struck a balance in funding each of those programs. More importantly, Congress determined the tax dollars they were willing to spend on those programs over the life of the farm bill. This determination was based on cost estimates produced by the Congressional Budget Office (CBO) prior to House and Senate passage of the bill in early 2002.

Two-thirds of the CBO estimated price tag for the entire farm bill was for nutrition programs rather than for commodity, conservation and export programs—the three programs most often referred to as the traditional "farm programs." Those three farm programs were projected to cost $122 billion.

While spending on the non-farm programs for the first four years of the farm bill is costing about what CBO projected, spending on the three farm program components is well below the estimates made in 2002. In fact, using the August 2006 Congressional Budget Office baseline, the farm program components cost $17.8 billion less than projected over the first four years of the bill. It is anticipated to be $16.1 billion less over the six-year life of the bill than the projected cost when the bill became law. That is 15 percent less spent on supporting our nation's farmers and ranchers than Congress believed was an appropriate amount of support in 2002.

	2002	2003	2004	2005	2006P	2007P	TOTAL
Projected Cost in 2002	19.3B	21.3B	20.9B	20.0B	18.7B	17.8B	120.0B
Actual Cost in August	15.5B	17.4B	10.6B	20.2B	20.3B	17.9B	101.9B
Difference	3.8B	3.9B	10.3B	-0.2B	-1.6B	-0.1B	16.1B

5. The Farm Bill provides an adequate safety net to farmers and ranchers when commodity prices are low. When prices rise, the law functions without additional funding from the government via counter-cyclical payments or loan deficiency payments.

6. The Farm Bill continues to address the goal of producing a safe, abundant, domestic food supply. Over the last year, we've more than paid for our dependence on foreign oil. Imagine if we had to depend on foreign countries for our food.

7. The Farm Bill is a good policy that provides a measure of stability in our food production system. Consumers in our country fare very well at spending less than 12 percent of their disposable incomes on a nutritious, safe, quality food supply. When the Farm Bill was passed in 2002, the Congressional Budget Office pegged the cost of farm programs and activities at about $58 per American per year through 2007. Revised estimates show the actual cost closer to $53 per American per year, or about 15 cents per day.

8. The economic setting heading into the Farm Bill is changing. U.S. farm income levels are projected down substantially in 2006, partly due to multi-billion dollar increases in energy costs. U.S. net farm income (including government payments) set a record in 2004 at more than $82 billion, followed up in 2005 by an income level of more than $72 billion. The projected 2006 farm income of $56 billion is down significantly from the last two years.

In summary, we are entering a period of significant opportunity, but also one of significant risk for the sector. The enormous potential of the bio-energy market could change production agriculture more than any other factor in the last 30 years. But, with that opportunity comes challenges. Producers are going to be asked to make significant investments in their industry to grow the feedstock that will help reduce our dependence on foreign oil supplies. When the investment will provide such tremendous benefit to our society as a whole, it is not unreasonable to ask for some producer protection while the investment is being made.

Alternative Options and Issues

While we support at least a one-year extension of the Farm Bill, we and others have had initial discussions about new policy options for future farm bills. We have completed some initial examination of those policy options and issues.

Supply Management

Over the last 50 years, the United States has tried agriculture policies that idled acreage as a means of improving farm income. They did not work. We idled acres, but we farmed the remaining acres more intensely to make up for the lost market opportunities from idling land. When we idled land, our competitors kept increasing acreage. We must not forget the lesson we learned 25 years ago. In the 1980s, the United States cut back production by 37 million acres and our competitors increased their production by 41 million acres. When we changed our policies in the 1996 Farm Bill to eliminate set-asides and paid diversions, the whole picture changed. From 1996 to 1999, the U.S. cut back production 2 million acres and our competitors reduced their production 28 million acres. We must not return to supply management programs.

We also tried storing our way to prosperity. That did not work either. We tried having the Commodity Credit Corporation store grain in bins across the country. We tried having farmers store the grain on their farms. The results were the same. We stored grain and cut acreage while the rest of the world increased production and took our markets. We must not implement a farmer-owned reserve or any federally-controlled grain reserve with the exception of the existing, capped emergency commodity reserve.

Payment Limitations

Farm Bureau continues to oppose any changes in current farm bill payment limitations. Simply stated, payment limits bite hardest when commodity prices are lowest. Our federal farm program is based on production. Time and time again, this has proved to be the best manner for distributing assistance to the families most responsible for producing this nation's food and fiber. Farmers who produce more traditionally receive larger payments, but they also take larger risks and have significantly higher investments in their farms. When crop prices are depressed, no farm is immune to difficulty, especially those with greater risk. It is true that larger farm enterprises receive a larger percentage of total farm program payments than smaller ones. However, farm policy has always been production-based rather than socially-based. Only if we want to allow someone in Washington to decide "winners and losers" should we move to a socially based policy.

Livestock Production

Livestock production often is overlooked as organizations prepare for the next farm bill. While the farm bill does not directly deal with programs to support livestock, the type of farm policy we develop should enhance livestock production across the U.S. As we look at trade in the future, meat and meat product trade should be expected to grow in significance. We need a high quality supply to meet that demand. Regulations that negatively impact opportunities for livestock producers should be reexamined so that our producers can maintain a competitive position in the world.

Fruit and Vegetable Planting Prohibition

The recent ruling by the WTO will likely push the planting flexibility provision to a top issue in the upcoming Farm Bill debate. The panel concluded that, because of planting restrictions, U.S. direct payments were not consistent with "green box" support (subsidies permitted by the WTO because the effects on trade are minimal).

If the planting prohibition is eliminated and program crop producers are allowed to plant fruit and vegetables on program crop base acres, it will likely affect the revenue of some established fruit and vegetable growers. In this scenario, producers of program crops would continue to receive direct payments and counter cyclical payments while competing with specialty crop producers who are entirely at risk in the marketplace.

A small shift in program crop acres (263 million acres) to specialty crops (10 million acres) could have a dramatic impact on production and prices of specialty crops. In fact, a 1 percent decrease in program crop production translates into a potential 30 percent increase in fruit and vegetable acres.

Our voting delegates firmly supported a policy that calls for our farm programs to be WTO compliant. Given the ruling in the Brazil cotton case, we must find a way to eliminate the fruit and vegetable planting prohibition. However, the current prohibition is a fundamental matter of equity among farmers. We do not support elimination of the planting prohibition until a workable WTO compatible compensation program for fruit and vegetable producers is adopted.

Revenue Assurance Programs

As mentioned earlier, our voting delegates support the concept of moving to alternatives to the current farm program design, including revenue assurance programs, if we receive an "economically proportionate increase in agricultural market access and elimination of export subsidies" in the WTO Round.

In conjunction with other commodity groups, Farm Bureau has been involved in a preliminary examination of revenue assurance options. This effort probably resulted in raising more questions than generating answers. The questions are broad and basic and include: (a) whether you would insure individual commodities or just provide for whole farm coverage; and (b) whether you are insuring gross or net revenue. The initial work indicates that simply protecting 70 percent of the market revenue for individual program commodities would cost $3.4 billion annually. This would provide a safety net for producers that is well below levels now provided. Therefore, comparing a $3.4 billion estimate to current outlays is clearly like comparing apples to oranges.

In addition, there is still much work to be done to make sure that a program based on revenue (tied to price and/or production) could be classified as green box. We have discussed the Canadian program with their officials and producers to learn what they do and do not like about their program. Like any program option, the devil is in the details. While there is "interest" in the concept, further details are necessary before we can determine whether it benefits agricultural producers.

Conservation Based Programs

The 2002 Farm Bill provides a strong measure of progress on the environmental front. It is the "greenest" farm bill in history in terms of authorized conservation funding. Improved environmental practices will benefit everyone through improved soil, water and air quality and wildlife habitat. Voluntary and incentive-based programs have historically worked the best for producers.

Our farmers and ranchers have been prudent managers of our country's natural resources. Contrary to what some may have you believe, those involved in production agriculture have taken great strides to improve their environmental performance. In 1982, USDA estimated the average erosion from an acre of farm land totaled 7.3 tons. This same estimate for 2001 was down to 4.7 tons per acre.

When looking at any farm program design, the devil is always in the details. As an example, the American Farmland Trust (AFT) proposal at this point in time, leaves a lot of those details behind, making it somewhat difficult to determine the devil's shape.

Their program begins with a national revenue support program. "At the beginning of each growing season…" the government would announce projected per acre revenue for the commodity. After harvest, the government would calculate actual revenues based on market prices received and observed national average yields. If the observed revenue was below the earlier estimate, all producers would receive a check to make up for the difference. This 'average revenue' would be re-estimated every year and would therefore react to market prices. One of those devils is whether or not a producer would be required to plant to receive the payment. If that requirement is in place, then the program would arguably not qualify as a green box program. If based on individual commodities, what's the difference from our current countercyclical program?

The proposal recognizes that this kind of nationally triggered program would not cover individual losses, thus the proposal states a private company 'can' provide for protection of individual losses above that provided by the national program. Yet there is no mention of what government support would or would not be offered to help encourage private insurers to offer such a program. Finally the proposal provides for direct payments to all producers, based on some unspecified environmental performance.

We need to be careful as we consider a more conservation-based program to keep in mind the income support that the current program provides operators in a volatile market setting. Conservation programs are not a perfect substitute. Some retirement conservation programs—such as the Conservation Reserve Program—actually displace farm income on a dollar-for-dollar basis. Farmers loose operating revenue or rental payments roughly equal to the payments they receive in return for long term retirement. Some working conservation programs—such as the Environmental Quality Incentives Program (EQIP) or the Conservation Security Program (CSP) --share the costs of environmentally-friendly investments in farm capacity. In cases where the investment would not have taken place without the program, farmers actually incur higher costs that can dampen income in at least the short term. In cases where the investment would have taken place without the program, some EQIP and CSP dollars can make their way through to the farmers' bottom line. Hence, while conservation programs are critical, they have to work in conjunction with rather than as a substitute for current commodity programs.

TRANSITION:

Farm Bureau supports at least a one-year extension of the current Farm Bill. We will support making minor adjustments to the bill in order to comply with recent WTO rulings. In the meantime, U.S. farm policy should continue to help level the playing field with assistance to America's farmers until trade negotiations achieve a truly fair world market.

When and if changes to current farm policy do occur, it must be done in a transitional manner. The transition must be handled carefully. The sector has taken a long time to get to where it is today. It represents 150-years of government involvement. Attempts to quickly unravel that support will have serious consequences for the agricultural sector specifically and for rural America in general. Agricultural land, through property taxes, often represents the majority of support for rural schools and rural county infrastructure and is the asset base for many producers and their financial portfolios. Land is the basis for several institutions in the banking and credit sector.

Thank you for the opportunity to share our thoughts with you and I look forward to any questions you may have.

STATEMENT OF THE FEDERAL MANAGERS ASSOCIATION

Chairman Goodlatte, Ranking Member Peterson and distinguished members of the House Committee on Agriculture:

On behalf of the over 1,800 managers in the USDA Farm Service Agency and Rural Development, and the nearly 200,000 managers in the Federal Government whose interests are represented by Federal Managers Association (FMA), the National Association of Credit Specialists of the Farm Service Agency (NACS-FSA), and the National Association of Credit Specialists of Rural Development (NACS-RD), please allow us this opportunity to present our views before your Committee. As Federal managers, we are committed to carrying out the mission of our agency in the most efficient and cost effective manner while providing necessary services to needy farmers and ranchers, rural residents, businesses and communities. We truly appreciate your interest and leadership in ensuring our stability by assessing the state of our Farm Loan Program and Rural Development Programs.

The mission of the Farm Service Agency is to "administer farm commodity, credit, environmental, conservation, and emergency assistance programs for farmers and ranchers." As Loan Managers, we work daily with farmers and ranchers who, for a variety of legitimate reasons, do not qualify for direct loans from private lenders. In such cases, we offer both direct and guaranteed loans to assist farmers and ranchers in getting started on a family-sized agricultural endeavor or expanding an existing operation. To meet our mission, the agency provides direct loans of up to $200,000 or guaranteed loans from a private lender to assure repayment and minimize the commercial lenders' risk. Ideally, the goal for these small loans is for farmers and ranchers to graduate through the process from receiving direct loans from the government, to having the government guarantee a loan from a private lender, to establishing their own sustainable line of direct private loans.

The effective and capable leadership of Deputy Administrator Carolyn Cooksie in conjunction with recent years of positive economic fortunes allows us to report that, from our perspective, the FSA's farm loan programs are in good standing. The agency has highlighted that loan funds are in high demand and loan default and loss rates are low. The Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) scores and the "Farm Service Agency Direct Loan Program Effectiveness Study" performed by the University of Arkansas Department of Agricultural Economics and Agribusiness confirm that the loan programs are meeting objectives, being managed effectively, and sit in good standing.

With few exceptions, the program changes made with the passage of the 2002 farm bill have pleased its customers, the commercial lenders, farmers and ranchers. The bill authorized the Farm Loan Program to modernize its delivery tools, regulatory rules and resource infrastructure to better serve rural Americans. Despite budget shortfalls and a growing disparity in information technology resources, significant enhancements have been achieved in the use of existing modern technology and expansion into Web-based programs. We are in the final stages of streamlining loan program regulations and updating our forms. This effort should result in the elimination of approximately 38 regulation manuals. Any remaining documents in use will be automated to improve cost savings, enhanced efficiency and easy access for internal and external customers. Ms. Cooksie is to be complimented for her accomplishments in modernizing the programs given the limited resources, improving customer service, improving program efficiency and for maintaining a loan portfolio that is worthy of our continued support.

We do not wish to overshadow the many accomplishments of the Agency and the incredible work being conducted by the dedicated managers and employees of its workforce. However, as responsible stewards of the taxpayers' dollars, we find it necessary to express some concerns for the future economic well being of rural America and the continued effectiveness of the programs that we administer. Somewhat like the fishermen at sea looking into the horizon at the bourgeoning storm, there seems to be a number of warning signs that indicate an impending perfect storm could hit the shores of the FSA and threaten the stability of rural America.

Rising interest rates, high agricultural production costs, high capital investment costs, increasing costs of living, the probability of less generous commodity program benefits, shrinking agricultural profit margins, a declining number of lenders offering credit to family-size farm operations, outdated information technology resources and a "human capital crisis" of increasing attrition rates at the Agency are all indications that a potentially devastating scenario could cripple the strength and stability of the farm loan program. We recognize the inherent risks of the cyclical agriculture industry that we are in and understand that no degree of preparation will allow us to save every family farm, rural business, rural school or rural community from market conditions. Yet, as responsible stewards of the program, it is our opinion that we must seize this opportunity to stave off the detrimental effects of preventable problems and secure the tools that will be necessary for us to weather the storm and save as many family farms as possible. In saving family-size farms and ranches we will help preserve the economic stability of rural America. The continued effectiveness of farm loan programs depends on our ability to retool and prepare for the storm.

Positives and missed Opportunities in the 2002 Farm Bill

During the 2002 farm bill debate, NACS-FSA and FMA supported many of the changes that were eventually adopted by Congress and implemented in the field. The most critical of issues that Congress supported and we believe has significantly improved the programs and services for rural Americans were:

- The "bridge loans" that allowed loan applicants to secure approval for real estate purchases from FSA and then to refinance a temporary source of credit to purchase farm real estate at times when loan funds are not available;
- Changes in the beginning farmer down payment loan program, which increased FSA's participation level from 30 percent to 40 percent and increased the amortization period from 10 years to 15 years;
- The passage of an amendment that required an annual rather than a semi-annual assessment of each direct loan borrower's operation to reduce the amount of paper work and unburden managers with a more effective assessment timeframe;
- The increase in the "Lo-Doc" benchmark allowed more loan applicants to use the streamlined loan processing provisions; and,
- The continuation of interest assistance on guaranteed farm operating loans.

These changes have allowed the farm loan program to develop into the robust government service it is today. However, there were a number of other issues which we believed would further improve the program and allow it to maintain its stability that were overlooked. We proposed some of these reforms in 2001 and 2002 during the consideration of the 2002 farm bill. More specifically, addressing term limits on direct and guaranteed loans, increasing loan limits, blanket assignment authority on FSA program payments, and allowing FSA to guarantee "aggie" or tax exempt bond loans made by commercial lenders are a few issues that we recommended as further improving the effectiveness of the program, but were ultimately omitted from the 2002 farm bill. As we face the expiration of the 2002 farm bill, this seems like an opportune time for Congress to act on reforming these important issues during the reauthorization of the Agriculture, Conservation and Rural Enhancement Act.

Reforms to the Farm Loan Program; End the Term Limits

The phrase "term limit" is used to describe rules limiting the number of years that a customer can be enrolled in the FSA direct and guarantee loan programs. The term limits for direct loan programs are 7 to 10 years depending on the type of loan received. A customer who is unable to obtain credit from commercial sources can only receive loans from the agency for seven to ten years at which point the farmer or rancher must either have built up a strong enough credit to go to a private lender or face the alternative of being unable to sustain their operations. Term limits do not have any caveats or exclusions for natural disasters, falling prices or random occurrences such as a ban imposed on the American beef industry by the Japanese government. Term limits are hard and fast dates that set forth a get lucky or get out mandate seemingly unsuitable for a need based Federal farm loan program. The reality is many needy farmers and ranchers are unable to apply for loans because of these arbitrary term limits.

In our line of work, these are not just theoretical examples. Day in and day out, we encounter good, hard working people who just need a little more assistance or a little more time to stay afloat. For instance, a Wisconsin dairy farmer who cannot apply for credit to rebuild his dairy barn that burned down, or the Texas farmer with a terminally ill wife who suffered two consecutive years of crop failures as a result of a severe drought, is unable to secure credit to continue a farm operation that has traditionally been profitable. As a farm loan manager, these arbitrary standards put us in the unenviable position of turning away otherwise qualified applicants such as a forty year old apple orchard farmer from Washington forced to sell a third-generation farm after 20 years of ownership because three consecutive years of low apple prices eroded her financial condition and prevented her from securing commercial credit, or more than 375 Indiana farmers who will not be eligible for FSA loans unless the term limits are removed. These are real scenarios collected from our members across the country that reflect the reality of a farm loan program established to aid people in these situations, but are rendered useless due to the unfortunate bureaucracy.

A similar situation is occurring on a family farm in South Dakota. The family has one year of FSA direct operating loan eligibility remaining. For example, in this area, we lost the majority of three grain crops over the past four of five years. Our corn yield has plummeted from around 76 bushels per acre to 47 bushels per acre during the past 10 years. Unfortunately, Federal crop insurance does little to assist farmers in areas that suffer multiple crop failures. With only one year of FSA loan eligibility remaining, it is not likely that they will be able to prosper enough to meet commercial lending standards within the next 12 months. The family will lose their safety net and their source of financing within one year. Simply allowing an extension of the term limits would give this family more time to get on their feet and build an economically sustainable farm.

The amount of capital required to maintain a viable farming operation is staggering. In the best of times the profit margins are slim, often requiring more than seven to ten years to build the equity and profitability that commercial lenders require. FSA loan programs are a critical part of the safety net that was created to assist viable family-size farmers and ranchers who are unable to secure commercial credit at affordable rates and terms. By neglecting this issue, we are hindering the sustainable development of rural farmers and ranchers by forcing term limits instead of working with the fluctuating markets and unique agricultural environments.

Provisions contained in the 2002 farm bill allowed for a two-year waiver of direct operating loan term limits on a case-by-case basis. Although it was appreciated, this band-aid did not fix the problem and the agency must then deny essential services to a large number of farmers and ranchers. One farm loan manager from Texas reports that a prolonged drought and term limits will force 23 of his customers to seek a new line of work within twelve months with approximately 80 percent of the 130 direct loan borrowers in that area to follow within a few years since they do not meet today's "chain bank underwriting standards." A loan manager in Wisconsin reported that 63 of 103 direct loan borrowers in his area will become ineligible for direct loans before the next farm bill is signed. As these families exit the farming business, liquidate their assets and move to the city to find work, the rural community and rural economy will suffer a devastating blow. It is possible to prevent this and help encourage sustainable rural agricultural development.

Term limits also apply to loans made by commercial lenders that are guaranteed by FSA. Term limits on guaranteed loans were waived through the end of the 2002 farm bill and will become effective again on January 1, 2007. Waiving the term limit rule on FSA guaranteed loans did not jeopardize the integrity or effectiveness of the program in any way, and guaranteed loan activity remained healthy while loan default and loss rates remained low. Therefore, we strongly recommend that the Committee support farm bill provisions to eliminate term limit rules on FSA direct and guaranteed farm loan programs.

By failing to address the elimination of this bureaucratic matter, we are denying the Agency a tool that will be essential in our efforts to save viable farm operations and provide stability to rural economies when the seas get rough and rural America needs us most. The get lucky or get out term limit rules should be eliminated in favor of agency graduation, market placement and credit elsewhere provisions that are already in existence. When properly applied, graduation, market placement and credit elsewhere rules are effective in assuring that FSA is not competing with private industry in providing essential credit to farmers and ranchers.

As loan managers, it takes extensive training and experience to become a manager or an officer. The decisions that we render are not done without proper oversight, review, consideration and reconsideration. It is in our interest as managers to provide economically sound loans to qualified seekers. We are not recommending this modification as a way to impair the loan making structure or create an unbalanced risk for the Federal Government. Rather, it is a way to use government resources as they were intended to be used in a profoundly helpful program such as this.

Increase the Farm Loan Limits

Loan limits describe the maximum amount of dollars that an applicant can borrow from FSA. As managers, we also struggle with the hindrance of the limits placed on the level of loan we may make at a given time. FSA's direct operating loan (OL), which is used to finance production expenses, machinery, equipment, vehicles, livestock or other short and intermediate term farm business ventures, has a limit of $200,000. Direct farm ownership (FO) loans, which are used to finance the purchase or improvement of real estate, also have a $200,000 loan limit. These loan limits were established more than 20 years ago and do not meet the needs of modern day operations. Production and capital costs increased significantly over the past 20 years. Direct OL and direct FO loan limits need to be adjusted to allow FSA to effectively serve family-size farmers and ranchers in all areas of this great nation.

A farm loan official from Wisconsin reported to us that a farmstead costing less than $200,000 20 years ago is currently selling for at least $650,000 and they are lucky if a $200,000 loan is enough to purchase a ten acre farmstead. East and West coast states are realizing an even larger spread between our current loan limit and the amount of funds needed to finance the purchase of a modest family-size farm.

Of greater concern is that our operating loan limit is preventing FSA from meeting the needs of customers. A loan manager from Washington reports that a typical 50 acre fruit production operation in his area requires $150,000 operating capital annually, and they do not sell their crop from 1 year before needing funds to produce the following year's crop. This means this customer will need $300,000 of operating credit for a short period of time when only $200,000 is available from FSA. This also does not take into consideration his credit needs for machinery and equipment with the agency on a term loan. The Washington loan official, with just reason, claims that we are setting beginning farmers up and "directly participating in their demise" because our loan limits are not sufficient to meet the needs of the customers that we are attempting to assist. Similar stories may be heard from loan officials in Georgia, Florida, California, Iowa, Minnesota or any other state in the country. Agricultural production, start up and capital costs 20 years ago are not a reasonable baseline for use in establishing loan limits today.

We urge the Committee to consider raising the loan limits for direct operating loans to at least $300,000 along with the direct farm ownership loan limit. As an alternative, we suggest that the Committee eliminate provisions setting forth a separate loan limit for each type of loan—operating and farm ownership—and authorize individuals to receive any combination of direct operating and farm ownership loans for a total amount not to exceed $500,000 to $600,000 as the Committee may see fit. A combined loan limit may help customers who need FSA operating or farm ownership loans, but are able to secure their other credit needs from a commercial lender.

Prevent the increase of guaranteed loan fees. The President recently proposed a 150 to 450 percent increase in fees charged to commercial lenders who work with FSA in offering guaranteed loans. According to the American Bankers Association (ABA), the FSA guaranteed loan programs are a remarkable success story representing a supreme example of a true public-private partnership that will suffer considerably if the new fees are incurred. We agree with ABA's assessment of the resulting problems from increasing the guaranteed fees. At present, the fees are modest and the guaranteed loan programs are performing as intended. Program usage has been strong. Loan default and loss rates have been low. ABA's concern that an increase in fees will have a significant adverse effect on FSA guaranteed loan programs is valid. However, we believe that the impact of such an action will be much greater than ABA has reported.

Family-size farmers and ranchers use guaranteed loans because their credit represents more risk than a commercial lender is able to incur without the backing of a guarantee from FSA. Guaranteed loan customers generally fail to meet commercial lending standards due to a lack of repayment margin or a lack of owner equity; therefore, assessing larger guaranteed fees will add to the already sizeable financial burdens of the customers that we are attempting to serve.

In understanding the relationship that exists between the FSA direct and guaranteed loan programs one will recognize what we believe to be an even greater reason for concern regarding the proposed increase in fees. Guaranteed loans are used to help direct loan borrowers secure credit from commercial lenders, otherwise known as graduating; to help loan applicants secure all or part of their credit needs from a commercial lender, or market placement; and to serve those who do not quite meet commercial lending standards but can prosper without having to rely on FSA direct loans. Increasing guaranteed loan fees will reduce guaranteed loan demand and increase demand for direct loan funds, thus, shifting loan making and loan servicing responsibilities from commercial lenders to FSA. FSA does not have sufficient resources in terms of loan funds or human capital to meet a significant increase in direct loan demand.

In an effort to preserve program effectiveness and prevent administrative fee increases in future years, we ask that the Committee add a provision to the 2007 farm bill that will require Congressional approval of any future USDA guaranteed loan fee increases.

LIABILITY INSURANCE FOR PROGRAM MANAGERS

In 1998, Congress mandated that agencies cover 50 percent of the professional liability insurance premiums for management officials in supervisory roles. This applied to managers across the Federal Government. As it is an inherent hazard of their job, the government, like most private employers, covers a percentage of the cost for managers to maintain liability insurance should a claim be brought forth that names them as one of the defendants. The professional liability insurance offered in affiliation with FMA costs roughly $300 per year, and would be an obligation of $150 for the Agency. This protects against a supervisor or manager being named in a lawsuit or other kind of legal action.

A limitation in the law stipulates that the employee must be a supervisor in order for the government to cover 50 percent of the insurance premiums for liability coverage. The reality is that many other management officials who are in decision-making positions, such as farm loan officials and contracting officials, may be subject to legal action even though they do not meet the definition of manager under the law. In their case, they do not have the same support from the Federal Government that Federal supervisors do in recognition of the hazards of the job. We recommend that Congress amend the 1998 law to require agencies, including the Farm Service Agency and Rural Development, to extend coverage of 50 percent of the professional liability insurance premiums to non-supervisory Federal managers.

ADDRESSING THE HUMAN CAPITAL CRISIS

The Office of Personnel Management Director Linda Springer recently unveiled a four-year operational plan to address both internal and government-wide human capital needs in order to prevent what she called the impending "retirement tsunami" in the Federal Government. Over the next few years, more than 50 percent of the entire Federal workforce and more than 60 percent of all managers will be eligible for retirement. FSA is not immune to the potentially disastrous impact of the baby boomer retirement wave on the agencies most valuable commodity, the human capital workforce.

In an effort to develop a strategic plan for managing human capital, FSA performed a study identifying mission critical positions, evaluating retirement eligibility trends, and assessing the amount of time required to train personnel to perform mission critical tasks. Results of the study are alarming. The study looked at mission critical positions in the 1165 FSA classification series including: Farm Loan Officers, Farm Loan Managers, Farm Loan Specialists, and Farm Loan Chiefs. Of the 1165 employees studied, 28 percent of the employees will be retirement eligible as of 2008, while 50 percent of the supervisory employees will be eligible in the same timeframe.

Agency officials reported that the average 1165 job series employee is retiring within three months of becoming eligible to retire as compared with the average Federal employee who works for three years beyond the date that they become eligible to retire. FSA also determined that it requires 18 to 24 months to train an employee to perform entry-level Farm Loan Officer's duties. The concern is compounded by the realization that FSA farm loan program personnel, after multiple consolidation and streamlining efforts, are delivering loans from fewer than eight hundred FSA field office locations often covering very large geographic regions. Farm loan program staffing levels in many states are few in number and sparsely scattered leaving no fully trained loan personnel within a reasonable commuting distance to fill field office loan official or loan technician positions that become vacant for any length of time. Customer service is suffering at an increasing number of locations.

Poor credit decisions made by inexperienced or inadequately trained loan officials during good economic times often go unnoticed. In good times, above normal income and/or increasing asset values allow customers to get by and allow the agency to avoid a loss. In less favorable economic times, poor credit decisions often result in costly loan losses and the failure of farm operations that may have been avoided by a more experienced loan official armed with the knowledge, skills and ability to address the complexities of the job. As family-size farms fail, rural businesses, rural communities and rural economies suffer. Delayed action could prove to be hazardous to the economic well being of rural communities as we embark on less favorable times with too little experience, too little training and too few personnel in mission critical loan official and loan technician positions.

The state of Michigan is a great example of a potential human capital problem. Currently, there are 52 loan officers working in the farm loan program area. Of the staff in the field, four managers are eligible for retirement as we speak, six more within the next two years, and five additional employees over the next five years for a total of 15 farm loan managers. The sad part is there are only 20 farm loan managers in Michigan and it takes a minimum of two years to train a new manager. Should the employees that are eligible to leave today retire, there will be 11 counties of the 83 counties in Michigan with no loan officers present. Within two years the potential counties increases to 38. Presently, there are no additional loan officers in the pipeline. In simple terms, 46 percent of the state of Michigan has the potential to have no loan officer coverage for FSA within the next 2 years.

We would be remiss if we failed to compliment FSA Administrator Teresa Lasseter for the positive first steps that she took towards addressing our concerns. Administrator Lasseter set aside 30 full time equivalents (FTEs) for Farm Loan Officer Trainee (FLOT) positions in 2006 and is proposing to allocate 15 additional FTEs for FLOT positions in 2007. Administrator Lasseter's actions, while extremely positive and possibly the best that she can do within current budget constraints, may prove to be too little too late unless Congress provides additional resources to assist her efforts.

In order to preserve program efficiency and effectiveness, we would like to encourage the Committee to work with appropriators in providing additional funding and FTEs to allow the Administrator to hire and begin training Farm Loan Officers and Farm Loan Program Technicians 18 to 24 months before the trainer walks out the door leaving no-one to train a new hire and no-one to efficiently and effectively carry out and fulfill program objectives. Furthermore, we would ask that Congress approve an allocation for training and travel funds targeted at assuring that the Farm Loan Officers and Farm Loan Program Technicians are properly trained during their 18 to 24 month apprenticeship.

Information Technology Funding and Capital Needs

One of the five pillars of the President's Management Agenda is to bring all Federal agencies up-to-par when it comes to e-government. The expansion of electronic government programs seeks to meet the high demand of government services while reducing the cost to the Federal Government. Farm Loan Programs moved expeditiously into an e-government compliant organization to achieve enhanced levels of efficiency through better use of automation tools. However, if we do not continue supporting investments in hardware and software to complete the modernization process we can not achieve desired results. We made a commitment; we are mid stream and we can not turn back.

From an employee's perspective, the most frustrating part of working with Web-based applications is the connectivity and the down time. Providing quality customer service depends on our ability to access and use Web-based systems every hour of the day and night. Sending customers home without service because the FSA servers are down is simply not acceptable. Even more unacceptable is an employee staring into a computer monitor waiting for the next screen to come up because connectivity is woefully inadequate. This is not a model of government efficiency. Rather, this forces employees to modify their business practices because they can not depend on infrastructure to support the Web-based applications to work properly. Appointments cancelled or work deferred because computer systems are not working, can not be replaced and are awaiting repair should not become common place.

Reduced funding for information technology has had and will continue to have a significant adverse impact on agency employees and on the quality of service provided. We ask that information technology funding levels be maintained, at minimum, or improved to allow the Agency to attain Congressional objectives for providing efficient, effective, and quality services to rural Americans.

Several years ago, the USDA established an equipment replacement plan that would allow for the timely replacement of computer equipment. Budget reductions, however, forced the Department to amend their plan, and with fewer information technology personnel available to repair the machines, the Department must attempt to keep the average computer in service forty percent longer than was outlined in the original plan.

Cuts in personnel coupled with cuts in information technology expenditures are a double-edged sword. We need the efficiencies from better software and hardware to achieve agency objectives with fewer employees. However, information technology budget items are routinely cut in order to meet short-term obligations. We recommend that information technology objectives be adequately funded and departments be held accountable for achieving objectives within budget. Information technology enhancements are an investment in our future. Funds that are intended for information technology enhancements must not be diverted to pay rent, utilities and similar short-term obligations.

Reforms to the Rural Development Program; Guaranteed Housing Program

The mission of Rural Development (RD) is to increase rural residents' economic opportunities and improve their quality of life. This is done by forging partnerships with rural communities and funding projects that bring needed housing, community facilities and utilities. RD also provides technical assistance and financial backing for rural businesses and cooperatives to create quality jobs in rural areas and promote the President's National Energy Policy. Rural Development works with low-income individuals, state, local and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives.

Rural Development's single family housing programs assist rural residents in purchasing or repairing homes at reasonable rates and terms. This assistance is accomplished using both a direct loan program and by partnering with conventional lenders in offering guaranteed loans to low income families.

In fiscal year 2006, RD will have guaranteed over 30,000 single-family housing loans nationwide, helping those families achieve the dream of homeownership. The program also assists rural communities by providing an increased tax base and better living conditions for their residents. The delinquency rate on these loans is approximately 12 percent, which is lower than the other government loan programs within the Federal Housing Authority and the Department of Veterans Affairs. The subsidy rate for this program has remained constant and is projected to experience a slight decline in FY07, demonstrating that its costs are not increasing. Currently, there is a two percent fee charged by Rural Development for the guaranteed program and this fee is passed onto the borrower as a loan cost.

The President's Budget proposal for the United States Department of Agriculture Rural Development (USDA-RD) program for fiscal year 2007 included a guaranteed fee increase to three percent for Section 502 Guaranteed Housing Program. We believe that this will have detrimental effects on the home buyer, rural lenders and the Guaranteed Rural Housing Program seeking to build a stronger rural community.

For the homebuyer, significant additional costs could be incurred as the potential buyer seeks options for purchase. For example, given the current interest rates of 7.125 percent, a potential homebuyer with an average size loan of $98,500 in fiscal year 2006 would pay an extra $2,390.40 over the life of the loan with the one percent increase in guaranteed fees of $985. While this may not seem like a lot of money, for people in need it could mean the difference between meeting the mortgage every month or coming up short.

In addition, increasing the guaranteed fee will create a triple threat to potential homebuyers. This is not just about the isolated issue of an increase in the guaranteed fee. The potential homebuyer is now facing significantly higher interest rates on top of rising home prices; interest rates as calculated for the Section 502 Guaranteed Housing Program rose 114 basis points from 6/1/05 to 6/1/06. The negative synergy of higher fees, higher interest rates, and higher home prices will lock our low and moderate applicants out of the home buying process.

This can lead to bad home financing choices that will work against long term home ownership for many rural residents. To avoid the negative perception of a three percent guaranteed fee, applicants may choose sub-prime products with teaser interest rates followed by significant rate increases, as well as adjustable terms versus our fixed-rate loans in the USDA 502 Guaranteed Housing Program, all of which will work against long term homeownership opportunities for our low and moderate income rural applicants.

The concept of the increased USDA-RD guaranteed fee will be difficult to sell. A one-time charge of three percent will make this one of the most expensive mortgage insurance options in the market place. Furthermore, the mortgage insurance is non-refundable as is the case on other single-premium mortgage insurance options. This is a real concern that has come from feedback received from our nationwide originators following the release of the President's FY07 Budget, as well as from USDA-RD field offices following their discussions with local originators.

As stated above, the combined problem of higher fees, higher interest rates, and higher home prices means decreased borrower qualification. Fewer borrowers qualifying mean fewer loans closing and ultimately loss of revenue to the private sector. Several states have high cost tests (otherwise known as predatory lending tests) that restrict all costs/fees to no more than five percent of the loan amount. With the guaranteed fee raised to three percent, there is no way economically for the private sector originators, the appraiser, the settlement agents, etc, to work off the remaining two percent.

Under this increased fee scenario, there will be destructive long term effects on the program particularly in threatening the heightened adverse selection. For with this very expensive mortgage insurance requirement, the Section 502 Guaranteed

Housing Program will attract with greater frequency applicants with poor credit and income profiles that do not have other choices. This deterioration in credit quality will ultimately increase loss rates and loss claims paid by USDA-RD. Higher loss rates and loss claims will then ultimately require higher subsidies (even higher guarantee fees) to maintain the current economics of the program.

We would encourage the Committee to consider these issues as they move forward in reforming guaranteed fees in the USDA-RD program. An increase in fees could significantly damage the vitality of the program and its service to needy Americans.

Tax Exempt Financing for Essential Community Projects

Rural communities often finance essential community projects (water, sewer, fire stations, health clinics, assisted living facilities, etc) by issuing tax-exempt bonds. Project financing costs are thereby reduced because investors are willing to accept a lower rate of return (knowing that the interest income generated by the bonds is not subject to taxation). Alternatively, some rural communities utilize USDA loan guarantees to finance these projects. Loan guarantees also confer lower financing costs because investors' risk is limited. In practice, these guarantees result in interest rates that are one to one and a half percent lower than non-guaranteed loans.

Under current law, however, rural communities are not allowed to combine these two mechanisms (tax exempt bonds and loan guarantees) to further reduce financing costs. In other words, local communities have to choose between USDA loan guarantees or tax exempt bonds. We encourage reforms similar to H.R. 2378 that would allow local project sponsors to utilize both USDA loan guarantees and tax-exempt bonds to achieve lower financing costs. We believe these benefits include:

- Lower end-user fees or reduced tax burdens on local residents;
- Improved viability of rural lenders (USDA guarantees help preserve lending authority of rural banks, allow for longer-loan terms, reduce interest rates and improve the marketability of loans on secondary markets);
- Help in reducing the backlog of loan applications for small communities to build or improve water, wastewater, and essential community facilities, where USDA Rural Development currently has an application backlog of over a billion dollars in water and wastewater project applications; and,
- Improvements to critical infrastructure (water, sewer, medical facilities and public safety) to help rural communities become more attractive to business and industry, thereby enhancing local economic activity.

Recently, an Ohio rural county district obtained a taxable loan guarantee to finance a local water project. If legislation like H.R. 2378 were enacted, the tax exemption would have saved the district $43,000 in interest in the first year. The savings would have also resulted in lower end-user utility fees. In addition, a rural Pennsylvania health care provider, primarily serving migrant workers and low income families, sought $1 million in RD guaranteed financing for the construction of a new administrative office and pharmacy. The provider later withdrew the application due to the high interest costs the loan would have incurred. In Idaho, a rural community was unable to secure RD guaranteed financing for a new waste water treatment project due to costs incurred from the taxable bond. These costs amounted to $11,000 per month or $2.64 million over the life of the proposed loan. These are just a few of the many stories we have heard from our members across the country. Without question, the inability to combine tax exempt bonds and loan guarantees can have devastating effects rural communities.

Changing the Interest Rate Structure of the Water and Environmental Program

The existing three-tiered interest rate structure within the direct loan program operated by the Water and Environmental Programs (WEP) of the Rural Utilities Program (RUP) provides for a fixed poverty interest rate of 4.5 percent regardless of the current market rate. The intermediate rate is set at the poverty rate plus one-half the difference between the poverty rate and the market rate. The third tier, the market rate, is the average of the Bond Buyer (11-GO Bond) Index for the four weeks prior to the first Friday of the first month before the beginning of the quarter. The market rate applies to all loans that do not qualify for a poverty or intermediate interest rate.

This interest rate structure recently revealed that the bond index had dropped below the established poverty rate for WEP direct loans on four occasions. This drop resulted in a market rate for the loans that was lower than the poverty rate. The drop meant that the customers eligible for the poverty and intermediate rate loans would repay their loans at a rate higher than the market rate customers would pay. As the name implies, the poverty rate should be the lowest rate available to our customers. It is our sense is that we have not been able to help as many small, poverty income communities within the current structure.

Based on current market conditions and the low income levels of families living in rural communities, we propose the current interest rate structure be so the Agency can improve the delivery of its programs and increase their impact in rural America. Our proposal is as follows:

- There would be no change in the current process for determining the market rate.
- The intermediate rate would be 80 percent of the market rate, but not to exceed 7 percent.
- The poverty rate would be 60 percent of the market rate, but not to exceed 5 percent.

Maintaining the three-tiered interest rate structure, this proposal will float the poverty rate with market rate changes just like the intermediate rate does currently. When interest rates rise, the poverty rate will also rise, thus helping to keep the subsidy from rising as much as if the poverty rate were fixed. The proposed interest rate change will allow Rural Development to assist more rural communities by providing them with increased borrowing capacity. The flexibility created by the proposed change will allow RD to easily adapt to market changes. With the ever shrinking grant dollars being made available, this proposal will play a key role in trying to keep user rates affordable for our borrowers.

It is our contention that the Farm Service Agency's Farm Loan Program loan portfolio is in good financial standing. The USDA Farm Loan Program makes it possible for beginning, financially strapped or multi-generational family farmers and ranchers to compete in the market place. The 2002 farm bill aided the efforts of the FSA in achieving its mission, but we have grave concerns that a number of pending issues on the horizon could place at risk the taxpayer's investment in the agency's loan portfolio.

We are standing on the precipice of what could be a disastrous storm. The combination of questionable economic conditions, unknown weather patterns, human capital deficiencies, technology failures, and bureaucratic hindrances rests on the horizon in a preventable scenario that could be harmful to rural America and the agriculture industry. Congress and this Committee is in the pivotal position to address some of these pending disruptions, and there is no better time than now as the 2002 farm bill is set to expire at the end of this year.

We recommend the elimination of term limits as a means to free up farm loan managers to make sound financial decisions in offering loans to qualified recipients who otherwise would be ineligible because of the current regulations. It also means preventing scenarios like a Georgia family of five—a farming father, and a stay at home mom—from defaulting on their loan because they reached the term limit and could not find a private lender to take on the small farm as an investment. As the cost of living goes up, so goes the cost of maintaining and establishing farms and ranches. Rural America has not been immune to the cost increases of a growing national economy, and the Federal Government farm loan program limits should keep up with the growth. In order to reap rewards of investment, it is important to provide loans that will adequately assist in the cost of farm and ranch maintenance. It is time to increase the loan limit from $200,000 to at least $300,000. Additionally, charging substantial increases in guaranteed fees to commercial lenders only adds to the financial burden of the farmer or rancher seeking private loans from the same commercial lenders. Congress must also work to protect the workforce of America from often frivolous lawsuits by supporting the inclusion of loan officials and contracting officers into the liability insurance reimbursement program.

As previously mentioned, the mission of Rural Development is to enhance the ability of rural communities to develop, grow, and improve their quality of life by targeting financial and technical resources in areas of greatest need. The changes we have outlined will undoubtedly assist the Agency with this mission. With the ongoing demands on Federal appropriations, we encourage reforms similar to H.R. 2378 that would allow our customers to utilize both USDA loan guarantees and tax-exempt bonds to achieve lower financing costs. Such reforms would also help eliminate the one billion dollar backlog within our Rural Development Direct programs.

Changing the interest rate structure of the Water and Environmental Program will allow RD to provide the neediest rural communities with increased borrowing capacity. Such a change benefits the Agency by giving it the ability to easily adapt to market changes. We also encourage the Committee to consider the damaging impact of increasing the 502 Guaranteed Housing Program Loan Fees. This increase in fees will significantly damage the vitality of the program and its service to rural Americans.

These reform recommendations, however, can only be effective if the Agency is provided the necessary resources to administer the program services and its reforms. The Administration must offer budget proposals that take into account the impending brain drain in human capital, proper succession planning, information technology upgrades and overall adequate funding, and Congress must authorize and appropriate funds that meet those resource needs. With so much pending on the horizon, however, it is critical that Congress and the Administration invest in a successful Federal program before it falls apart and wreaks havoc on rural America.

We are the men and women who work with American farmers, ranchers and their communities everyday. We see the potential of so many worthwhile applicants, and take to heart the work we do. We are dedicated and committed members of the Federal workforce serving rural America. Thank you for the opportunity to present our perspective on the state of the farm loan and rural development programs.

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