United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 22, 2007

Dear Chairmen and Ranking Members:

I am pleased to share with you legislative language that would implement the commodities provisions of the Administration's proposal for the 2007 farm bill. We have been asked by Members and staff to provide a draft for their consideration.

The commodities proposals I am forwarding to you today are designed to make our support programs more equitable, predictable, and better able to withstand challenge. More specifically, they can be categorized as (1) loan and payment program reforms, (2) regulatory and administrative reforms, and (3) reforms to payment limitations and adjusted gross income limitations.

Proposals involving loan and payment programs include the following:

- Market-based loan rates are established at 85 percent of the 5-year Olympic average with maximum loan rates as established in the House-passed version of the 2002 farm bill.
- Direct payments are increased, with an additional increase for the 2010-2012 crop years. This proposal would pay farmers an additional $5.5 billion over 10 years.
- Increased direct payments would be provided to beginning farmers during their first 5 years of operation. These enhanced direct payments would invest $250 million over 10 years in the next generation of production agriculture.
- A counter-cyclical program is established that would be more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops.
- Support for the price of milk would be continued at $9.90 per hundredweight; payments in the Milk Income Loss Contract Program (MILC) would be based on a reduced and historical payment rate, instead of actual milk sales. These proposals would add an estimated $793 million in additional dairy payments over a 10-year period.
- Producers would be eligible to enroll in a "conservation enhanced payment option" that enables them to receive an enhanced, guaranteed direct payment if they agree to meet certain conservation requirements and forgo marketing assistance loan program benefits and counter-cyclical program payments. This new program is expected to pay farmers an additional $50 million over the next 10 years.

Proposals for regulatory and administrative reforms include:

- replacing the current daily posted county prices (PCPs) used to determine loan deficiency payment (LDP) rates and repayment rates for marketing assistance loans with monthly

PCPs, and revising requirements for establishing a producer's LDP and loan repayment rate to be based on the month that beneficial interest is lost.
- ensuring loan commodity handling and storage charges are consistent across all commodities, making treatment of peanuts and cotton the same as all other loan commodities.
- terminating commodity program payments for all newly purchased land benefiting from a section 1031(Internal Revenue Code) tax exchange.
- revising the sugar program to operate at no net cost to taxpayers by balancing supply and demand for sugar through domestic marketing allotments and the tariff rate quota on sugar imports.
- allowing planting flexibility for fruits, vegetables, and wild rice on base acres.
- repealing Steps 1 and 3 of the upland cotton competitiveness provision, and elimination of the competitiveness provisions for extra-long staple (ELS) cotton.
- enhancing the adjustment authority related to Uruguay Round Compliance, established in the 2002 farm bill, allowing USDA to adjust certain payments to meet current and future WTO commitments.
- reducing or eliminating crop bases when an entire farm or a portion of a farm is sold for non-agricultural uses.

Reform of payment limitations would:

- replace the three-entity rule with direct attribution, following payments through four levels of ownership to natural persons and adjusting payments accordingly.
- set the adjusted gross income limitation for commodities programs at $200,000.
- require that a State government and subdivisions of State governments such as counties, towns, and universities share one payment limit per State.
- allow USDA to ensure MILC payments are attributed to producers equitably and uniformly across States.

I have consulted with the Office of Management and Budget, and they advise that enactment of this legislation would be in accord with the President's program.

I appreciate your consideration of the legislative language that correlates with our 2007 farm bill commodities proposals, and I would be happy to further discuss these proposals with you, or any member of Congress, and to answer any questions you might have.

Sincerely,

Mike Johanns

Mike Johanns
Secretary

Enclosures