HEARING TO REVIEW PROPOSALS TO AMEND THE PROGRAM CROP PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

HEARING

BEFORE THE

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AND RISK MANAGEMENT

OF THE

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HEARING TO REVIEW PROPOSALS TO AMEND THE PROGRAM CROP PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

THURSDAY, APRIL 26, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10 a.m., in Room 1300 of the Longworth House Office Building, Hon. David Scott presiding.

Members present: Representatives Scott, Marshall, Salazar, Boyda, Herseth Sandlin, Ellsworth, Space, Pomeroy, Moran, Boustany, Conaway, Neugebauer, McCarthy, and Goodlatte [*ex officio*].

OPENING STATEMENT OF HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. SCOTT. Good morning. This hearing of the Subcommittee on General Farm Commodities and Risk Management, to review proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002, will now come to order.

We will proceed first with opening statements and I would like to just welcome everyone this morning to the hearing of our Subcommittee on General Farm Commodities and Risk Management. Our effort this morning is to review proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002. Unfortunately, our distinguished Chairman, Mr. Etheridge of North Carolina, is not able to be with us this morning, so I am pinch hitting for him. However, he does extend his regards to our distinguished panelists. We are glad to have you and we thank all of the Subcommittee Members for attending this very, very important hearing. In the interest of time, I will keep my opening statement very brief, so that we may have plenty of time to address questions toward both of our panels this morning.

One issue that is of paramount importance to my constituents, and is therefore important to me, is the issue of payment limits and payment concentration. For example, in 2005, about 55,000 farms, with sales over $500,000, received $5.7 billion, which is 60.2 percent of the payment farms received, 36 percent of the payments. You all have no doubt, seen the series of articles in *The Wash-*

ington Post and my hometown newspaper, the *Atlanta Journal-Constitution*, decried wheat, which is perceived as a few large farms receiving the bulk of support payments. It certainly may be argued that limits on farm size or amount of payments received are unnecessary, because these payments are intended to buoy the entire sector, not individual households. It may also be said that these articles and the public perception are simply incorrect, and that they point out what are a few anomalies in an otherwise increasingly healthy system. Unfortunately, however, we, as Members of this Committee, work in a business where perception is reality and we must answer the questions of our constituents on this issue.

It is my hope that our panelists today will touch on this subject and provide me with information that I can take back to my constituents to help improve the perception of farm sector support programs. Specifically, I am interested in hearing what you all have to say about the USDA's proposal for means testing or efforts to reduce the limits on payments and how that would play in each of our respective commodity groups.

With this being said, I turn to the distinguished Ranking Member of the Subcommittee, Mr. Moran of Kansas, for his opening remarks.

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

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Mr. MORAN. Mr. Scott, welcome to the Chairman's chair. I, like you, continue to be a Chairman in waiting, but in the absence of Mr. Etheridge, I appreciate your leadership.

Mr. SCOTT. Thank you.

Mr. MORAN. I am delighted to be here and welcome our panelists this morning. I am very much appreciative of the fact that we have heard from many farmers, many commodity groups and farm organizations over a long period of time in anticipation of the 2002 Farm Bill, and I think it is important that we not lose sight of the fact that the processing industry has a significant interest in the outcome of the farm bill debate. I hope they will remind us of the importance of developing farm policy that is market-oriented, that helps them establish markets for what we produce in the United States, but what they process as well. And I am also pleased—I don't want to short-sight the fact that we have the President of American Farm Bureau and the President of National Farmers Union with us. Although they are not rarities within the Committee, I am interested in hearing what they have to say today, particularly in the light of the reality that we apparently are reasonably close to having some budget numbers that, in my estimation, actually determine much more about the farm bill than many other things that we continue to discuss. So I look forward to the testimony of both of those witnesses and I, again, appreciate the time that all of you are taking to try to help us determine what we should do in the best interest of the agricultural economy of the United States. Mr. Chairman, thank you very much.

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

Mr. SCOTT. Thank you very much, Mr. Moran. The chair would request that other Members submit their opening statements for the record so that our witnesses can begin their testimony and to be sure that there will be ample time for your comments and thoughts as we get to the question and answer period.

First, we would like to welcome our first panelists to the table. First, we have Mr. Joseph Nicosia—I hope I am pronouncing that correctly. I do not intend to butcher any names—who is the Second Vice President of the American Cotton Shippers Association of Cordova, Tennessee. Welcome to the panel. Next, we have Mr. Joseph Kapraun, Financial Planning/Marketing Manager of GROWMARK, Inc., on behalf of National Grain and Feed Association of Bloomington, Illinois. Welcome. Mr. Rick L. Schwein, on behalf of the North American Millers' Association of Eden Prairie, Minnesota. Welcome. And Ms. Audrae Erickson, President of the Corn Refiners Association of Washington, D.C. Welcome to all of you. We are delighted to have you. Thank you for being with us. We look forward to all of your testimony. Mr. Nicosia, please begin whenever you are ready.

STATEMENT OF JOSEPH T. NICOSIA, SECOND VICE PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION (ACSA); CEO, ALLENBERG COTTON CO.

Mr. NICOSIA. Chairman Scott and Ranking Member Moran and Members of the Subcommittee, I thank you for this opportunity to be here this morning. I am Joe Nicosia, CEO of Allenberg Cotton Company of Memphis, Tennessee. Allenberg is a division of Louis Dreyfus Commodities. I appear here today in my capacity as Second Vice President of the American Cotton Shippers Association. I am also a Member of ACSA's Executive Committee, its Foreign Policy Development and National Affairs Committee, and Chairman of the Committee on Futures Contracts. I am accompanied today by Neal Gillen, ACSA's Executive Vice President and General Counsel.

I have been involved in the merchandising and futures trading of cotton for some 25 years and I am fully familiar with and have traded all of the U.S. and foreign growths of cotton. In my appearance today, I will review why U.S. cotton is no longer competitive in the world market and what Congress can and should do to enable the U.S. to regain its competitive advantage and the market share that it has lost this past year since the repeal of the Step 2 Program.

The Step 2 Program masked the basic problems inherent in the cotton program. Since its repeal in August of 2006, U.S. cotton is no longer competitive in the world market, which accounts for 75 percent of the U.S. cotton demand. Based on current sales and shipments, we can expect last year's export level of 18 million bales to decrease to approximately 13 million bales. Since the CCC loan has become the market of first and not last resort, given the excessive premiums inherent in the price support loan structure, we expect loan forfeitures to continue.

We are in agreement with the industry to maintain the marketing loan and use of certificates to facilitate the movement of cotton from the loan. This mechanism is critical to the well-being of our industry. We are also united in the opposition to means testing.

Given the rapid decline in U.S. mill consumption from 11.4 million bales in 1997 to an estimated 5 million bales in 2007, we have become dependent on exports. The U.S. no longer has any choice but to be globally competitive. To do so requires a number of changes and reforms in the cotton program.

If I could refer you to the PowerPoint, "The Current U.S. Cotton Situation Pending New Legislation." The loss of the Step 2 Program directly diminished the competitiveness of U.S. cotton. Export demand for U.S. cotton has fallen sharply. The U.S. projected carry-out is the highest since the 1985 Act began. The loan is the best market for bales and major forfeitures are expected. This graph shows, not only the loss of demand, but also the loss of competitiveness of U.S. cotton in the world market after the loss of Step 2, which took place at the end of July 2006. You can see here that our exports have fallen off by a factor of 3 since that time.

China is the world's largest importer and it is the United States' largest customer for cotton. Note how the U.S. percentage share of Chinese imports has dropped, again, reflecting a loss of competitiveness. So not only are exports and export demand down, but so is our market share. As our exports have faltered, our projected carry-out has risen from less than 5 million bales projected in August to more than 9 million bales today. Here we take a look at our carry-out in a historical perspective. The carry-out is the largest since the marketing loan began back in 1985. In some cases, it is estimated to reach 10 million bales this year.

So the 4 key objectives for cotton legislation are: (1) we propose basing the loan rate on market prices. Currently, our loan level is too high relative to the world market price; (2) lower loan premiums. Premiums paid for higher-grade cottons are substantially larger than what exists in the world market, therefore this cotton gets trapped in the loan and cannot be redeemed, leading to loss of exports and forfeitures; (3) we propose allowing loan cotton to be shipped prior to redemption. Currently, cotton must remain in the loan, incurring storage and interest charges while waiting for a profitable opportunity to be redeemed. We propose allowing the cotton to be shipped prior to redemption, thereby saving storage charges and capturing export opportunities that would have been lost; and (4) maintain current payment limitations, which includes our opposition to means testing.

Again, thank you for the opportunity to present these views. I will be happy to respond to any questions that you might have.

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

Mr. SCOTT. All right, thank you very much. Next, we will have Mr. Joseph Kapraun, Financial Planning and Marketing Manager, GROWMARK. You may begin.

STATEMENT OF JOSEPH KAPRAUN, FINANCIAL PLANNING/ MARKETING MANAGER, GROWMARK, INC.; ON BEHALF OF NATIONAL GRAIN AND FEED ASSOCIATION

Mr. KAPRAUN. Mr. Chairman, Ranking Member and Members of the Subcommittee, good morning and thank you for the opportunity to appear before you today. My name is Joe Kapraun. I am the Financial Planning Manager of the Grain Division at GROWMARK, based in Bloomington, Illinois.

GROWMARK is regional agricultural supply and grain marketing network of cooperatives owned by nearly 250,000 farmers in the Midwest United States and Ontario, Canada. I am testifying today on behalf of the National Grain and Feed Association, on whose Board I serve. 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 growth and economic performance of U.S. agriculture.

To this end, the NGFA has identified 4 major priority areas for the next farm bill: farm programs that provide opportunity to take advantage of market potential while minimizing potential trade disruption; to craft policies that foster production to meet the demand without sacrificing other markets, including livestock and poultry feed and grain export markets; adjusting the Conservation Reserve Program to provide opportunities for U.S. agricultural growth while continuing the protection of environmentally sensitive lands and minimizing government involvement in grain stocksholding, except for humanitarian purposes.

The NGFA has a longstanding position that Congress and farm organizations are in the best position to recommend the appropriate level of Federal funding to allocate the farm program payments. The NGFA has 3 specific concerns relative to the farm program payments. First, such payments should minimize market distorting signals that allow the competitive marketplace to drive efficient production decision making by farmers. Second, we believe that Congress should avoid major and abrupt shifts in funding levels and program implementation that can create near-term disruptions. And third, we believe the U.S. farm program payments should be structured and implemented in a way that minimize exposure to World Trade Organization challenges.

With respect to USDA's Farm Bill proposal, we commend them for issuing a thoughtful and comprehensive set of proposals. However, among the most serious concerns we have is a proposal to change the way posted county prices are calculated and utilized to determining marketing loan gains and loan deficiency payments under the Marketing Assistance Loan Program. While we appreciate the Administration's efforts to explore creative alternatives for addressing this issue, we believe that the proposal would be highly disruptive to the efficient operation of the cash grain marketplace, and the proposal would greatly disrupt cash grain movement and hedging efficiencies, particularly in inverse markets or during periods of significant flat price changes by encouraging producers to delay marketing decisions until they are able to determine the applicable monthly PCP average at the start of each succeeding month.

To comment on a few other related issues, by far the single most important development that will affect supply and demand balance sheets, commodity prices and the pattern of growth for various U.S. Ag sectors in the next 5 years will be the developmental rate of the biofuels industry. U.S. resource capacity will be challenged to provide grain supplies for both ethanol as well as traditional grain customers. We need both yield growth as well as expanded land committed to corn production.

The NGFA supports the development of public policy which facilitates opportunities for growth in grain and oilseed production to supply traditional and new market demand. Adjusting the CRP is one potential tool to meet a portion of the anticipated land capacity constraints. The NGFA supports conservation programs that foster sound farmland conservation and environmental stewardship practices, while minimizing the idling of productive land resources, thereby strengthening the economies of rural communities while achieving environmental and other policy goals.

The 2002 Farm Bill contained unprecedented authorizations for conservation spending, particularly for the working lands programs, which is EQIP and CSP. The NGFA strongly supports directing the scarce Conservation Resources Programs like these that enhance conservation of working farmlands, coupled with the shift away from land-idling schemes.

Finally, I would like to comment on other tools producers utilize for managing risk. Given the competitive and transparent nature of the grain markets, the NGFA supports giving producers the opportunity to engage in a wide array of risk management techniques to supplement the income and price support received through government programs. The NGFA appreciates this opportunity to provide its views on the commodity title of the next farm bill, as well as some general recommendations.

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

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

Mr. SCOTT. Thank you very much. Our next panelist is Mr. Rick L. Schwein, on behalf of North American Millers' Association of Eden Prairie, Minnesota. You may begin.

STATEMENT OF RICK L. SCHWEIN, SENIOR VICE PRESIDENT, GRAIN MILLERS, INC.; ON BEHALF OF NORTH AMERICAN MILLERS' ASSOCIATION

Mr. SCHWEIN. Mr. Chairman and Members of the Committee, thank you very much for the change to be here this morning. My name is Rick Schwein. I am the Senior Vice President with Grain Millers, Incorporated. We are a privately-owned oat processor headquartered in Minnesota. We own and operate 2 oat mills in the U.S., one in St. Ansgar, Iowa, near Austin, Minnesota, and the other in Eugene, Oregon, as well as having a mill up in Canada. We are one of the world's largest suppliers of milled oat products to the food industry and our products are used all around the world. I am here today representing the North American Millers'

Association. NAMA is comprised of 48 wheat, oat and corn milling companies operating 170 mills in 38 states. Together, we produce more than 160 million pounds of product every day, which is more than 95 percent of the total industry capacity.

Let me, before I get to my thoughts on suggested changes, set the stage a little bit. U.S. wheat plantings the last 3 years have been the lowest we have seen since 1972. The U.S. last year harvested fewer acres of wheat than we did way back in 1898 when we were still using horses for the harvest. Kansas, the Wheat State, now grows more corn than wheat. And the situation in oats is even worse. Oat production last year was at the lowest level since the USDA began keeping those records back 1866, shortly after the Civil War when President Lincoln created that Department.

What has been the impact of this precipitous decline in production? Not many years ago, the thought that the U.S. would import cereal grains was unthinkable. Now, however, in most years, U.S. production of hard red spring wheat for bread and durum wheat for pasta is insufficient to meet total demand. Millers have no choice but to rely on imports to augment the short wheat crop. While, for the oat mills, the industry already imports almost 100 percent of the oats we mill for food products every year. This dramatic production loss has also led directly to major relocation in the last 15 years of much of the value-added milling capacity to Canada, taking hundreds of industry jobs with it.

Ironically, while this exodus in production capacity has occurred, the demand here in the U.S. for oat and other whole-grain products has been rising. These imports have caused regrettable friction between millers and growers. As millers, our first choice is to buy American grain whenever possible, but I can tell you today, for sure, imports of these grains into the U.S. will continue and absent action by Congress, will likely increase. Our country is working diligently to reduce its dependence on foreign oil. I ask, is it in our strategic interest to be dependent on foreign sources for basic nutritious commodities like wheat and oats?

Now, how did this happen? First, beginning in 1986, the creation of the CRP program took 36 million acres out of production, much of which today could be farmed in environmentally sustainable ways. Much of the CRP land is concentrated in traditional wheat and oat-growing territory. Second, some of the inequities in the farm program have caused Uncle Sam to say loudly to the growers, "don't plant wheat or oats." At the same time, the government is encouraging them to grow other crops like corn and beans, which really don't need much encouragement today, given the President's biofuels mandate.

An example of inappropriate encouragement in the farm program is what we think are artificially high loan rates that have distorted producer planting decisions, leading to a 950,000 acre increase in peas and lentils in just the past 5 years, crops for which there really isn't even much of a domestic market to speak of. We find it very frustrating that program payments have provided huge incentives for growers to produce crops for which there is little domestic demand, while discouraging them from growing crops the U.S. consumes, like wheat and oats.

Third, total investments in wheat and oat research significantly lags behind investments in corn and beans, limiting producer alternatives. And next, the ethanol push has already dramatically altered farmers' production decisions, but we think we are only seeing the tip of the iceberg. Other problems, we think, are looming on the horizon. We have all known for decades that growing corn after corn after corn is not desirable, either for environmental or disease issues or for insect management reasons, but this is what we are encouraging today. We believe that is the height of irony that the U.S. Government in the 2005 dietary guidelines and the food guide pyramid, encourages consumers to eat more grains, but at the same time is very directly discouraging growers from producing those very same grains.

In conclusion, NAMA believes Congress has a significant opportunity here to improve conditions for the wheat and oat milling industry, from grower through miller and consumer. That can be achieved through reforming the CRP to responsibly allow sustainable acres back into production, re-balancing the farm program to reduce government-caused inequities distorting production decisions and investing in research to give growers better crop options.

Thank you for the opportunity to speak this morning and I will look forward to your questions.

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

Mr. SCOTT. Thank you, Mr. Schwein. Now we will hear from Ms. Audrae Erickson, President of the Corn Refiners Association. You may begin, Ms. Erickson.

STATEMENT OF AUDRAE ERICKSON, PRESIDENT, CORN REFINERS ASSOCIATION

Ms. ERICKSON. Mr. Chairman and Members of the Committee, thank you for the opportunity to present the views of the Corn Refiners Association on the next farm bill. The Corn Refiners Association represents the corn wet milling industry. Our Members produce highly specialized starch products for both food and industrial use, corn sweeteners, corn oil and other food ingredients, animal feed products like corn gluten feed and corn gluten meal, ethanol and bio-plastics. We support a strong farm economy and applaud the efforts of the National Corn Growers Association in proposing a revenue assurance program. We hope this Committee will actively review that proposal with a view to supporting its important concepts.

One of our top priorities for the next farm bill is to ensure sufficient acreage planted to corn, given the growing demand for this versatile starch source. We support efforts in the next farm bill that will bring additional acres into the production of corn, including adjusting the CRP. It is also important to ensure that the efforts of this Committee to provide a safety net for producers are not inadvertently undermined by another title in the farm bill.

Despite the best intentions of Congress to assist growers, there is one program that has resulted in unintended consequences for the corn industry and that is the sugar program. The sugar program is designed to support the price of sugar in part by limiting imports into the United States and allocating how much sugar is supplied to the domestic market through marketing allotments. As you know, we will no longer be able to limit imports of sugar from Mexico effective January 1, 2008, when we go to free trade with Mexico. If imports of Mexican sugar are restricted in any way, exports of corn sweeteners will be held hostage, and the next commodities in the firing line will be Mexico's import-sensitive commodities, which happen to be our export engines, beef, pork, poultry, corn, soybean meal, dairy, rice, dry edible beans, and apples. All of these commodities consider Mexico to be their top or second most important export destination.

One of the leading uses for corn is the production of corn sweeteners. The manufacture of high fructose corn syrup, or HFCS, has accounted for approximately 5 percent of U.S. corn production in recent years. Historically, our top export market has been Mexico. Regrettably, we have been embroiled in a 10 year dispute with Mexico, in large part because the United States limited Mexico's sugar access during this period. In short, corn sweeteners became the victim in a tit-for-tat trade challenge. The corn industry has already experienced 10 years of either restricted exports or complete closure of our top export market, Mexico, at a cost of more than $4 billion in lost sweetener sales and more than 800 million bushels of corn. As a result the CRA has no higher priority than the long-term, permanent resolution of the decade-long HFCS dispute with Mexico.

The next farm bill is crucial for our industry. If Mexico stops imports of our high-quality sweeteners, because we are limiting their sugar imports through the farm bill, it will come at significant cost and loss of jobs to our industry. Given the importance of this issue, the CRA would like to have a seat at the table when decisions are being rendered about the structure of the sugar program in the next farm bill.

We understand that some stakeholders may be considering a market balancing mechanism to ensure that the supply and demand for sugar in the United States is not out of equilibrium. One such mechanism may divert all excess supply of sugar, principally imported sugar, into ethanol. This approach is inconsistent with NAFTA and it is economically impractical, because Mexico's sugar is priced higher than our own. No provision in the farm bill should stand in the way of or limit full implementation of 2-way trade in sweeteners with Mexico. If it does, the CRA will not be in a position to support it.

We thank you for the opportunity to testify before this Committee and urge that the next farm bill brings additional acreage into the production of corn and ensures free trade in sugar with Mexico. Thank you.

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

Mr. SCOTT. Thank you. Thank you very much. We have been joined by our Ranking Member, Mr. Goodlatte. Mr. Goodlatte, would you like to have an opening statement?

Mr. GOODLATTE. Well, thank you, Mr. Chairman. I will just submit my opening statement for the record and thank all of these witnesses for their testimony today. There is absolutely no doubt that processors and handlers play an absolutely critical role in the functioning of our agricultural economy and they should have a significant input, and we should listen carefully to what they say is needed, to keep what is a great system for bringing America's farmers, and ranchers, products to market and how we could help them accomplish that in the farm bill. So thank you very much for recognizing me. I will just put my statement in the record.

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

Mr. SCOTT. Okay, very fine. Thank you very much. I thank the panelists for each of your presentations. They were very, very thoughtful and well presented. Thank you. The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival and I would certainly appreciate each of the Members understanding that and we will have ample time for that.

I would like to start off, if I may, with 2 thoughts. As I mentioned in my opening statement, there has been great concern, certainly in my area in Georgia, concerning the exports of cotton and as well as the payment limits and the payment concentrations. As I mentioned, for example, in 2005, about 55,000 farmers' with farm sales over $500,000 received $5.7 billion, which is 6.2 percent of the payment farms receiving 36 percent of the payments. In other words, there is a perception that just a few very large farms are receiving the bulk of the support payments.

And Mr. Nicosia, I hope that I pronounced that right. I apologize if I am butchering your name, but accept those apologies, please. Would you comment on that? And I guess the fundamental question is, is that a perception? What is the understanding for that? Would you like to shed some light on that to give a better understanding of that? And the other part is that the depressing or dropping so much by export into some of these foreign markets where we depress the price and are driving some of those farmers, particularly in North Africa, and I am sure you may have read the articles in both *The Washington Post* and the *Atlanta Journal-Constitution* that referred to those 2 major problems. Would you take a moment and expand on that?

Mr. NICOSIA. Sure. Let me handle the one about exports first. Obviously, the world has changed a little bit with the conversion of agricultural products into energy, as we have seen with the prices of grains, and that has an impact around the world on acreage distribution, nowhere more so than the United States, which is going to lose roughly 3 million acres to corn, beans and wheat.

However, in reaction to what you read in *The Washington Post* about what you referred to as us dumping or selling cotton at lower prices and hurting growers around the world, what I would like to show you is that, in response to higher grain prices, the world is going to grow slightly less than 3 million acres of cotton around the world. All of that and more than that is only in the United States. The 4 largest producers in the world, Pakistan, India, China, West Africa, are actually increasing cotton acres, even though prices are low and grain prices are high there; totally non-responsive to the market. So the United States is the only area that is actually responding to market forces; and yet they say we are the ones that have distorted the price level. Nothing could be further from the truth.

In regards to the payment limitations, our organization is very much against them and the means testing. It makes little sense to us to see why someone in a 2,000 acre farm should not get benefits while someone in a 800 acre farm should, especially in cotton, in a situation where the cost of production is substantially higher, 2 to 3 times that of grain. To penalize an individual because of their own success in growing their business; where 5 years ago maybe they qualified, today they don't; again, it seems to make no sense to me. And to deny someone benefits upon their own personal situation or whether they have personal finances, investments or other earned wages, again, it doesn't seem to make much sense, in relation to their farming operations. And to the U.S., why should that matter? Because the benefits of all the producers in the United States go to many of the people and the consumers that live here. They enjoy the benefits of large-scale farming operations, the promotion of lower prices, of reliable supply and the security that is provided to this country, and yet to deny the benefits to those people is to promote inefficiencies. So, to turn around and say the country is better off by having a higher cost of producing these goods and having lower quantities, I think, is probably not the goal that we are after. So we say, to all segments of our industry support eliminating means testing and continuing with the current payment limitations.

Mr. SCOTT. Thank you. Thank you very much. My final question was probably directed to Mr. Kapraun or Ms. Erickson. It is on the ethanol issue, especially on the downward pressure that apparently our policy seems to be heading with the overemphasis, I think, on corn. Could you share with us what you feel, from the corn perspective, what the limits are? How much can we bear? In your estimation, what percentage of our thrust to make ethanol should we rely on corn, and especially as it relates to the higher prices that would occur for the feed stock element of that, and poultry and beef and those products? And the other thing is that we recently came back from a trip to Brazil and to South America and I was very fascinated with your comments, Ms. Erickson, on the sugar, and now 84 percent of their automobiles are manufactured with what is called flex fuel and the usage of ethanol made from sugar. What has been the impact in Brazil? Have they had an equal problem with the downward pressure on sugar, which I didn't pick up at that time. Could you both just comment on where we are in terms of our movement into ethanol and the impact that that would have on our grain?

Mr. KAPRAUN. I would just talk briefly on your ethanol question and corn. I think, as long as we let the farmers have a choice of what they raise, the market should dictate through price what they produce and I think they have answered that in the March report on planting intentions. We saw a huge shift of acres into corn and I think a lot of that is driven by price and some of that might be driven by the growth we see in ethanol.

Mr. SCOTT. Ms. Erickson?

Ms. ERICKSON. Mr. Chairman, with respect to ethanol, we agree with the statement that market forces ought to drive the decisions and we understand clearly that today it is corn and sometime down the road, as research and development allows, there will be other opportunities for feed stocks, including cellulosic. With respect to sugar, Brazil has a different pricing structure, clearly, for sugar than the United States does. Brazil's price of sugar is much, much lower and cost production is much, much lower, so they haven't had the impact on their feed stock sugar that we have had on corn in terms of price. And there is a lot at stake in the international market today in sugar growing around the world and how much is being put on the international market, so much so that when we encountered the hurricanes last year, at the same time, the price of sugar was rising dramatically in the United States. It was also coming up on the international market because the European Union was getting out of the export business of sugar because Brazil was diverting more of its sugar production into ethanol. And what that did and what will happen over time, of course, is the price is slowly going up, when it has been very, very low internationally before for sugar. And that could have tremendous implications for our industry, which we believe should not be shielded from the international marketplace, that there are opportunities for efficient sugar growers in the United States, many of whom are looking at the Mexican market to start exporting, which we think is a good development. Market forces ought to be the dictating factor, whether it is for ethanol, whether it is for corn, whether it is for sugar and other commodities as well.

Mr. SCOTT. Thank you very much. I will recognize the gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you. Let me just ask a general question and I apologize for stepping out and not hearing your testimony, although I have read, in parts last evening, much of what you had to say this morning. Could you highlight for me any specifics that you have as far as concerns with the current farm bill, the 2002 farm bill that we are operating under, in ways in which the markets are distorted that disadvantage your businesses, your processing industry or American agriculture? Are there specific things that we ought to be looking for as we try to improve upon the 2002 Farm Bill? Mr. Schwein?

Mr. SCHWEIN. Mr. Moran, yes, I will share with you the perspective from the oat milling industry. North Dakota and northern North Dakota have historically been major, major oat producing regions. There are climatic conditions that make oats a superior crop in that territory. During the 2002 Farm Bill, there was a significant loan rate established for dry peas and lentils through that territory and the same producers that could grow oats or barley or spring wheat have jumped all over growing dry peas through that territory. The loan rates and the historic yields in a particular county, a county called Burke County, North Dakota, just north of Minot. The producer can look at his average yields and what he is guaranteed through the loan program and receive nearly 10 times higher net return per acre than he can when he looks at the loan rate for oats. We have seen significant rises in oat prices. Production in Canada, where their producer decisions are unfettered by a farm program, we are seeing 36 percent increase this year in oat production in Manitoba and Saskatchewan, the biggest provinces, in responding to those higher prices.

But the influence of a producer's banker, his partner in his business in this area in North Dakota, while the producer may want to grow oats because the current price looks attractive, there is always concern that those prices won't hold and so the banker discourages him from growing oats even if he chooses to. So we think there are inequities that result in swaying producer planting decisions as opposed to planting for the market. We are delighted to compete with the ethanol industry or corn or beans, with other processors. Let the market set the rates. But we can't compete with government distortions of those decisions.

Mr. MORAN. Thank you. Anyone else?

Mr. NICOSIA. In response to your question about the 2002 Farm Bill, without a doubt, we need to make some changes in that for cotton. The main thing is we have to address the loan rates. Both the overall loan rate and the loan premiums have to be addressed to lower it down towards market values, towards world values, otherwise cotton is going to stay trapped in the loan and forfeited. We will be uncompetitive, so we do need to address that.

Ms. ERICKSON. I have one comment and that has to do with a program that, although it is not the jurisdiction of this Subcommittee, it is clearly a program that you will get to vote on and it has a tremendous impact on the corn industry and that is the sugar program. As you know, it is not at all subjected to market forces through limiting of imports, which has had an impact on production agriculture and processing agribusiness, as we try to open new trade agreements and export to other countries around the world. And it has also had an impact on our inability to solve this long-standing sweetener dispute with Mexico, because we are limiting sugar imports and Mexico is limiting corn sweetener exports to its market. And nothing is going to be more of a perfect storm than when we go to free trade with Mexico under the NAFTA in 3 months after the farm bill is written, when we may be putting in place the same program on sugar, which stands in direct opposition to international forces.

Mr. KAPRAUN. Just a couple comments. We believe that the U.S. farm program payments should be structured in a way and implemented in way that would minimize any exposure to WTO. At the same time, the NGFA also supports limiting any dramatic swings in farm program funding levels and delivery that would create short-term disruptions.

Mr. MORAN. I am surprised, sir, that you don't mention CRP. I will have to tell Mr. Tunnel that I have never had a conversation with anybody from the feed and grain industry in which CRP is not the topic of conversation. Thank you, Mr. Chairman.

Mr. SCOTT. Thank you.

Mr. MORAN. I yield back the balance of my 5 seconds of my time. Oh, I am over 5 seconds.

Mr. SCOTT. Thank you, Mr. Moran. I now recognize the gentlewoman from Kansas, Mrs. Boyda.

Mrs. BOYDA. Thank you very much. I just had a question on when we are making our, and looking at, decisions on payments to farmers and we are currently talking about direct payments may be in more places than some of the counter-cyclical payments. How do you all feel about those kinds of payments, with regard to conservation and more direct payments as opposed to the counter-cyclicals? And I will open that up to anyone.

Mr. NICOSIA. Well, I think the more direct payments are fine. It gives more assurances to what is happening out there in the community, to the grower to base his decisions on. Obviously, it lends itself to more free market decisions on the planning side. However, I don't think it is the only answer, because it will still leave the producer with exposure to certain things that he cannot control, whether it be weather, whether it be import tariffs, or price changes that are there. So I think the movement that way, especially in response to how it is treated under WTO, it seems to be a more advantageous way to move benefits, but I don't think we can use it in place of, whether it be counter-cyclical and/or revenue or price assurances as well.

Mrs. BOYDA. Anyone have any additional thoughts on that? All right. I yield the balance of my time. Thank you.

Mr. SCOTT. Thank you very much, Mrs. Boyda. I would now recognize the gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman. First of all, thank you all for your testimony. It was very informative and I certainly appreciate it. Ms. Erickson, if I could start with you. I come from a district in South Louisiana and obviously, we have a lot of sugar cane down there and I am certainly well aware of the market structure differences between corn and sugar. And maybe my question is either naïve or mischievous, but I am just curious as to whether or not there have been any discussions between the corn refiners and the sugar industry to come forward with perhaps a common proposal as we move toward the farm bill?

Ms. ERICKSON. Thank you, Congressman. There were attempts by the Sweetener Users Association to bring everybody together. Unfortunately, there were reasons why the sugar industry wanted to restrict that discussion to sugar only. We did have a participant at that meeting and we very much support a dialogue between the users of sugar, all of the stakeholders in the sweetener industry, which would include the Corn Refiners Association and the sugar growers and processors.

Mr. BOUSTANY. Okay. Well, certainly, if I could be of assistance as we go forward on that, I would be happy to try to play that role. Mr. Kapraun, in your testimony, you describe the disruption to marketing that would occur if the USDA transitioned to a monthly posted county price for the purposes of getting loan deficiency payments. Can you further explain the impact of the USDA's proposal and what that impact would be on cost, transportation efficiencies, delivery time tables, and give me an indication of what the ripple effect might be if we went forward there?

Mr. KAPRAUN. Absolutely. As we move to a monthly LDP rate, if the producers would watch the market during the month and try to predict what those LDPs are going to be before the end of the month, rather than seeing a marketing system where the producer could make that decision on a daily basis, we believe that if there are LDPs involved, you would probably see the need to not make those decisions until about once a month, either right towards the end of the month when the LDP rates were about to come out, or the beginning of the next month. What that would do, especially during the harvest season when we see a lot of LDPs, we would be having farmers hold on to their stocks. Elevators would not know if the grain is going to be sold or not. We would have trains that we didn't know if we could fill or not, as those deliveries are short at that time of the year. And we feel like that would be the disruptive portion of it, having the farmers delay those decisions until those couple of days of the year that they can get the most benefit out of the LDP.

Mr. BOUSTANY. Thank you. So what is your recommendation? What alternatives do you recommend?

Mr. KAPRAUN. Even though I don't know that we could say that the current system is perfect. I think given the choice of where we are at today and even the proposal of even a weekly or monthly, we prefer what you have currently got *versus* one of those other 2 options.

Mr. BOUSTANY. Thank you. Mr. Nicosia, you talked about the Step 2 Program and the impact; we are beyond that now. Can you talk a little bit more, elaborate a little more about the factors that are keeping U.S. cotton from being competitive now. You did mention, I think, what is going on with Pakistan, India and China not being subject to market forces and I would like you to elaborate a little more on that.

Mr. NICOSIA. Well, I think the most glaring example of that is really what is taking place in their planning decisions. China is the largest producer, the largest consumer, the largest importer of cotton in the world. I don't think any other commodity has this type of situation in any one country. And their market is protected. They control it by import quotas that are allocated. The ones that were negotiated under WTO are so small that they essentially mean nothing. So they can control their interior prices by how much quota they allow and when they allow it. So it may be that a farmer, for example, inside China is going to expand cotton acres when, as we know, cotton prices are extremely low and the rest of every other agricultural price is high, but the price of cotton in China is extremely high.

Imports would probably be double what they are if they didn't have those controls inside of China. From the U.S. standpoint, the problem that we have is that, again, the premiums that we have on high-grade cotton in the majority of cotton today, as technology is advanced, is much above the base quality grade that we have. Because of that, they receive a premium and when you receive a 6¢ premium in the loan and the marketplace only pays you a 3¢ premium for those qualities that are grown from around the world, it is not going to come out of the loan because it just doesn't work to profitably redeem those cottons and sell them.

And so what happens? The other countries, whether it be the West Africans, Indians, Australians, Uzbekistans, all turn around and take our marketplace from us. It is not the U.S. cotton that is driving world prices down. The U.S. is the only one that is curtailing production. It is the continued over-production in Brazil, people who have gone ahead and moved forward with the complaint in the WTO, whose cotton production has expanded rapidly.

It is the continued production and non-switching in West Africa, massive growth and production in China and India that has put the pressure on world prices.

Mr. NICOSIA. Thank you very much. My time has expired. Thank you, Mr. Chairman.

Mr. SCOTT. Thank you very much. I now recognize the gentleman from Ohio, Mr. Space, and I apologize for missing you the first go-around.

Mr. SPACE. No problem. Thank you, Mr. Chairman. Ms. Erickson, I wanted to ask or enquire concerning acreage currently devoted for the production of corn. I understand that one of your top priorities is to ensure sufficient acreage, given the growing demand. My question is, in a general sense, how does this farm bill establish that and for a more specific sense, are you proposing either a release of current acreage devoted under the conservation programs or are you advocating for a reduction in the total acreage allotted under the current conservation programs? I would be interested in your thoughts on that.

Ms. ERICKSON. Thank you, Congressman Space, and I will share my time a bit with NGFA, who also has views with respect to CRP, but we are generally supportive of bringing additional acreage out of CRP where it makes sense. I know there are a lot of factors that go into that decision making, but clearly, there is a lot of pressure right now on the corn industry and the corn complex broadly speaking. And with respect to policy levers, clearly Congress has to facilitate more corn coming into production, that would really be the one. It would be a close working relationship with the USDA and how acres come out, could those acres feasibly be put into corn production, and that is clearly the concern of many, including our industry.

Mr. SPACE. And just for clarification, when you say acres coming out, are you talking about reducing the acreage level for CRP or are you talking about taking existing CRP acreage and bringing it back out of conservation into production?

Ms. ERICKSON. Mostly taking existing acreage that which can come out, retire out of the program.

Mr. SPACE. So in essence, a premature or early retirement. And have you or your organization given thought to how that can be equitably accomplished given the structure of the CRP program right now?

Ms. ERICKSON. We don't have specifics in that regard, but I would like to yield some time, if I could, to NGFA and their views on CRP.

Mr. KAPRAUN. The time on the CRP, we realize that the land is environmentally sensitive, that the CRP is a good opportunity to protect that land. However, we also would like to see that those acres do not get increased where they currently are. We have the view that maybe we can see some shifting of acres or there may be some lands that are more environmentally sensitive than acres currently that are in the program, that those acres could be switched, get them out of the program. We also support the Working Lands Program.

Mr. SPACE. And pardon me for dwelling on this subject, but I am curious as to whether you are suggesting a buy-in or a buy-out for a particular farmer who currently has his ground in a CRP program? Is there going to be a compensatory obligation in order to take land back out or is this something you envision as just being applied on a universal scale with due consideration of the land uses and values?

Mr. KAPRAUN. I don't know that I have personally given any thought to the compensation of getting those acres that are in CRP that are contracted out. We do appreciate the opportunity for a farmer to have the flexibility to take acres out if he feels like the market dictates that he raise crops on those acres rather than having them in the CRP. Also having the ability to maintain yield bases; updating those, as well.

Mr. SPACE. Thank you. I yield back the balance of my time. Thank you, Mr. Chairman.

Mr. SCOTT. Thank you. Mr. Neugebauer of Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Mr. Nicosia, you gave a chart that showed the exports for U.S. cotton and I think you showed a date there of the date that Step 2 was, the last day of that program, the remarkable drop in the amount of U.S. cotton being shipped. Has your industry given some thoughts, number 1, what was the Step 2 doing and what are some things that we can do to replace Step 2 that would maybe help additionally stimulate U.S. cotton exports?

Mr. NICOSIA. Well, the most important thing that Step 2 did is it made us relatively competitive on every day. When you removed Step 2, the only way to become competitive was to become competitive in an absolute basis. So whether prices were 60¢, 70¢, 50¢, Step 2 allowed us to be competitive every day. Today, without the use of Step 2, which was an adjustment that was used, we can only be competitive on an absolute basis, so what that means is that the only way to do it is for U.S. prices to fall to a level below the rest of the world.

When that happens, it triggers a whole spiral effect where then someone else cuts their price, you cut your price, they cut their price. At some point in time, prices go down and they do until what happens? Until the U.S. cotton gets caught in the loan. It gets caught, it gets trapped in the loan, the rest of the world can underprice us right underneath them, they grab the market share and we can't spiral any lower than being trapped in the loan. We remove ourselves from the game and the foreign countries take all of the export market that is there. That is essentially what happened with the loss of Step 2.

So how do we move forward, how do we address that? One way is we have to make sure that the cotton no longer gets trapped in the loan. That means we have to make the loan levels more competitive, both the absolute level and again, the premium levels, to bring them down so that they can compete in the world market again. We do have to make some tweaking to the adjusted world price formula. The industry is coming together, I believe, on that. You will see a pretty united front in 2007 to address that. There are different ideas on how to handle that for 2006. But for going forward for next year's crop, I think the industry will come together on it.

Mr. NEUGEBAUER. And when you talk to the producer groups about changing the loan rate, obviously many of those folks probably are pushing back some. What are the ways, if we did lower the loan rate, that we could still provide the safety net for those producers?

Mr. NICOSIA. The Administration's proposal that came out did have an increase in the direct payments that was there to help compensate. What they did miss, however, is that when we lower the loan rate and cotton being in the situation where prices are down towards the loan rate *versus* grain, we are increasing the counter-cyclical exposure for the cotton grower. I think he is willing to take that if it wasn't for the risks of the payment limitations that they would have to impose. Cotton farms tend to be, from an efficiency standpoint, they are more expensive to grow and they tend to be larger scale, so the payment limitations affect them more directly.

So if we could address the counter-cyclical payments, either through a direct relationship of lowering the loan to compensate or through direct payments, I think they would find very little pushback. We have found that producers understand it is broken. They realize, when they can't sell their equities and cotton is caught in the loan, that something is wrong. So I think they are fairly open to ideas, but the payment limitations are a major problem in our industry.

Mr. NEUGEBAUER. In my remaining time, to the rest of the panel, when we have farm policy and we sit down, writing the farm bill, what are some of the challenges you see as to making our farm bill more compliant with WTO provisions and how much of a factor should this group consider as we move forward in trying to make this farm bill as WTO compliant as we can? Mr. Kapraun.

Mr. KAPRAUN. I don't know that I have a list of the exact requirements right now for WTO, but I would be more than happy to get back to you and the Committee with some of our opinions.

Mr. NEUGEBAUER. Okay. Mr. Schwein.

Mr. SCHWEIN. I would say, with a great deal of comfort, that our group would definitely encourage compliance with WTO. I do not believe we have made any attempt internally to come up with a list of recommendations, but we will certainly undertake that effort and reply, as well.

Mr. NEUGEBAUER. Ms. Erickson.

Ms. ERICKSON. Mr. Congressman, thank you. We are concerned. As you know, Canada has begun the process of a challenge to the corn program, but there are elements of that potential challenge, should it go forward, that have broader implications beyond corn and really, it has to do with our overall domestic support spending. We would hope that the Committee would look seriously at ensuring that our trade obligations are met with respect to the WTO and the NAFTA, that we are not subject to challenge and that, in fact, we can take advantage of these trade agreements which have so benefited U.S. agriculture.

Mr. NEUGEBAUER. Thank you. Thank you very much.

Mr. SCOTT. The gentleman from California, Mr. McCarthy.

Mr. MCCARTHY. Thank you, Mr. Chairman. I wanted to touch on Mr. Nicosia's PowerPoint, if I could. First, if China is the largest purchaser, and I have seen, in California, less cotton being planted and grown, who are they buying their cotton from right now?

Mr. NICOSIA. Well, the biggest change in the last 12 months has been India, by far. India has gone ahead and taken actually 30 percent of the market share this year alone, but they continue to buy from the United States, West Africa, Australia and then the CIS areas.

Mr. MCCARTHY. If I could just touch on and have you elaborate a little more, you gave 4 key objectives for cotton legislation. We talked about the loan rate base. I was wondering if you would elaborate a little on the loan cotton to be shipped prior to redemption, the strategy there.

Mr. NICOSIA. Sure. Currently, because of the way cotton is cycled through the loan and is redeemed, there is a tendency for cotton to remain in the loan for a longer period of time, looking for an opportunity for redemption. So that can happen anywhere within the 9 months. When this time period goes through, if you have a small opportunity in the first month, you are going to tend not to grab it until such later period because you have 8 more months to wait for a better opportunity to come. So as this time passes and as this cotton remains off the market, you are missing export opportunities that other countries are taking from us.

And since we cannot ship the cotton, we cannot make the sale because we can't divorce redemption from shipment, we tend to lose all early export opportunities. So what our proposal is, is to allow us to redeem, not to redeem, but to actually make foreign sales, ship that cotton, put up collateral with CCC to protect their interest in the loan and yet allow us to still redeem it at another point in time. The benefits of that is one that is going to stop storage, which the government currently incurs; and it allows us to capture export markets and opportunities earlier in the year that we otherwise would miss.

It will lower our carry-out, which will have a tendency to raise prices in the United States, which will lower, whether it be LDPs or counter-cyclical payments; and allow us to then go ahead and price that cotton or redeem it on paper at a later point in time. Now, people will argue and they will say whether that is cost effective or not because you will have the tendency to have larger payment schedules later in the year at advantageous prices. But the alternative is, it is happening, so all we are going to do is have those same opportunities to redeem them later, except the government is going to bear the cost of carrying that cotton until such time, therein losing the markets.

Mr. MCCARTHY. So that would save the government from warehousing, the cost of warehousing?

Mr. NICOSIA. Absolutely.

Mr. MCCARTHY. Okay. I will yield back the balance of my time.

Mr. SCOTT. Thank you very much. Again, I try and try again. I am sorry that I missed you on that one, Mr. Ellsworth, but I will make up for that by having 2 Democrats go this time. We will now have Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Mr. Chairman. Don't give it a second thought. I learned as much from Mr. McCarthy's excellent questions that I might from my own, so I only have 1 question. I think Mr. Kapraun, it is for you. Could you discuss your organization's position, and the reasons why, if your organization thinks the fruit and vegetable planting prohibition on program base acres should be repealed?

Mr. KAPRAUN. I don't know that we have a strict position on that. Could you re-ask what provision it is, again?

Mr. ELLSWORTH. On the fruit and vegetable planting prohibition on program base acres and whether that should be repealed.

Mr. KAPRAUN. I don't think that we have a specific position on fruit.

Mr. ELLSWORTH. Anybody on the panel that has a position? Ms. Erickson.

Ms. ERICKSON. Mr. Congressman, I will just note that although Brazil cannot challenge us on that particular measure today, under the cotton challenge, under the corn challenge that is being levied by Canada, should that proceed, that could have serious implications for our overall domestic support spending because those direct payments, of course, would no longer be green box and would have to be put in an amber box category and that would be the challenge, then, that would put at risk our overall domestic support spending, so it is a difficult situation. We don't have a specific view, but we wanted to highlight the important implications of that decision.

Mr. ELLSWORTH. Thank you. Mr. Chairman, I don't have anything further. I yield back.

Mr. SCOTT. All right. The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. I would just ask, maybe Ms. Erickson. What is the price of corn today?

Ms. ERICKSON. It is very high, Mr. Congressman. It is a good situation, as you know, for the corn growers, but for our industry——

Mr. POMEROY. About $4 a bushel, right?

Ms. ERICKSON. It is right about that.

Mr. POMEROY. Now, it seems to me like your beef and Mr. Schwein's beef, principally, are with the legitimate market dislocation issues of concern to your focused industries coming from high corn prices. Mr. Schwein, I find it rather implausible that you contend the government is somehow responsible for the decline in oat acreage when the fact of the matter is, is there are alternative applications for this cropland that previously was oat and wheat that are going to give the farmer a little better return. I also think that your statement failed to put in perspective where oats has been relative to a domestically produced product.

It is my 15th year in Congress and oats has never, during the time I have been here, been a particularly important crop in North Dakota. It is, for example, looking at the acreage from the National Ag Statistic Service shows that in 2005 we had 490,000 acres. That sounds like a lot, but when you consider the fact that North Dakota has 26 million acres of cropland, 490,000 acres is a pretty small deal; 420,000, you know, 6 may be proving your point. You see a drop in acreage. But planting decisions, reported in the Ag Statistics Service for 2007, show 530,000 acres out of 26 million.

Another thing that I think is, aside from the fact that people are going to be looking at corn and soybean because they can get better value. They can get more money into their farming operation from higher value crops, and you do note the agrimony advances that allow that opportunity in areas we didn't have it before. There are other issues about other crops beyond the government programs. Yes, there is a loan program now supporting dry pea and lentil. But dry pea and lentil also have some particular characteristics that make it desirable to a farmer. They are nitrogen infusing crops at a time when inputs are just wildly expensive.

Having a nitrogen infuser in your crop rotation has been found to be very valuable to a number of farmers when you talk about the soaring acreage of dry pea and lentil production in North Dakota, nearly 950,000 acres. Again, that is out of 26 million acres overall. You indicate why in the world don't we put some support behind a product we don't even eat. I hope we don't eat it, we sell it. We just had the worst trade imbalance in the history of the country and some support for something we can actually export doesn't strike me as the worst idea that we ever encountered.

Ms. Erickson, I come back to your testimony. I am just kind of befuddled by it. You place all the blame on sugar for your inability to expand into the Mexican market, but the reality is, the Mexican market has, in some instances, demonstrated a preference for Mexican sugar as compared to U.S. corn as a sweetener product. In addition, production costs, market price for sugar in Mexico is more expensive than it is in the United States. So I think that there are some other market characteristics that play relative to what you are talking about and blaming the sugar policy, I think is, again, misplaced.

I think the fundamental problem for each of you is that we have very high-priced corn because it is being used for ethanol. We have had, in the fairly near term, a transforming event in agriculture and it has caused market dislocation, market impact for related industries like the 2 of you represent. To me, that should have been placed on the table at the start of your testimony. I think that you have identified villains relative to your present challenges that are not the principal cause of your problems.

Thank you, Mr. Chairman. They have 10 seconds to respond. I can just yield back and leave it for a statement, but if you would allow the time for them to respond——

Mr. SCOTT. Would you like to respond real briefly, in 2 seconds? We will give you a little bit of time.

Ms. ERICKSON. Mr. Congressman, our challenges on corn sweetener has really been actions taken by the Mexican Government that limited our export opportunities. What we are hopeful in moving forward is that in the farm bill that our government doesn't inadvertently take actions that limit the two-way trade in sweeteners between Mexico and the United States as the NAFTA allows.

Mr. POMEROY. All right. Thank you.

Mr. SCHWEIN. Just briefly, Congressman. Our concern is simply to provide the producer and his banker partner the opportunities to consider oats if the market prices are advantageous. We see strong market prices this year. Certainly, we need to compete with corn and beans and that is something we are well aware of and willing to undertake, but we would like to see the banker, that producer's partner, also be able to look to oats as a reasonable option.

Mr. SCOTT. All right. Thank you. And now I will recognize the gentleman from Texas, Mr. Conaway, and thank you for your patience in more ways than one.

Mr. CONAWAY. Mr. Chairman, thank you. I always find it instructive to watch the techniques of my good colleague from North Dakota as to how he expands his 5 minutes by preaching right up to the last minute and then bullying the Chairman into—anyway, bullying. But thank you, Mr. Chairman. I appreciate that. Mr. Nicosia, you mentioned reducing loan rates. What should the loan rate be or how does that mechanism work? Give me a number that would work on a loan rate.

Mr. NICOSIA. Well, today it is just set roughly at 52 cents.

Mr. CONAWAY. Right.

Mr. NICOSIA. What we would like to see is it be based more upon, the Administration proposal was for 85 percent of the 5 year Olympic average, which would relate it to market prices. If we did that, and we are in support of that concept, although we don't believe it should all be at one time because that would be a massive drop and create such a large counter-cyclical exposure, it would be very difficult on the industry. But to base the base market rates on a 5 year Olympic average is fine. We would probably propose to have some percentage limit on any one year change on it so as to not be market disruptive.

Mr. CONAWAY. Okay, thank you. Mr. Schwein, you mentioned that your mills, after having trouble getting the raw materials to use, but you are now using imports, can you help me understand what the economic impact is on your business of using imported grains *versus* domestically grown grains? Or is there an impact?

Mr. SCHWEIN. The economic impact is of a concern, but it is not the greatest concern and while we do bring in oats from across the Canadian prairies to the mill in Iowa, for example, and there is a transportation component there, market forces, if they were grown in Iowa, the market would probably be the same price based on our facility. A bigger concern is the strategic risk that all the mills are now taking by having most of North America's oat production concentrated in a single growing region of the continent.

There has historically been 5 large oat producing states in the U.S., but they covered a pretty broad geographic area. Today, as the oat production has shifted into Canada, most of the North America's oat production is a 130 mile oval spread across Manitoba, Saskatchewan and into Alberta. So all of our oat demand for food products is filled from a narrow producing reason and the event of a crop growing problem in that region of the world, we will not be able to source sufficient supplies within North America.

Mr. CONAWAY. Okay. Thank you, Mr. Chairman. I yield back.

Mr. SCOTT. All right. Thank you, panelists. You have done a wonderful job. Thank you very much. Thank you, Mr. Nicosia, Mr. Kapraun, Mr. Schwein and Ms. Erickson, for your excellent, excellent presentations and we will allow you to leave and we would like to welcome our next panelists.

All right. Thank you very much. We would like to welcome our second panel. First, we have Mr. Bob Stallman, President of the American Farm Bureau Federation, and Mr. Tom Buis, President of the National Farmers Union. You may begin, Mr. Stallman, but just before you begin, staff has just informed me that we will be having votes in about 15, 20 minutes, so if you could concise your remarks so that we can ask questions before we leave, we have a series of 3 votes; some may come back, some not. We can have it for the record, but you may proceed, Mr. Stallman.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. STALLMAN. Chairman Scott and Members of the Committee, thank you for the opportunity to present our recommendations on the 2007 Farm Bill. The farm bill encompasses much more than just issues that affect farmers and ranchers. It covers issues in which all Americans have a stake; alleviating hunger and poor nutrition, securing our Nation's energy future, conserving our natural resources, producing food, fuel and fiber and promoting rural development.

Our Members have told us that the basic structure of the 2002 Farm Bill should not be altered. The current farm bill is working and working well, overall, not only for farmers and ranchers, but also for the environment and consumers. The track record of success from the current farm program is very good. Agricultural exports continue to set new records, hitting $69 billion in 2006, accounting for ¼ of farm cash receipts. Government outlays are considerably lower than what Congress said it was willing to provide as a farm safety net when the 2002 Farm Bill was signed. Farmers' average debt to asset ratio is the lowest on record, about 11 percent in 2006, and farmers have access to a dependable safety net.

The following is a summary of the 4 key principles underlying our proposal. First, the proposal is fiscally responsible. Even though the goals of the farm bill continue to grow, we have structured our proposal to stay within the March CBO baseline and do not assume any additional budget dollars from reserve funds. We accomplish this by proposing offsets for all funding increases within a title.

Second, the basic structure of the 2002 Farm Bill should not be altered. Farm Bureau's proposal for the 2007 Farm Bill maintains the baseline balance between programs. Our proposal does not shift funding from title to title.

Third, the proposal benefits all of the sectors. Farm Bureau is a general farm organization with Members who produce all commodities. It is easy for any one group to ask Congress to allocate more funding for a program that benefits its interests without worrying about whether that will take funds away from others. Farm Bureau's proposal seeks balance across the board.

And fourth, world trade rulings are considered. The Farm Bureau proposal includes changes to comply with our existing agreement obligations and World Trade Organization litigation rulings, but it does not presuppose the outcome of the Doha Round of WTO negotiations, which are far from complete.

We have nearly 60 recommendations and suggestions included in the report we have submitted for the record. I will highlight just a few of the major proposals.

First, we support continuation of the 3-legged stool safety net structure of the commodity title, including the direct payment system and the loan support. But we recommend that the current counter-cyclical payment program should be modified to be a counter-cyclical revenue program using state crop revenue as the trigger, rather than the national average price.

Second, given the determination of the ruling of the WTO Brazilian cotton case, we support eliminating the fruit and vegetable planting restriction on direct payments. We support continuing the restriction for the counter-cyclical payments.

Third, we maintain our longstanding opposition to any further changes in the current farm bill payment limitations or means testing provisions.

Fourth, we support establishing a county-based catastrophic assistance program focused on the systemic risk in counties with sufficient adverse weather to be declared disaster areas. In conjunction with this, we support elimination of the Catastrophic Crop Insurance Program and the Non-Insured Assistance Program. The crop insurance program would then need to be re-rated to reflect the risk absorbed by the catastrophic program.

Fifth, we support changing the structure of the dairy price support program to support the price of butter, nonfat powder and cheese, instead of only the price of milk. We support this only if total Federal spending does not increase under this approach.

Sixth, we support haying but not grazing on CRP acreage, with some reduction in the rental rate. Similarly, we support the use of selected CRP acres to harvest grasses raised for cellulosic feed stock, with a reduction in the rental rate. In both of these cases, production practices that minimize environmental and wildlife impacts would have to be utilized. We support an additional $250 million annual to expand the EQIP program and to allocate 17 percent of the mandatory EQIP funding for fruit and vegetable producers. And for the nutrition title, we support funding for additional purchases of fruit and vegetables.

These are some of the major recommendations. I will be glad to answer any questions on the other recommendations I have not specifically referenced. For clarification, any element of the current farm bill not directly addressed in our submission, has our support to be continued.

In closing, I want to emphasize that our recommendations are intended to more effectively use the limited dollars in the CBO baseline. There are still many unmet needs across all of the titles of the farm bill, and our testimony would look somewhat different if additional budget funds are allocated for the farm bill. Thank you and I will look forward to answering questions.

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

Mr. SCOTT. Thank you very much. Now we will hear from Mr. Tom Buis, President of the National Farmers Union.

Mr. BUIS. Thank you, Mr. Chairman. It is actually pronounced "Bias." It is a Hoosier pronunciation of a French name and I don't know how they came up with it.

Mr. SCOTT. Thank you. I appreciate that. As you have noticed from the first panel, I have struggled with my pronunciations of names.

Mr. BUIS. That is okay.

Mr. SCOTT. So thank you for correcting me. I appreciate it.
Mr. BUIS. I can legitimately say I am born biased.
Mr. SCOTT. Wonderful. Thank you, Mr. Buis.

STATEMENT OF TOM BUIS, PRESIDENT, NATIONAL FARMERS UNION

Mr. BUIS. Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to be here today. We have submitted a more complete, inclusive testimony in writing, which obviously we don't have time to go over orally, but I would be glad to answer any questions regarding that. We too are a general farm organization and as you might imagine, there are a lot of issues out there considering the breadth and depth of the farm bill.

The goal of this farm bill, however, should be profits from the marketplace. I have never met a farmer that didn't prefer to get their income from the marketplace, and with the recent excitement and opportunity in renewable energy, both ethanol and biodiesel and wind energy and those opportunities down the road with cellulosic ethanol, farmers in those areas are very optimistic and very upbeat. And if we accomplish the goal of profits from the marketplace, many of the symptoms that we often debate, in this Committee and elsewhere, go away. However, while prices may be good in some sectors and overall, farmers are pretty satisfied with the 2002 Farm Bill safety net structure, any farm program that works in high prices; any safety net would then work. But as history has taught us, good times do not last forever and we must plan for the worse. So we feel there should be a safety net that works when the rural economy is struggling and it has to be a key priority.

We conducted numerous meetings around the country and by and large, people pointed out, over and over again, 2 glaring holes in the current safety net. One is the rising cost of production, primarily fueled by skyrocketing energy costs that farmers, as price takers, cannot pass on to others as most other businesses can and do. As President Kennedy once said, "farmers are the only ones who buy retail, sell wholesale and pay freight both ways." I would add another sentence, that they also are the only ones that pay fuel charges both ways, and that has been difficult the last couple of years for them to grapple with.

And since the Committee is faced with crafting a new farm bill with significantly diminished resources, we started looking, at Farmers Union, at options. One option that we had reviewed and analyzed, and we commissioned a study by Dr. Darryll Ray at the University of Tennessee, that looked at a purely counter-cyclical safety net based on cost of production. The concept is to take all of the current safety net, the 3 legs, the direct payments, marketing loans, target price, combine them into 1 counter-cyclical program based on cost of production. The preliminary results of the study show that we could provide the same level of safety net the farmers currently have, plus save $2 to $3 billion per year for other priorities. This level of support, 95 percent of the cost of production, would only provide Federal assistance if commodity prices are low and I think that is key, because one of the things that we get beat up with over and over again is how can you justify a payment to a farmer, like myself in Indiana, getting $4 for the corn, which is a profitable price, and also a payment from the government?

The second glaring hole in the safety net is when producers have less than a normal crop because of weather-related disasters. Well, risk management programs are important. They do not protect enough of the risks farmers face. Emergency ad hoc assistance, as we all know, and you are going through it right now, is most difficult to enact. We are now going on the third year without an emergency disaster program. Permanent disaster assistance in the farm bill is a critical and inseparable part of an adequate safety net. Using part of the direct payments to pay for a permanent disaster program seems like a common-sense solution to a major challenge currently confronting our Nation's farmers.

In summary, Mr. Chairman, I would hope this Subcommittee would seriously consider taking a look at adopting a purely counter-cyclical safety net based on cost of production, because no one can project what prices are going to be down the road. Gross revenue, fixed payments, don't get to the problem that they are currently facing; and also combine it with a permanent disaster program. Thank you, Mr. Chairman. I would be glad to take questions.

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

Mr. SCOTT. Thank you. Thank you, Mr. Buis. Here is our situation. We have got 12 minutes before votes and what I thought we could do is to get as many questions in as quickly as we can. And then, Members, we have a choice of either submitting our questions for the record or taking some—12 minutes left until the votes end. So I would suspect that we have got about 10 minutes before we have to rush over, with 2 minutes to get over that normally we can make it. So we have got 10 minutes here. We can take as much advantage of it and if we want to come back, the chair will certainly have us come back or we could submit questions for the record. With that, in an effort to speed things, I will recognize Mr. Moran for his questions.

Mr. MORAN. Mr. Chairman, thank you very much. I will ask these questions and not expect a response today, but if Mr. Stallman or Mr. Buis, if you or your colleagues would visit with me about these topics in the future, that would be useful to me. I just wanted to raise the issue with Mr. Stallman, about rebalancing target prices and loan rates. That is not mentioned in your testimony. We heard from the panel previously, particularly from the millers, their concerns about oats and wheat, and I hear this issue from Kansas wheat farmers, about their importance. And I know how difficult it is if we don't have more money. No one wants to give up anything in order to increase the other side. So Mr. Stallman, if you would visit with me sometime about American Farm Bureau's thoughts in regard to rebalancing loan rates and target prices.

Mr. Buis, your position on direct payments I am interested in pursuing. Direct payments at the moment in Kansas are the only thing that we are receiving as far as a safety net for farmers, and my guess is that the only way that I could reach a conclusion that direct payments are not a valuable part of this 3-legged stool is if we had a crop insurance or disaster program that was actually working. Despite our efforts, for as long as I have been in Congress and perhaps as long as you all have been working in agricultural policy, we are a long way from that being the case. So I would like to talk further about what I see developing here. It is kind of an anti-direct payment proposition and yet there are reasons in which direct payments are awfully important and so I would like to hear from you in the future about that, and I yield back the balance of my time.

Mr. SCOTT. Thank you very much, Mr. Moran. The gentle lady from South Dakota, Ms. Stephanie Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. I will defer to my colleagues who were here previously. I appreciate their testimony today, 2 organizations which you represent that have long provided good ideas to this Subcommittee and the full Committee; but I defer to my colleagues. Thank you.

Mr. SCOTT. And thank you. The gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman. I also share Congressman Moran's question with you and also, I would like you to compare and contrast your proposal on the counter-cyclical payments, your individual approaches to this, with that recommended by the corn growers. I would be interested in knowing some of the differences and how you have come about your change in position on this, to some degree, over the last several months. Thank you and I will yield back.

Mr. SCOTT. All right, thank you. Now the gentleman from Indiana, Mr. Brad Ellsworth.

Mr. ELLSWORTH. Thank you, Mr. Chairman. If you would ask me how to pronounce Mr. Buis, as a fellow Hoosier, I could help you there, but probably not.

Mr. SCOTT. I needed help. I needed help this morning, my friend. I appreciate it.

Mr. ELLSWORTH. I will submit my questions, but if you all could contact my office about the farm flex issue and your support and/or feelings about that, and your organizations', on farm flex. I think there are about 19 Members that are co-sponsoring legislation as a result of that and if you could have someone contact my office about that and your opinions. Thank you.

Mr. SCOTT. Thank you. The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. It seems to me that the core of the farm bill, the heart of it, is making sure we have price protection for farmers when prices collapse. We have seen that if it doesn't account for skyrocketing energy costs, that can be a very insufficient level of security. I am very intrigued by the Farmers Union proposal and the $3 billion it potentially frees up that we give through scoring. That could be used as a down payment on the permanent disaster component that many of us hope to put into this legislation. So I know each of these guys and think very highly of them and the organizations they represent. They have once again given us some weighty material to consider and I think it is going to be very helpful to us. Thank you.

Mr. SCOTT. Thank you very much. And certainly, before we adjourn, let me, on behalf of the full Committee thank you for your understanding of our time crunch this morning. Your testimony was very, very informative and very beneficial to us. And thank you, Mr. Stallman, and thank you, Mr. Buis, for your testimony.

Now, under the rules of the Committee, the record of today's hearing will remain open for 10 days to receive additional material and the supplementary written responses from witnesses to any questions posed by a member of the panel. This hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 11:33 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

U.S. House Agriculture Subcommittee on General Farm Commodities and Risk Management
Hearing to Review proposals to amend the program crop provisions of
the Farm Security and Rural Investment Act of 2002
Chairman Bob Etheridge
Opening Statement

April 26, 2007

I want to thank all the Members, witnesses, and other guests for being here today for our second hearing in preparation for writing the next farm bill. I apologize that I am unable to participate; however, a sudden family emergency has arisen necessitating my return to North Carolina. I also want to extend my deepest appreciation to Congressman David Scott for filling in during my absence. I know he'll do a great job.

Today's hearing builds on the earlier meeting of March 28th when we heard from the commodity groups about their proposals for the next farm bill. On our first panel, we hear from the processors, the end users of the crops grown by farmers. I look forward to reviewing their testimony. On our second panel, we have the two leaders of the two primary agricultural advocates in the nation, American Farm Bureau and the National Farmers Union.

I appreciate everyone taking the time out of their busy schedules to provide the members of this Subcommittee with their thoughts regarding the future of farm policy. I particularly want to thank Farm Bureau President Bob Stallman for rearranging his schedule at the last minute so he could attend here today.

This Subcommittee is tasked with the responsibility of crafting those provisions of the next farm bill that impact what are commonly called program crops: among them are cotton, corn, wheat, rice, soybeans, minor oilseeds, barley, sorghum, dry peas, and lentils. Our challenge is to build upon the success of the 2002 farm bill, a task made difficult given the budget constraints we currently are experiencing. I hope our witnesses will bear this in mind as they provide their testimony.

Again, thank you for being here today and for your contribution to American agriculture. Please accept my regrets for missing your testimony today.

Statement of Rep. David Scott
Before the House Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management
Hearing to review proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002
Thursday, April 26, 2007

Good morning ladies and gentlemen. Welcome to this hearing of the Subcommittee on General Farm Commodities and Risk Management, to review proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002. Unfortunately, Chairman Etheridge is not able to be with us this morning. However he extends his regards to our distinguished panelists, and thanks the subcommittee members for attending this very important hearing. In the interest of time, I will keep my opening comments brief and encourage other members to do the same so that we may have adequate time to address questions toward both of our panels this morning.

One issue that is of paramount importance to my constituents and is therefore important to me is the issue of payment limits and payment concentration [*For example, in 2005, about 55,000 farms with sales over $500,000 received $5.7 billion (6.2% of the payment farms received 36% of the payments)*]. You have all no doubt seen the series of articles in the Washington Post or in my hometown newspaper, the Atlanta Journal Constitution, decrying what is perceived as a few large farms receiving the bulk of support payments. It certainly may be argued that limits on farm size or amount of payment received are unnecessary because these payments are intended to buoy the entire sector not individual households. It may also be said that these articles and public perception are simply incorrect, and that they point out what are a few anomalies in an otherwise increasingly healthy system. Unfortunately however, we members of this committee work in a business where perception is reality; and we must answer the questions of our constituents on this issue.

It is my hope that our panelists today will touch on this subject and provide me with information that I can take back to my constituents to help improve the perception of farm sector support programs. Specifically, I am interested in hearing what you all have to say about the U.S.D.A.'s proposal for means testing or efforts to reduce the limit on payments, and how that would play out in each of your respective commodity groups. With that being said, I turn to the distinguished Ranking Member of the Subcommittee, Mr. Moran of Kansas, for his opening remarks.

Opening Statement of Congressman Jerry Moran
Ranking Member
Subcommittee on General Farm Commodities and Risk Management
Hearing to review proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002
April 26, 2007

Thank you, Mr. Chairman. I am glad to be here with you and the other members of the Subcommittee as we continue to hear industry recommendations on how to revise the Commodity Title of the 2002 Farm Bill. I would like to thank all the witnesses who are testifying before us today. We have before us today a variety of witnesses representing a diverse section of the food production chain.

The first panel of witnesses representing the agricultural processing industry represents the middle link of the food production chain. While these groups are often not the most discussed portion of the food production process, it is one we must not overlook in developing farm policy. Much of what we do in Congress directly impacts the actual commodity producer, but it also has a profound affect on the processing industry.

We must be cognizant that as we develop a farm safety net for the next five years, we do not implement policy that curtails growth and investment in the agricultural processing industry. The commodities produced by the U.S. farmer and rancher must be marketed. Those commodities are typically marketed to the nation's agricultural processors who convert raw commodities into a consumer usable form. Growth in the agricultural processing industry often equates to expanded markets for U.S. commodity producers.

I am also pleased to have representatives of the American Farm Bureau Federation and National Framers Union on the second panel to present their farm bill proposals. Both of these groups represent a large number of farmers and ranchers across the United States. As a result of the large membership base of these two producer organizations, the American Farm Bureau Federation and National Farmers Union have developed proposals based on a wide variety of regional opinions. The inclusive nature of these proposals is of particular interest because the proposals should assist the Committee in drafting inclusive legislation.

Thank you, Mr. Chairman, for holding this hearing and I look forward to the testimony of today's witnesses.

JTS Opening Statement
Farm Commodity and Risk Management
Subcommittee Hearing
April 26, 2007

Good Morning, I first want to thank Chairman Etheridge and Ranking Member Moran for holding this important hearing.

I also want to thank both panels for coming to testify today.

I think it is vitally important that as we write this 2007 Farm Bill, we work in a bipartisan manner to secure a profitable future for our farmers and ranchers.

As I reviewed the USDA's 2007 Farm Bill proposal dealing with Title I, I think there are some very interesting proposals.

I am ok with the farmers that appreciate receiving direct payments and having that safety net set them.

However, I also look at the farmers that are growing crops with less government intervention. Their prices are usually higher and to me that is due to NO target price which usually becomes a ceiling for income.

I am happy that the leadership of this committee brought forward such a great panel so we can discuss, in detail, the future of Ag commodities.

Thank you again Chairman and ranking member, and I look forward to hearing from the panelists.

House Agriculture Committee Chairman Collin C. Peterson
Opening Statement
Subcommittee on General Farm Commodities and Risk Management
Hearing to review proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002
April 26, 2007

Thank you, Mr. Chairman, for recognizing me.

This is the second time this subcommittee has called a hearing to review the Farm Bill commodity title. Last month we head from the major commodity groups about what they would like to see in the bill as well as some of the proposals that are out there, and today we will hear from processors and producers. I welcome today's witnesses and I thank them for their Farm Bill proposals that they are submitting.

As everyone knows, the baseline funding to support the agricultural safety net has fallen by $60 billion because of high commodity prices.

We are victims of our own success, because we have saved billions of dollars compared to what the 2002 bill was authorized to spend.

This committee made a strong bipartisan pitch before the Budget Committee earlier this year to support additional resources for agriculture programs so that these high prices would not affect the forward-looking policies needed to facilitate a strong farm sector as well as helping our nation move toward energy independence.

But we need to have balance and we need to have a strong safety net, and that means keeping the same structure of the commodity title in place. When members of this committee traveled the country last year for our field hearings, farmers and ranchers urged us not to repeat the mistakes of Freedom to Farm.

They told us the 2002 bill is working well for the most part and that the basic structure of farm payments should be maintained and strengthened, not stripped away.

Like the 2002 bill, this year's Farm Bill should be fiscally responsible, and it will be, because those are now the rules of the House. "Pay-as-you-go" will make this farm bill process a challenging one, but it is the right thing to do for the economic future of this country.

This committee faces some tight fiscal restraints in writing this bill, but as we move along in the process, we will look to keep the same basic structure in place. There is no room in the commodity title to pay for other agricultural programs. Our obligation is to continue to provide a safety net for agricultural producers and rural communities and ensure that all Americans continue to have access to the safest, most abundant food supply in the world.

I thank the witnesses for appearing and I yield back my time.

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Opening Statement of Rep. Bob Goodlatte
Subcommittee on General Farm Commodities and Risk Management
Review of proposals to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002
April 26, 2007

The witnesses on today's first panel represent agricultural processors and handlers. The associations and firms they represent play an important role in our agriculture sector and I look forward to hearing what they have to say.

I also look forward to the testimony of the National Farmers Union and the American Farm Bureau Federation on the second panel. I note that their testimony contains suggestions for changes to the counter-cyclical program and the changes they believe would be needed to fund these proposals. Given that the vast majority of producers testified last year to this committee in support of an extension of the existing commodity title, I am interested in learning about the rationale and discussions that led to these proposals.

As you know, our current farm policy is set to expire on September 30th. The 2002 Farm Bill was written to cover six 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 farmers 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.

Today, we are dealing with greater fiscal restraints. Additionally, the number of groups with a vested interest in those agriculture spending dollars is increasing daily. The result is that the pie, which is significantly smaller than it was in 2002, 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 this 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 costs. 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 witnesses like those hear today, will help us to better formulate good policy that meets the needs of American agriculture.

I look forward to the testimony of our witnesses and thank the Chairman for holding today's hearing.

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Statement

Of

American Cotton Shippers Association

On

2007 Farm Legislation

To

General Farm Commodities & Risk Management Subcommittee

Committee on Agriculture

U.S. House of Representatives

Washington, DC

April 26, 2007

Statement
Of
Joseph Nicosia
American Cotton Shippers Association
On
2007 Farm Legislation
To
Subcommittee on General Farm Commodities & Risk Management
Committee on Agriculture
U.S. House of Representatives
Washington, DC
April 26, 2007

Chairman Etheridge, Ranking Member Moran, and members of the Subcommittee, I thank you for this opportunity to appear here this morning.

I am Joseph Nicosia, CEO of Allenberg Cotton Co. of Memphis, Tennessee. Allenberg is a division of Louis Dreyfus Commodities. I appear here today in my capacity as Second Vice President of the American Cotton Shippers Association (ACSA). I am also a member of ACSA's Executive Committee and its Farm Policy Development and National Affairs Committees, and Chairman of its Committee on Futures Contracts. I am accompanied today by Neal P. Gillen, ACSA's Executive Vice President & General Counsel.

I have been involved in the merchandising and trading of cotton and cotton futures for over twenty-five years and I am fully familiar with all of the U.S. and foreign growths of cotton. In my appearance today, I will review why U.S. cotton is no longer competitive in the world market and what the Congress can and should do to enable the U.S. to regain the competitive advantage and market share it has lost this past year following the repeal of the Step 2 Program.

Interest of ACSA

ACSA was founded in 1924 and is composed of primary buyers, mill service agents, merchants, shippers, exporters and importers of raw cotton who are members of four federated associations located in seventeen states throughout the cotton belt:

Atlantic Cotton Association (AL, FL, GA, NC, SC, & VA)
Southern Cotton Association (AR, LA, MS, MO, & TN)
Texas Cotton Association (KS, OK & TX)
Western Cotton Shippers Association (AZ, CA, & NM)

ACSA member firms handle a substantial portion of the U.S. cotton sold in domestic markets as well as the bulk of the trade in the export market. Our significant involvement in the purchase, sale and shipment of cotton manifests our interest in the adoption of sound farm legislation that would provide an adequate safety net for producers while providing domestic and export customers with an adequate supply of competitively priced cotton.

The U.S. Cotton Situation

The Step 2 Program masked the basic problems inherent in the cotton program. Since its repeal in August 2006, U.S. cotton is no longer competitive in the world market, which accounts for 75% of total U.S. cotton demand.

As the attached study by Informa Economics indicates, the current market situation for U.S. cotton is sluggish. Based on current sales and shipments, we can expect last year's export level of 18 million bales to decrease to approximately 13 million bales. Some in the cotton trade would argue that is an optimistic estimate since today's accumulated exports of 6.5 million bales are consistent with total annual exports in the 10 to 11 million bale range. Under either scenario we can expect carryover stocks to increase significantly from last year's level of 6.1million bales to a level of 9 to 10 million bales. The result is likely to be continued lackluster prices. Since the Commodity Credit Corporation (CCC) loan has become the market of first, and not last, resort given the excessive premiums inherent in the price support loan structure (which pays loan premiums 6 to 8 cents above the CCC base loan level of 52 cents per pound), loan forfeitures are likely to continue.

Though this year's crop of 21.6 million bales is 10% less than last year's, the level of loan entries is similar – 18.25 million bales versus 18.07 million bales last year. 87% of this year's crop was placed under CCC loan and 10.6 million bales or about 50% remains in the loan at a cost to the CCC (storage and interest) approximating $37 million each month.

Recommendations

We are in agreement with the industry to maintain the marketing loan and the use of certificates to facilitate moving cotton from the loan. This mechanism is critical to the well-being of all industry segments.

Given the rapid decline in U.S. mill consumption from 11.4 million bales in 1997 to an estimated 5 million bales in 2007 and our increased dependence on exports, the U.S. has no alternative but to be globally competitive. To do so requires a number of reforms in the cotton program – reforms that should either reduce or offset program costs, particularly those associated with maintaining stocks in the CCC loan. We proposed a number of changes in the program (attached to our statement) which are the subject of ongoing discussions within the industry.

On most issues, there is general agreement within the industry on what should be done. Along with the rest of the industry we are opposed to "Means Testing." One major difference of opinion within the industry regards the determination of the loan rate. The producers and the related ginner and cooperative segments do not favor returning the loan rate determination to a percentage of the market price as was the case from 1977 through 1996. We believe, as does the USDA, that this would serve to make U.S. cotton competitive in the world market. We urge the Subcommittee to consider this change.

Reform & Compete

The Subcommittee has critical choices to make at this time:

- Continue cotton on its current track of diminishing foreign market share and cycling cotton through the CCC loan at considerable costs to the taxpayer, or

- Make the following necessary reforms that would revive market share by:

    - Determining the price support loan rate on a percentage of a five-year Olympic average price;
    - Allowing the market and not the CCC to establish premiums; and
    - Permitting producers and holders of loan options to ship loan cotton prior to redemption. This will facilitate the movement of cotton throughout the year, reduce government storage expenses, and remove the incentive to hold cotton in hopes of favorable redemption later in the year.

In summary, by Congress providing us with the ability to compete, U.S. cotton demand should increase given:

- The reliability of the U.S. as a dependable supplier of quality cotton;
- USDA's superior cotton classification system;
- U.S. cotton's unique and efficient transportation infrastructure; and
- The U.S. industry's exceptional foreign promotion programs.

Again, thank you for the opportunity to present these views. I will be happy to respond to any questions you might have.

U.S. Cotton Program Recommendations

1. Maintain the marketing loan.

2. Authorize the holder of the 605 Option to Purchase to market the cotton prior to redeeming it from the CCC loan, provided that a form of security is posted to protect the CCC's collateral interest in the cotton in the event of forfeiture.

3. LDP/POP – Provide the producer with the option to fix the LDP/POP in any week within ten months following the module formation.

4. Loan program:

   a. Maintain the base quality at 41434.

   b. Maintain the current Adjusted World Price formula with the following exception: Discontinue using the CCC loan difference between 31335 and 41434 and utilize the previous marketing year's average market difference (as weighted by the seven growth area spot markets by total production volume) between these qualities. Each year on August 1st, USDA would revise the formula to reflect the prior year's value.

      Revision of "1-to-1" Ratio – The **premium** for each quality better than 41434 would be set at 50% of the previous year's spot market difference from 41434 for that quality. The maximum premium for any bale would be the premium established for 31335, i.e. no bale would have a loan value greater than 31335.

      The **discounts** would continue to be established using the 1-to-1 ratio between the previous year's loan discounts and the previous year's spot market discounts.

   c. For the 2006-7 crop, oppose revising the current methodology utilized by USDA in determining the Adjusted World Price (AWP) in the six-week transition period from old crop to new crop quotes, however, agree to consider this concept for future years.

   d. Eliminate Location Differences.

   e. Loan Terms FOB Truck All Charges Paid.

   f. Payment of Storage & Interest – Continue the current policy whereby charges for accrued interest and storage are not charged if the Adjusted World Price is below the loan, and whereby storage and interest are not fully charged until the AWP exceeds the level of the price support loan plus the accrued storage and interest: and, when the AWP exceeds the loan level, carrying charges payable at redemption should be determined by quality, including the coarse count adjustment when applicable.

In the event that USDA and/or the Congress changes this policy and requires the payment of storage and interest, then such charges should be deducted from the loan proceeds at the disbursement of the loan.

g. Means Testing – Oppose any form of payment limitations or means testing. Understanding the global and national political realities recommend that the $360,000 limitation, proposed by the USDA, be applied as an overall cap and not limited by the specific type of payment. This would allow a producer the flexibility to receive $360,000 in either Direct, Loan Deficiency, or Counter-cyclical payments, rather than receive it piece-meal for each type of payment at levels lower than $360,000.

h. Loan rate determination – Should the loan be established at 85% of a 5 year Olympic Average price capped at 51.92 cents per pound, as suggested by USDA, this would increase a producer's risk to payment limitations on counter-cyclical payments. Therefore, the current counter-cyclical payment limit should be increased by an amount equivalent to the deduction (for each cent the loan is reduced the CYC limit increases by one cent). This is calculated by taking 1/13.73 (current maximum CYC payment) or 7.28% and multiply by $130,000 (the current maximum CYC payment limit), which would yield the producer an additional $9,468.

i. Support a Step 2 payment for domestic mills.

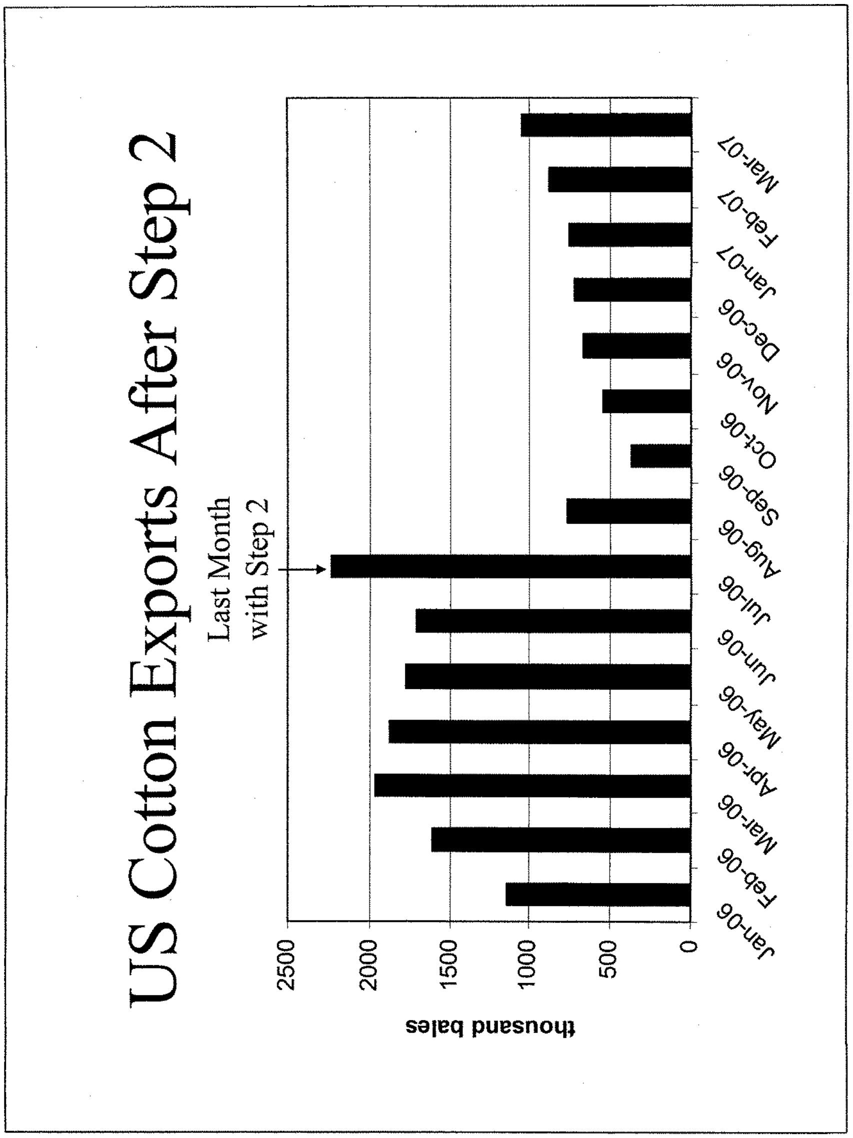
The US Cotton Situation Pending New Legislation

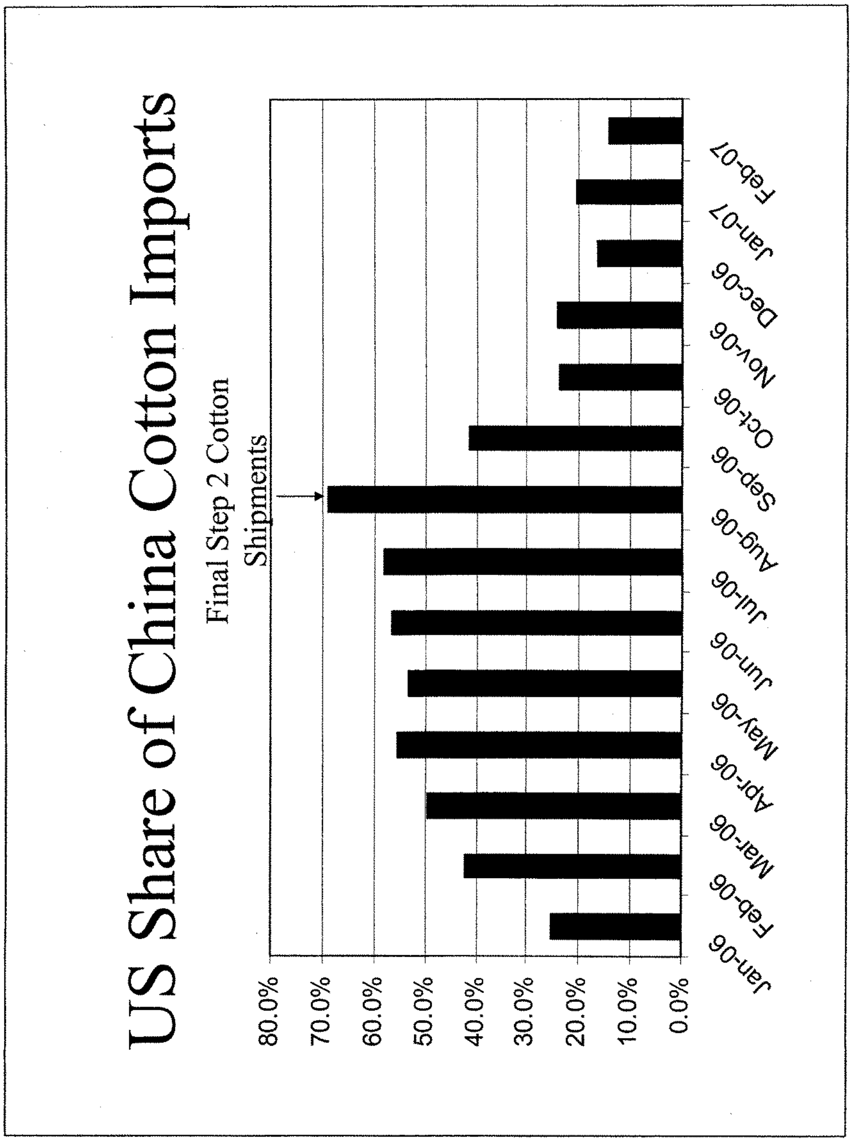
Loss of Step 2 directly diminished the competitiveness of US cotton.

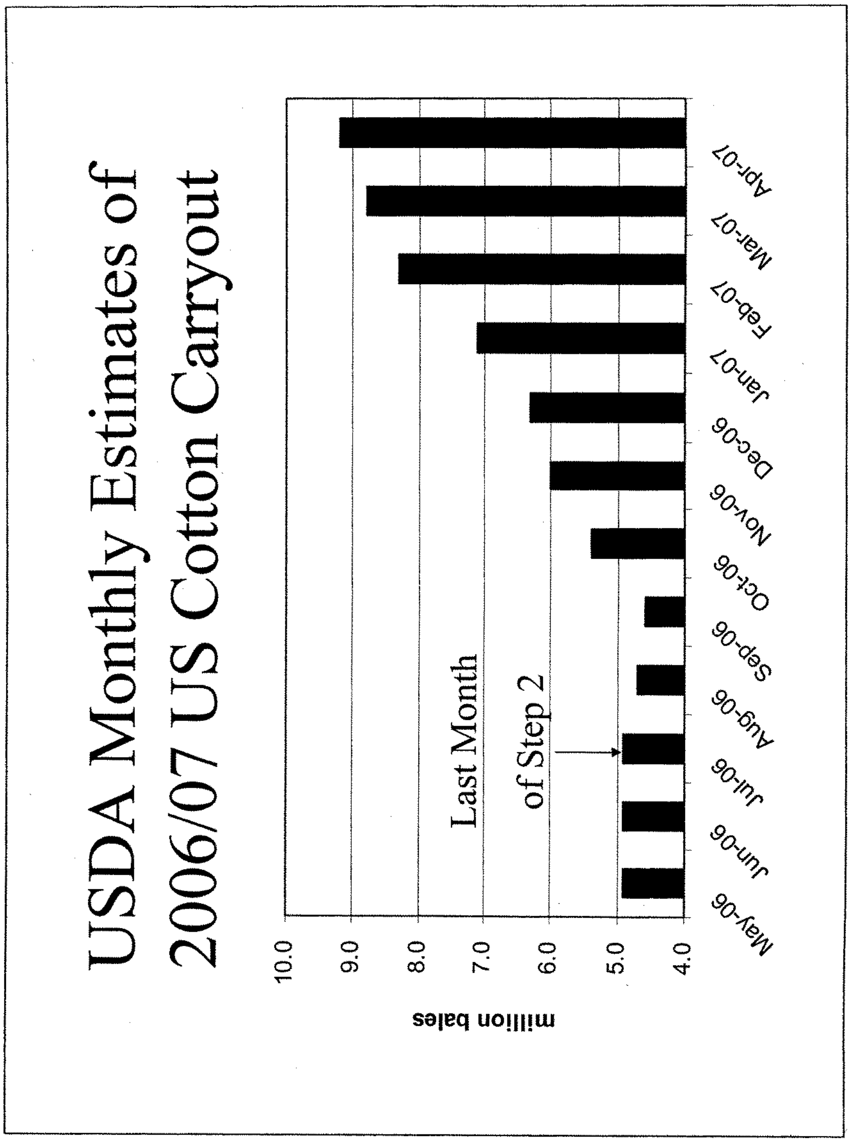
Export demand for US cotton has fallen sharply.

The US projected carryout is the highest since the 1985 Act began.

The loan is the best market for many bales, and major forfeitures are expected.

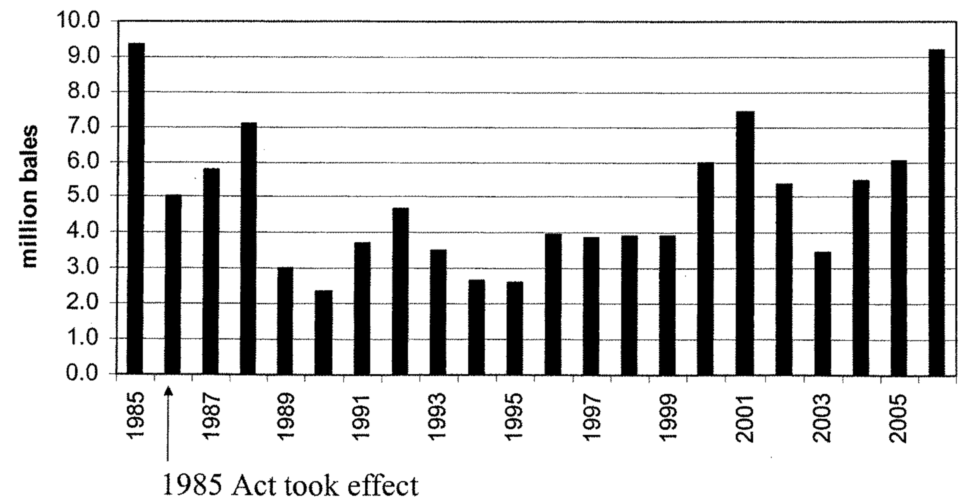

US Cotton Exports After Step 2
Last Month
with Step 2
thousand bales
2500
2000
1500
1000
500
0
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07


US Share of China Cotton Imports
Final Step 2 Cotton Shipments
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07


USDA Monthly Estimates of
2006/07 US Cotton Carryout
million bales
10.0
9.0
8.0
7.0
6.0
5.0
4.0
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
Last Month
of Step 2

US Cotton Carryout Since the 1985 Act

USDA Estimates



Four Key Objectives for Cotton Legislation

1. Calculate the loan rate based on Market Prices.

2. Lower Loan Premiums

3. Allow Loan Cotton to be Shipped Prior to Redemption

4. Maintain Current Payment Limitation Rules

An Evaluation Of The U.S. Cotton Program Provisions And Potential Solutions To Observed Problems

Prepared by

Informa Economics

For

American Cotton Shippers Association (ACSA)

The purpose of the Marketing Loan program is to provide the producer a level of support and provide a mechanism that allows cotton to move through the loan at competitive prices. The current cotton environment does not provide both a level of support for producers and allow cotton to move from the loan at competitive prices. The loss of Step 2 as a part of the three step competitive process has hampered the ability to move cotton from the loan to the market. Recognizing that fact, the American Cotton Shippers Association commissioned Informa Economics to provide an overview of the current Cotton farm program, provide an evaluation of its effectiveness and any recommendations for reform that might improve the program, keeping in mind that the goal of the US cotton farm program is to provide a minimum price guarantee for producers of cotton and provide a method of providing cotton in the market at competitive prices.

The market-clearing price for cotton is often at conflict with the established level of support because of the static nature of price supports and the dynamic nature of short-term market fluctuations.

Scope and Methodology

The methodology used in this abbreviated paper was to 1) review the current system, 2) gather opinions from informed sources from different segments of the industry delineating problems with the current program soliciting potential solutions, 3) aggregate that information and other information at our disposal to formulate possible solutions to the problems identified.

Overview Of Current Cotton System

Currently the cotton program cycles nearly all of US cotton production through the loan with the marketing loan program that began with the 1985 Farm Bill to remedy a situation similar to the one currently experienced. Producers put cotton in the Commodity Credit Corporation (CCC) loan at a fixed price, 52.00 for base quality 41434 (SLM 1 1/16). The loan program has a schedule of premiums and discounts to account for quality differences based on Agricultural Marketing Service (AMS) classification. Producers repay the loan at the lesser of the amount loaned plus carrying charges (storage and interest) or the Adjusted World Price (AWP). The AWP is a formula derived value based on international prices for 31335 landed in foreign ports. The landed prices are discounted by costs to transport US cotton to those ports and a quality differential to make the quality equal to the US base. The loan program has a schedule of premiums and discounts to account for quality differences. The loan must be repaid or forfeited nine months following the month of initiation. The CCC pays storage charges and interest on the cotton if the redemption rate is less than the base loan value and pays all or that portion of the carrying charges above the redemption rate when AWP is at or above the base loan rate.

Producers may bypass the loan by opting to take a Loan Deficiency Payment (LDP), which is the difference in the AWP and the base loan rate. The producer establishes the LDP on the day that he chooses to bypass the loan.

Producers may sell their cotton while it is in the CCC loan program if they have a contract that ensures they have not lost beneficial interest in the cotton. That transaction is referred to as an option to purchase. A payment arrangement is made with the producer for the option to purchase the producers' cotton from the loan.

The loan program administered by the CCC has a schedule of premium and discounts established by FSA. The loan has an established base of 52.00 cents for SLM 41434. The premium and discount schedule is designed to ensure the cotton farmer receives a support price for the cotton based on several characteristics important to end users of cotton. The premium and discount schedule is updated each year primarily by formula, but with some adjustments if necessary, that is based on a one to one simple average of the seven spot markets for the prices collected from August to February as one portion, the other being the previous year's loan differences. The 2007 premium and discount schedule was released on April 10, 2007.

Producers receive a countercyclical payment when the average price received by the producer is less than the target price now set at 72.40 cents. The maximum payment is 13.73 cents. A direct payment of 6.67 cents is a part of that calculation. The balance is made up if the average price received is low enough to collect the payment.

This year producers will be required to pay compression charges and any excess storage over an amount determined by formula during the loan period upon forfeiture. The CCC also has allowed a transfer process this year to allow shippers to consolidate cotton for better efficiency.

Producers are subject to a payment limitation of $360,000. Loan redemptions with generic certificates are not counted against that limitation.

The Survey

We conducted a limited telephone survey to ascertain what were perceived problems with the cotton program. We asked what are the three biggest problems and what are the two most critical parts of the program to keep.

We spoke to different segments of the industry: merchants, cooperatives, industry associations, producers, and communication specialists. We also spoke to several branches of USDA; AMS, FSA and CCC personnel to clarify procedures and better understand how the current system works.

We did not provide responses from which the respondents could choose. The responses for the biggest problems were less varied than we thought they would be. There was however, a distinction that an opinion was based on that individual's position in the marketing channel.

There were three problems that were most frequently offered by our participants. The loan premium problem, that was either first or second by each respondent except one. Inability to pay equity was the second most and general lack of demand was the third problem.

When asked what was the most critical program provision to keep, the most often mentioned was certificate redemptions and then storage credits. The problem mentioned the second most often was payment limits. It is interesting to note that nearly all respondents came from a position assuming the marketing loan was a given.

The survey, small as it was, confirmed that the problems identified by the American Cotton Shippers Association are shared across the spectrum of the industry with whom we spoke.

Some of the problems identified by ACSA, their proposed solutions, and Informa Economics' analysis are as follows :

Maintain marketing Loan:

The marketing loan has been a good method for moving cotton into the international market and has been emulated in many other commodities. It is clear that many respondents in our survey and others that assumptions are made that the marketing loan is effective and clearly that is assumed as the other topics are discussed. We recommend that the government keep the marketing loan. We also recommend certificate redemptions remain a part of the marketing loan.

Loan program suggestions

a. Maintain base quality at 41434:

   We agree in principle but research more extensive than conducted here might yield a result that can accomplish the same objectives. Absent that scenario we agree with the conclusion to maintain the base loan at 41434.

b. Maintain the current Adjusted World Price formula with the following exception: Discontinue using the CCC loan difference between 31335 and 41434 and utilize the previous marketing year's average market difference (as weighted by the seven growth area spot markets by total production volume) between these qualities. Each year on August 1st, USDA would revise the formula to reflect the prior year's value.

   We agree that the full difference of the weighted spot market average in the AWP calculation will help keep US cotton competitive.

   Revision of the "one-to-one" Ratio - The premium for each quality better then 41434 would be set at 50% of the previous year's spot market difference from 41434 for that quality. The maximum premium for any bale would be a premium established for 31335, i.e., no bale would have loan value greater then 31335.

   We agree that the calculation is skewed to result in increased premiums because the one to one calculation treats all cotton in the US equally when that is not the case. California upland cotton carries a much larger premium and constitutes only a fraction of the total production in the US. See the example of weighted spot market and loan calculation.

The discounts would continue to be established using the "one-to-one" ratio between the previous year's loan discounts and the previous year's spot market discounts.

This method will serve to stabilize the discounts over time. The competition between the spot market and the CCC loan tends to decrease the discounts the same way the premiums are increased.

c. For the 2006/07 crop, oppose revising the current methodology utilized by USDA in determining the Adjusted World Price (AWP) in the six-week transition period from old crop to new crop quotes, however, agree to consider this concept for future years.

We do not see the transitional calculation as critical at this juncture and has the potential to be disruptive and agree that the topic should be revisited.

d. Eliminate Location Differences

The location differences are based on Group 3 mill location and the modern transportation costs do not warrant a continuation of the location differentials.

e. Loan terms FOB Truck All Charges Paid.

Added costs and major discrepancies in the charges make a uniform policy desirable. Though difficult to quantify the different terms hamper the movement of cotton.

f. Payment of Storage and Interest – Continue the current policy whereby charges for accrued interest and storage are not charged if the Adjusted World Prices is below the loan, and whereby storage and interest are not fully changed until the AWP exceeds the level of the price support loan plus the storage and interest; and, when the AWP exceeds the loan level, carrying charges payable at redemptions should be determined by quality, including the coarse count adjustment when applicable.

In the event that that USDA and/or Congress changes this policy and requires the payment of storage and interest, then such charges should be deducted from the loan proceeds at the disbursement of the loan.

The storage credits are an integral part of the marketing loan. Storage would follow the cotton and defeat the purpose of the AWP redemption process. We are strongly in favor of maintaining storage credits.

g. Means Testing – Oppose any form of payment limitations or means testing. Understanding the global and national political realities recommend that the $360,000 limitation, proposed by the USDA, be applied as an overall cap and not limited by the specific type of payment. This would allow a producer the flexibility to receive $360,000 in Direct, Loan Deficiency, or Counter-cyclical payments, rather than receive it piece-meal for each type of payment at levels lower than $360,000.

Informa Economics is unable to analyze the impacts of means testing because it is a social rather than an economic issue. Government estimates of cost savings need to be compared with social impacts to render an objective conclusion on this subject.

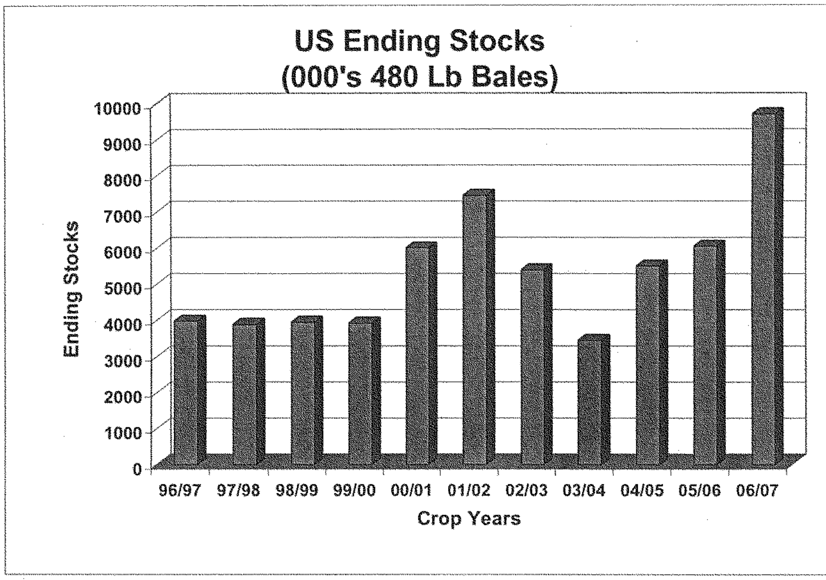
h. Loan rate determination – Should the loan be established at 85% of a 5 year Olympic Average price capped at 51.92 cents per pound, as suggested by USDA, this would increase a producer's risk to payment limitations on counter-cyclical payments. Therefore, the current counter-cyclical payment limit should be increased by an amount equivalent to the deduction (for each cent the loan is reduced the CYC limit increases by one cent). This is calculated by taking 1/13.73 (current maximum CYC payment) or 7.28% and multiplied by $130,000 (the current maximum CYC payment limit), which would yield the producer an additional $9,468 per each one-cent production.

The lower loan rate would help cotton move into the lower priced export market though a decrease in the loan rate could discourage cotton production. We agree that a lower loan rate should be offset with a proportional increased countercyclical payment because of the potential lower price received by the producer.

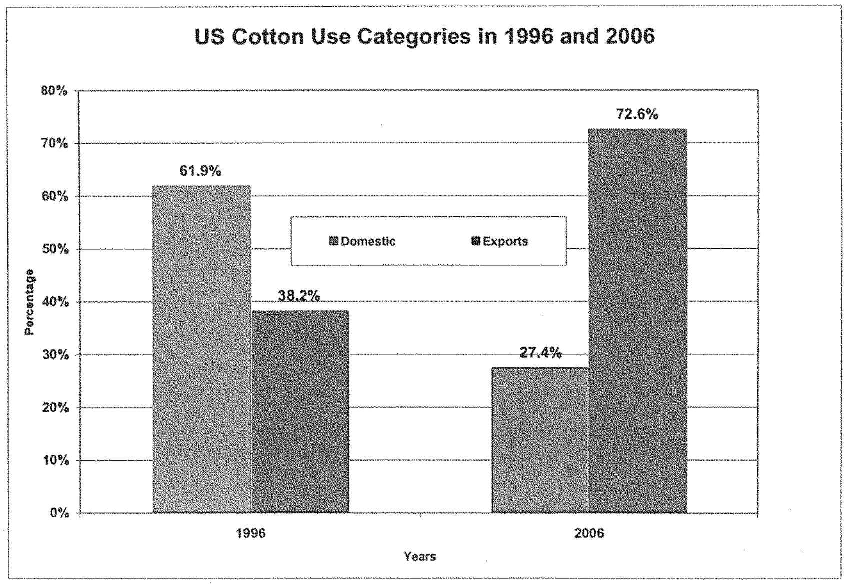
Current Cotton Situation

US Cotton Demand Is Now Predominately The Export Market

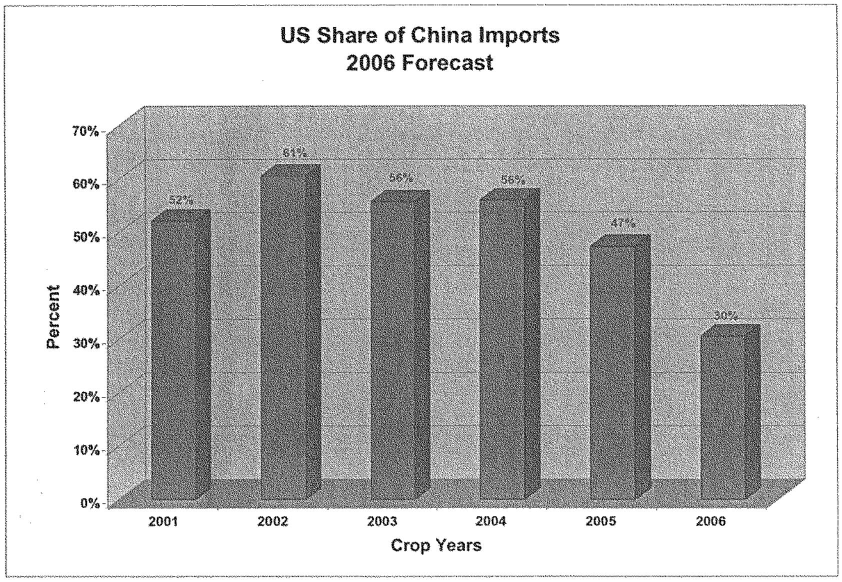
The cotton fundamentals are currently characterized by oversupply, with the US supplies unable to be offered competitively in the international market. Production has improved significantly with increased yields and higher quality cotton. The US is now producing the quality of cotton that the world demands but export sales are falling well short of our increased production creating a surplus of cotton in the US. This is the third consecutive year of increasing ending stocks. We are currently anticipating ending stocks of 9.7 million bales, the largest since 1985. The costs of storing the cotton is staggering. Storage and interest on those stocks is about 34.5 million dollars per month that will have to be paid by someone. Currently it looks like that someone will be the CCC because much of the cotton in the loan will be forfeited due to the inability of US cotton to be competitive in the world market.



US cotton demand has shifted rather dramatically in the last ten years and exports are increasingly more important. In 1996 domestic mill use was 62% of US cotton demand and exports were only 38%. In 2006 the situation is reversed domestic mill use is expected to be about 27% and exports at 73%. The outlook for 2007 includes smaller domestic mill use to about 20-21% of US cotton usage.

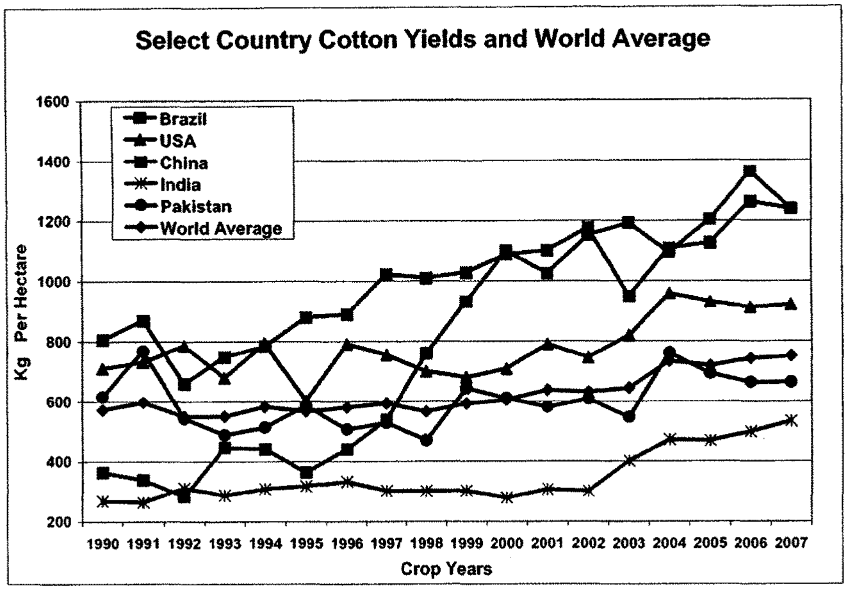


The dramatic shift has been due to the strong competitive advantage of the Asian textile industry. This year Asia is expected to consume about 83% of world cotton mill use compared with about 65% in 1996. The US domestic market is expected to consume about 4% compared with about 13% in 1996. The US cotton market is now heavily dependent on the export market and if the industry is to survive it must do so in an international rather than domestic environment. China particularly has a rapidly expanding textile industry and the US has supplied 50% or more of their raw cotton imports four of the past five years. Last year the US slipped to about 47%. However during the current season, the US is forecast to do only 30% and will have to sell and ship at least another 1.4 million bales to make that forecast. The US is currently about 17% of China imports compared to 40% last year. China is the largest importer in the world comprising some 44% of the world imports last year and 22% average of the past five years. China is a low cost buyer so our prices have to be competitive.



Foreign Export Competition Increased in 2006

A major increase in Asian production accompanied their mill use growth. The major growers in Asia are India, China and Pakistan. Pakistan has had a rather stable production level over the past several years, but they are beginning to expand plantings of genetically modified (GMO) seeds this year and they may begin to see the yield increases that India has experienced. India is a double-edged sword regarding US exports. They have about 25% of the world area devoted to cotton but until recently have had meager yields. The introduction of GMO seeds in India has increased their yields 65% since 2002. Production has gone from 10.6 million to 21.0 million bales in that period. Exports consequently have increased from essentially nothing (56,000 bales) to about 5.0 million bales. India has taken exports from the US because of proximity and price. Indian prices have been at or near the cheapest in the world nearly all year. Other growths have been competitive but the addition of India as an exporter has created additional difficulty for US shippers.



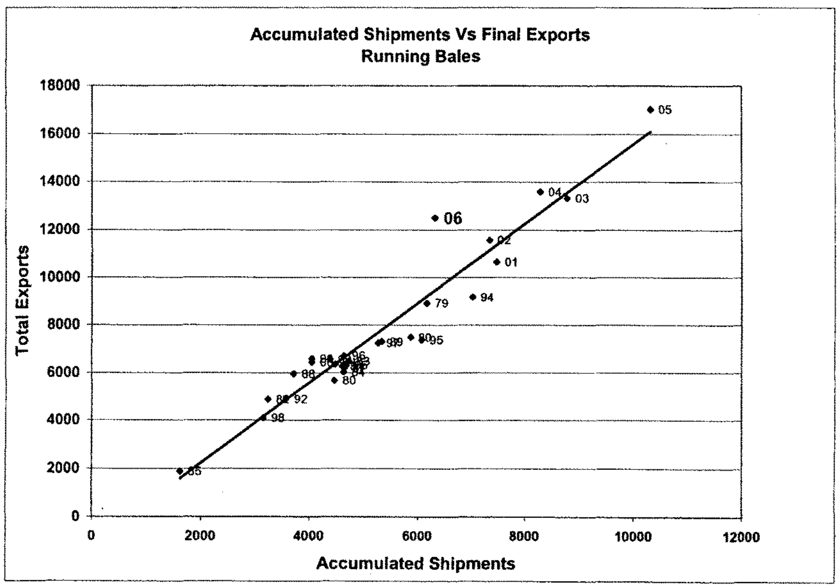
Export Sales Are Anemic

Export sales are now about two thirds of what are historically associated with a 13.0 million bales export season. The graphic Accumulated Shipments VS Final Exports indicates an export total more consistent with about 10.0 million running bales or about 10.4 million statistical bales. We think China will come in later in the year to perhaps boost shipments near or perhaps slightly above 13.0 million bales, however at this point that does not look likely. Shipments in the 37th week or April 12, 2007 of the marketing year were 273,000 bales (including Pima) and far short from the 386,000 running bales a week now needed to reach 13.0 million statistical bales. The end result is that ending stocks are likely to be at a 20 year high.

The loss of Step 2 is believed by many to have inflated 2005 exports at the end of the marketing year. That anomaly is responsible at least for a part of the problem being realized particularly early in the season. However, that feature was temporary because the hangover from the large sales was expected by most, including us, to have disappeared by late October or November.

Most thought that the Chinese government would release TRQ's in the same fashion as they had in the past though the Chinese had telegraphed earlier that the government would be taking a more active role in managing (read micromanaging) the country's cotton trade. They commented that TRQ's would be better timed and be more incremental in nature to help stabilize internal prices. We, like most others, underestimated the extent and the impact of that decision. China has reduced cotton imports this year on the order of 40% so far and indications are that they are still not in the market aggressively for US cotton. US share has dropped to about 17% currently compared to just over 40% last year at the same time. The US lost share because the AWP/futures spread was not adequate to coax the cotton out of the loan without the help of Step 2. The silver lining in that cloud is that if China decides late in the year to buy a large volume of cotton before new crop harvest they will have to come to the US because the US has the largest available supply.

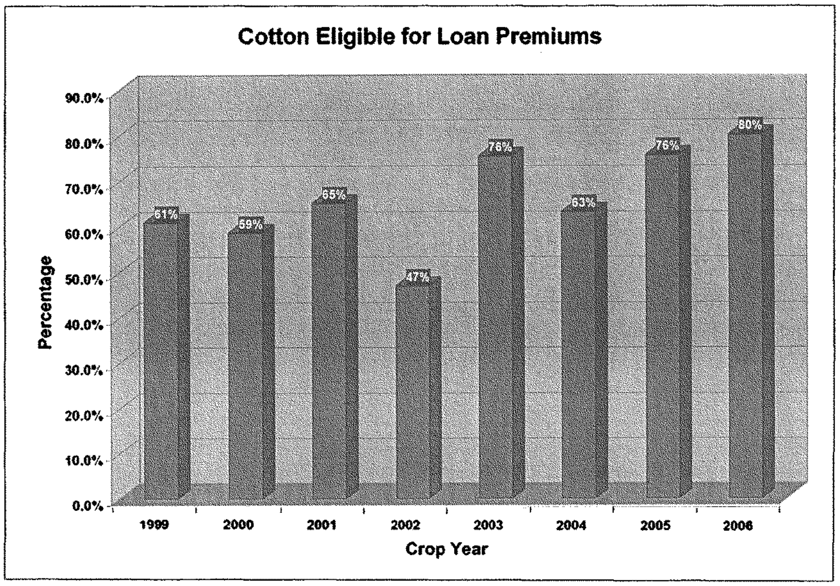
The situation can be summed up as a difficult environment with loan prices higher than the world competition and the inability to be competitive without Step 2. A slightly higher than "normal" A Index also allowed foreign competitors to undercut the US export price. The marketing loan has served the industry well but the absence of Step 2 has created a problematic situation. The US must find ways to operate the marketing loan to again be competitive in the international market.



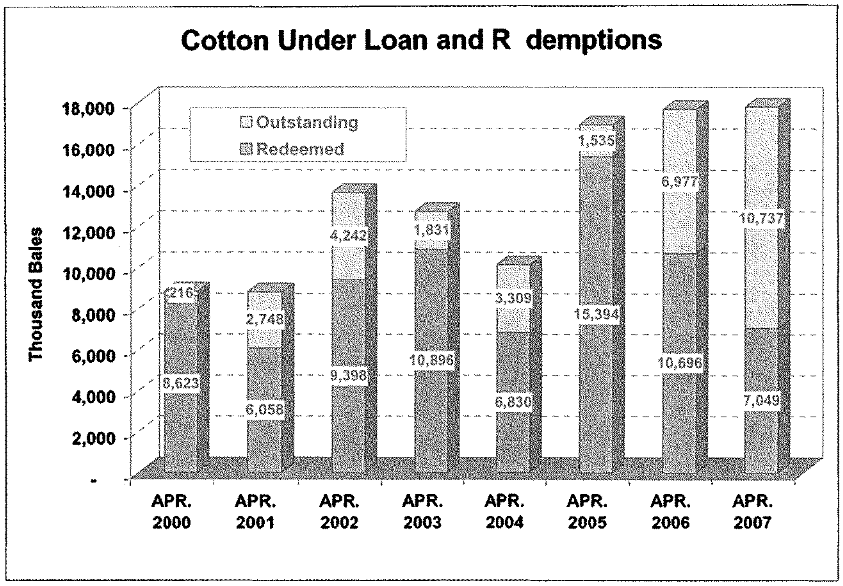
Problems

Cotton Continues To Move Into The Loan Program – And Stay

Cotton goes into the loan because it is the best bid for the producer. Also premiums paid on the loan schedule are higher than the market pays so the farmer opts for the best prices. The loan program was intended to be a safety net and a sale of last resort not the primary market for farmers. The marketing loan program is designed to move the cotton through the loan not have it become CCC inventory. The most recent AMS classing report indicates about 80% of the production this year will be eligible for a loan premium based on grade, leaf and staple. There was about 76 % last year that was eligible on the same criteria.



The graph shows that the amount outstanding is about 54% more than the same time last year. One must go back to 1989 to find a March monthly number approaching 2006 and that was large at 9.043 million bales. The farmer is making a sound economic decision to put the cotton in the loan rather than market it for a lower price.



The cost to carry (storage and interest) 10.7 million bales is a bit over $37 million dollars a month. One can see that the amount of outstanding loans this year is dramatically larger than in past years. Expectations are that the loan costs for this year will exceed 200 million dollars and the average time in the loan is expected to be over 4-months, the highest we have seen in several years. We could not find accurate numbers for the average time cotton stayed in the loan past 2002.

Crop Year	Months
2002	2.04
2003	3.08
2004	1.91
2005	2.95
2006	4.2-4.5

Like 2006, both 2004 and 2005 had over 17 million bales put under loan, however the situation was different. In 2004 the US had 11.6 million in export commitments and in 2005 it had 14.3 million bales committed for export. This year the US had commitments of only 8.956 million bales at the end of March and on April 12 only 10.1 million bales in total commitments, still 14% behind the previous two-year average. There were better prospects for that cotton leaving the loan because of the higher level of commitments. The current prospects are that a great deal of the cotton will be forfeited.

Cotton is leaving the loan slowly largely because of a problem that wasn't paramount until Step 2 was repealed. The Step 2 payment allowed the cotton loan premiums to be overcome by providing a cushion to pay an equity price to entice cotton out of the loan. Table A uses the current premium schedule. We mentioned earlier that a high percentage of cotton going into the loan is eligible for premiums due to the better job producers are doing with production and quality. It is good for the industry to have the higher quality cotton that is desired in the international markets but the current premiums in the loan are greater than the US market outside the loan will pay and far above international quality premiums.

Table A

Crop year	2000	2001	2002	2003	2004	2005	2006	2007
Middle of January	2001	2002	2003	2004	2005	2006	2007	2008
Base loan	51.92	52.00	52.00	52.00	52.00	52.00	52.00	52.00
Premium (31335)	2.60	2.85	2.80	3.25	3.55	4.30	4.65	4.80
AWP (Base)	50.76	29.12	43.46	62.54	36.16	43.15	44.25	44.25
Memphis Spot	58.46	32.09	50.46	69.99	42.67	52.68	50.70	50.70
Step 2	1.76	0.00	5.78	1.47	4.25	3.37		
Producer Revenue								
+ Base loan	51.92	52.00	52.00	52.00	52.00	52.00	52.00	52.00
+ Premium (31335)	2.60	2.85	2.80	3.25	3.55	4.30	4.65	4.80
Sum	54.52	54.85	54.80	55.25	55.55	56.30	56.65	56.80
M rchant Cost								
+ AWP (Base)	50.76	29.12	43.46	62.54	36.16	43.15	44.25	44.25
+ Premium (31335)	2.60	2.85	2.80	3.25	3.55	4.30	4.65	4.80
Rule 3 to Rule 5	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.00
+ Step 2	-1.76	0.00	-5.78	-1.47	-4.25	-3.37	0.00	0.00
Net	56.00	36.47	45.08	69.02	40.26	48.98	53.90	54.05
Merchandizing Costs	5.24	7.35	1.62	6.48	4.10	5.83	9.65	9.80
Memphis Spot	58.46	32.09	50.46	69.99	42.67	52.68	50.70	50.70
Implied Equity 31335	2.46	-4.38	5.38	0.97	2.41	3.70	-3.20	-3.35
Implied Equity w/o Step 2	0.70	-4.38	-0.40	-0.50	-1.84	0.33	-3.20	-3.35
	The negative equity was irrelevant because there was adequate cotton outside the loan.							

One can readily see in Table A that the implied equity for 31335 was either small or negative without the Step 2 payment. The charge for Rule 3 to rule 5 is estimated for the first five crop years. We are told that the charge was incrementally higher over the years but were unable to secure actual numbers. The two rules, FOB warehouse (Rule 3) and FOB car/truck, compression paid (Rule 5), has generated problems for the industry and distorts pricing across the country. Compression charges range from $9.25 per bale in some areas of Texas to zero cost in North Carolina. Adjusting loan terms from Rule 3 to Rule 5 would make the trades more transparent and eliminate some dubious activity that is sometimes associated with the charges.

Table B illustrates the impact of regional weightings on the premiums in the loan schedule. They also show the impact on the theoretical equity. We have calculated what the premiums would have been with the previous loan rate and 50% of the regional weighted spot market premiums. The theoretical equity moves higher.

Table B

Crop year	2000	2001	2002	2003	2004	2005	2006	2007
Middle of January	2001	2002	2003	2004	2005	2006	2007	2008
Base loan	51.92	52.00	52.00	52.00	52.00	52.00	52.00	52.00
Premium (31335)	1.15	1.34	1.08	1.67	1.85	2.11	1.89	1.73
AWP (Base)	50.76	29.12	43.46	62.54	36.16	43.15	44.25	44.25
Memphis Spot	58.46	32.09	50.46	69.99	42.67	52.68	50.70	50.70
Step 2	1.76	0.00	5.78	1.47	4.25	3.37		
Producer Revenue								
+ Base loan	51.92	52.00	52.00	52.00	52.00	52.00	52.00	52.00
+ Premium (31335)	1.15	1.34	1.08	1.67	1.85	2.11	1.89	1.73
Sum	53.07	53.34	53.08	53.67	53.85	54.11	53.89	53.73
Merchant Cost								
+ AWP (Base)	50.76	29.12	43.46	62.54	36.16	43.15	44.25	44.25
+ Premium (31335)	1.15	1.34	1.08	1.67	1.85	2.11	1.89	1.73
Rule 3 to Rule 5	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.00
+ Step 2	-1.76	0.00	-5.78	-1.47	-4.25	-3.37	0.00	0.00
Net	54.55	34.96	43.36	67.44	38.56	46.79	51.14	50.98
Merchandizing Costs	3.79	5.84	-0.10	4.90	2.40	3.64	6.89	6.73
Memphis Spot	58.46	32.09	50.46	69.99	42.67	52.68	50.70	50.70
Implied Equity 31335	3.91	-2.87	7.10	2.55	4.11	5.89	-0.44	-0.28
Implied Equity w/o Step 2	2.15	-2.87	1.32	1.08	-0.14	2.52	-0.44	-0.28
	The negative equity was irrelevant because there was Adequate cotton outside the loan.							

This is an effective system for calculating the premiums that will help move cotton from the loan because it would provide the opportunity for an equity that did not exist before.

The discounts in the spot market are behaving as one might expect. They are in competition with the loan so they are continuing to decrease in the spot market or the producer will choose to put the cotton in the loan. We therefore agree with the proposal to leave discounts at "one-to-one" ratio. We submit two examples to illustrate the point. Note the discounts have narrowed from 2004 to 2007.

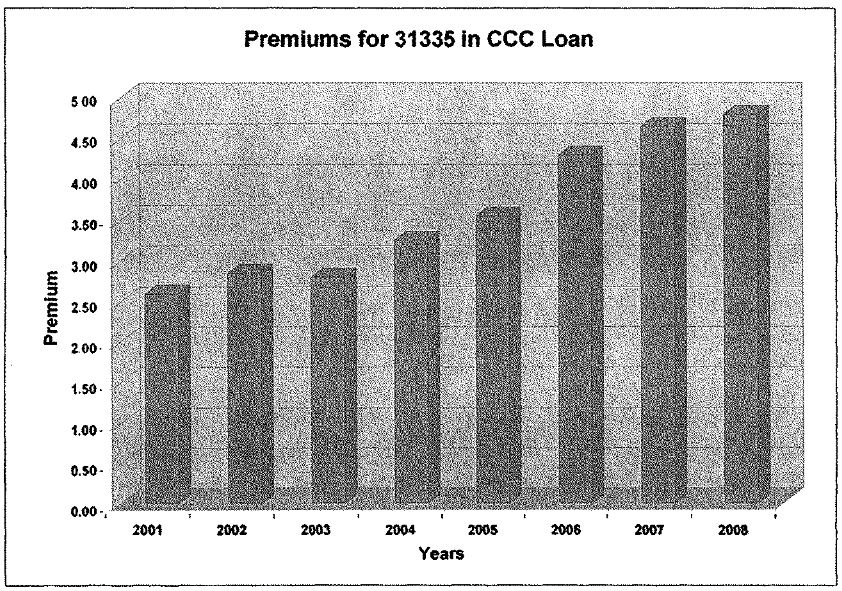
Discount in CCC Loan Schedule

Quality	2007	2006	2005	2004
51433	-340	-345	-350	-385
41531	-420	-425	-425	-500

An integral part of the marketing loan is storage credits. Even the deduction of storage from the loan proceeds would be passed to the buyer trying to get the cotton out of the loan. Should the USDA decide not to pay storage, within two months, in a moderately competitive environment, US cotton would be priced out of the market. Therefore, storage credits should be maintained.

Location differentials in the loan were practical when US mill use was over 60% of US demand but they serve no practical purpose in today's export oriented container driven market. Location differentials do nothing to enhance the marketing of US cotton nor do they make an appreciable difference to the value chain.

One of the problems we note is the method of calculating the premium. The reported spot market trades in 2005 constituted only about eight percent of US production. Therefore, the size of the sample is suspect as an efficient guide because it must compete with loan premiums. If the cotton is not competitive in the spot market (low premiums), then, it will go into the loan. The premiums will nearly always be the same or greater in the spot market in that scenario. The simple average one to one ratio alone is not effective.



The increase in cotton production of high-grade cotton should, by the dictates of supply and demand, either begin to stabilize or even weaken simply because of their increased availability. The premiums are curiously increasing as the quantity was increasing. The premium for 31335 has increased 85% since 2001. One solution would be to find another method of calculating the premiums by utilizing an internationally recognized source for international values. We know of, but are not familiar with the history or accuracy of the International Cotton Association's (ICA) monthly *Value Difference Circular*, nor do we have time or resources in the time frame of this study to evaluate it. However, an international source for evaluating differences would be preferred because so much of the US demand is in the world market and it is there that the US cotton must compete. In the absence of an international benchmark or if that course is ineffective or impractical, one action that would provide a measure of aid to the system is to improve what we now have. An improvement to the method would be to weight the quotations by production regions. The calculations are a bit skewed and the alternative of weighting would be to adjust that by matching the regions production with the price in that region could help adjust that inefficiency. That system would serve to reduce the premiums that are now presenting problems. An example will illustrate the point:

31-3-36 Spot Market Regions	Simple Avg Premium	Production	Percentage	Weighted Premium
Southeast	**220**	4968	24%	**52**
N. Delta	**351**	4895	23%	**82**
S. Delta	**351**	3350	16%	**56**
ET/ OK	**420**	2170	10%	**43**
W TX	**561**	4160	20%	**111**
Desert SW	**810**	660	3%	**25**
SJ Valley	**1134**	770	4%	**42**
AMS Aug-Mar Avg	**552**	20973	100%	**412**

National Grain and Feed Association

Testimony

Before the

House Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management

"Review of the Commodity Title of the Farm Bill"

By Joseph Kapraun

Financial Planning/Marketing Manager, GROWMARK Inc.

On behalf of

The National Grain and Feed Association

April 26, 2007

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

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

The NGFA is comprised of 900 grain, feed, processing, exporting and other grain-related companies that operate about 6,000 facilities that handle more than 70 percent of all U.S. grains and oilseeds. The NGFA's membership encompasses all sectors of the industry, including country, terminal and export elevators; feed manufacturers; cash grain and feed merchants; end users of grain and grain products, including processors, flour millers, and livestock and poultry integrators; commodity futures brokers and commission merchants; biodiesel and ethanol manufacturers and allied industries. The NGFA also consists of 35 affiliated state and regional grain and feed associations, as well as two international affiliated associations. The NGFA has strategic alliances with the Pet Food Institute and the Grain Elevator and Processing Society, and has a joint operating and services agreement with the North American Export Grain Association (NAEGA).

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

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

- Market Distortions: Developing programs that provide opportunities to take advantage of market potential and minimize further trade disruption brought about by litigation under the World Trade Organization (WTO);
- Biofuels: Understanding how big and how fast this market will grow, and to craft policies that foster production to meet this demand without sacrificing other markets, including livestock and poultry, feed and grain export markets;
- Conservation: Adjusting the Conservation Reserve Program (CRP) to provide opportunities for U.S. agricultural growth while continuing the protection of environmentally sensitive lands represents the association's single highest priority in the farm bill process; and
- Grain Reserves: Minimizing government involvement in grain stocks-holding, except for humanitarian purposes.

Minimizing Market Distortion in Farm Programs

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

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

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

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

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

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

The USDA Farm Bill Commodity Title Proposal

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

As we understand the concept as presented in USDA's ***2007 Farm Bill Proposals*** book, the administration is calling for legislation to change the current system by instead computing a monthly PCP rate based upon five daily PCPs selected in advance during the previous month, discarding the high and low days. The monthly PCP rate would apply to all LDPs and marketing loan gains obtained during the following month. If the loan matures, the loan repayment rate would be the PCP in effect during the month the loan matures or during the last month of the commodity marketing year, whichever is earlier.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the NGFA, biofuels are not a food versus fuel issue. In fact, we count among our membership the largest ethanol producer, the largest biodiesel producer, the largest commercial feed manufacturer, the largest exporter and some of the largest poultry and swine integrators in the United States. Each may have a different focus. But they share one important priority: ensuring optimal market conditions that allow for a sufficient supply of grains and oilseeds to meet demand. For the NGFA and its member companies, the biofuels issue is a resource-capacity issue, particularly with respect to land and transportation.

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

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

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

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

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

Concentration, Competition & Risk Management

The U.S. grain, feed and food processing industry has witnessed its share of consolidation, but not nearly on par with major industries such as auto manufacturers, airlines, Class I railroads and other mature industries. Cost competition has an impact on consolidation within the industry but many other factors play a role, including: 1) fewer farmer customers; 2) fewer transportation options; 3) cost advantages in transportation for large shippers; and 4) high cost of compliance with government regulations. Integration in the industry has been a reaction to provide more uniformity and more customer choice at the retail customer level, which requires additional management control over production, marketing, delivery and packaging. Despite these challenges, the grain market continues to be vibrant, competitive and transparent.

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

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

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

Conservation Impacts on Land Use and U.S. Competitiveness

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

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

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

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

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

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

Government-Controlled Reserves

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

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

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

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

Conclusion

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

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

Testim_ny 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

Subcommittee on General Farm Commodities and Risk Management

Crop Provisions of the Farm Security and Rural Investment Act of 2002

April 26, 2007

Thank you Chairman Etheridge, Congressman Moran and members of the subcommittee. 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 and organic products. Our products are used throughout North America as well as exported to both Central and South America.

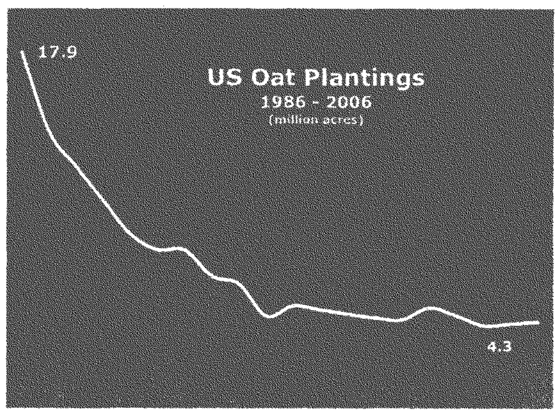
I have been in the grain and milling industry for more than 30 years and am here today representing the North American Millers'

Association, of which I am the current chairman. 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.

Where we are today

Oats

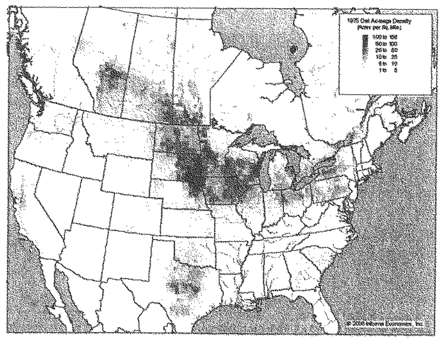
2006 oat production was a mere 107 million bushels, the lowest since USDA began keeping records in 1866, shortly after President Lincoln created the Department of Agriculture. There are just too many reasons for growers to plant something else.



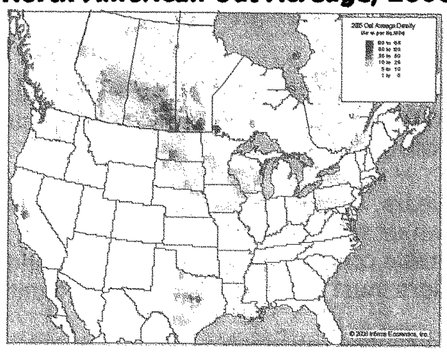
To illustrate the decline, consider that the US produced 384 million bushels of oats in 1986. That would fill a train stretching from Fargo to St. Louis. A train filled with last year's production would stretch from Fargo to 30 miles short of Minneapolis.

This dramatic production loss has 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. Most of that processing capacity has moved to Canada, taking hundreds of industry jobs with it.

North American Oat Acreage, 1975



North American Oat Acreage, 2006

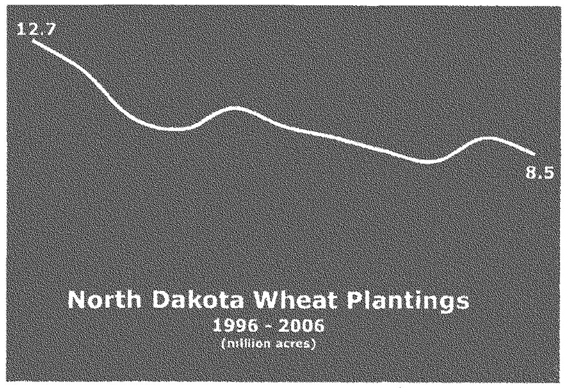


Source: Informa Economics

Wheat

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.



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, will likely increase.

How did we get here?

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.

At least with corn and soybeans it is obvious there are major markets for those crops. We save particular disdain for program payments that have provided huge incentives for growers to stop growing crops the US consumes, principally wheat and oats, in favor of crops like field peas and lentils, for which the domestic demand is insignificant relative to our consumption of cereal grains. We assume this was an unintended consequence of the last farm bill.

These programs are bad policy on so many levels, if one wants to criticize them, it's hard to know where to start. They spend taxpayer dollars to encourage the production of crops that the US does not consume in any significant amount at the expense of crops we do. The market price for them is so low (no surprise, since they are unwanted in the US) they are mostly attractive as cheap protein sources for foreign meat and poultry producers.

The combined US production of dry peas and lentils has increased by an amazing 950,000 acres in just five years. To be clear, we oppose programs that distort the market for any crop, but I say only half in jest that, if the US government wants to pile crazy incentives on crops perhaps the target ought to be food crops this country needs.

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.

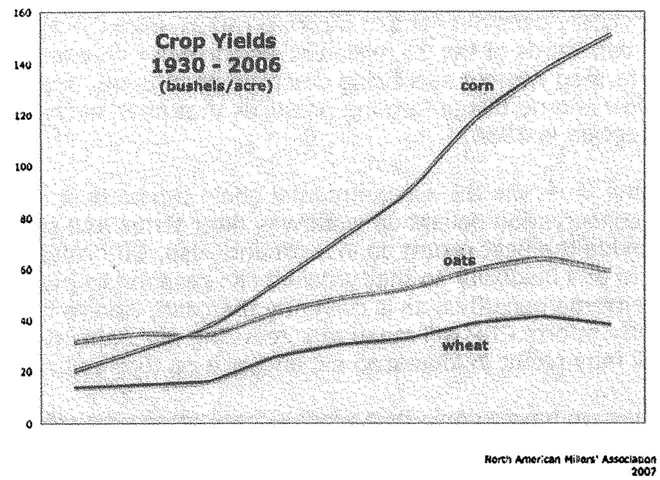
In recent years, however, genetic advances in corn and soybeans have changed that equation. Corn varieties flourish in the Plains growing regions, as do short season soybeans that mature before the early frosts of the northern Plains.

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

Table 1: Crop Yield Growth Compared, 1930-06

Year	Oats	Corn	Wheat	Soybeans
1930	32.0	20.5	14.2	13.0
1940	35.2	28.9	15.3	16.2
1950	34.8	38.2	16.5	21.7
1960	43.4	54.7	26.1	23.5
1970	49.2	72.4	31.0	26.7
1980	53.0	91.0	33.5	36.5
1990	60.1	118.5	39.5	34.1
2000	64.2	136.9	42.0	38.1
2006	59.5	151.2	38.7	43.0
Percent Increase Over 76 Years, %	**85.9**	**637.6**	**172.5**	**230.8**
Annual Increase, %	**0.82**	**2.66**	**1.33**	**1.59**

Source: Informa Economics



Ironically, demand for oat and other whole grain products is rising. Many companies are continuing to invest in processing capacity in the US. My employer, for example, is investing $20 million to expand the capacity of its mill in Iowa. Regrettably, the oats for that Iowa mill 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. 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.

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 our views. If you have any questions I am happy to answer them.

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Testimony

By

Audrae Erickson

Corn Refiners Association

On the

2007 Farm Bill

Before the

House Agriculture Subcommittee

on

General Farm Commodities and Risk Management

April 26, 2007

Mr. Chairman, members of the Committee, thank you for this opportunity to present the views of the Corn Refiners Association on the 2007 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 supports a strong farm economy and recognizes the importance of the Farm Bill in providing a viable safety net for American producers. We applaud the efforts of the National Corn Growers Association in proposing a revenue assurance program that will provide a more stable economy for corn producers under certain conditions. We hope this Committee will actively review the NCGA proposal with a view to supporting its important concepts.

One of our top priorities for the next Farm Bill is to ensure sufficient acreage planted to corn given the growing demand for this versatile starch source. The significant increase in the demand for corn due to ethanol, combined with the need to ensure adequate supplies for our industry, livestock producers, and the food and beverage sector, makes our concern even more urgent. We support efforts in the next Farm Bill that will bring additional acres into the production of corn.

It is also important to ensure that the efforts of this Committee to provide a safety net for corn growers are not inadvertently undermined by another title in the Farm Bill. Despite the best intentions of Congress to assist producers, there is one program that has resulted in unintended consequences for the corn industry and that is the sugar program.

The sugar program is designed to support the price of sugar growers and processors in part by limiting imports of sugar into the United States and by allocating how much sugar is supplied to the domestic market through marketing allotments. The 2002 Farm Bill limits the Secretary of Agriculture's authority to implement marketing allotments if imports of sugar rise above a 1.532 million short ton threshold.

As you know, we will no longer be able to limit imports of sugar from Mexico effective January 1, 2008. If imports of Mexican sugar are restricted in any way, exports of corn sweeteners will be held hostage. And the next commodities in the firing line will be Mexico's import sensitive commodities, which are our export engines: beef, pork, poultry, corn, soybean meal, dairy, rice, dry edible beans and apples. All of these commodities consider Mexico to be their top or second most important export destination.

One of the leading uses for corn is the production of corn sweeteners. The manufacture of high fructose corn syrup (HFCS) has accounted for approximately five percent of U.S. corn production in recent years. Historically, the top export market for HFCS has been Mexico, our North American Free Trade Agreement partner. Regrettably, our industry has been embroiled in a ten year HFCS dispute with Mexico, in large part because the United States limited Mexico's sugar access during this period. In short, corn sweeteners became the victim in a tit-for-tat trade dispute.

Just last year, following a ruling by the World Trade Organization, our access to the Mexican market for HFCS was partially restored. We obtained a small tariff-rate quota even though HFCS should now have unlimited export rights to the Mexican market. Until the United States provides unlimited access for Mexican sugar, we will not reap the benefits of free trade with Mexico for corn sweeteners.

The moment for unlimited access for Mexican sugar imports is at our doorstep. Consistent with the NAFTA, all products flowing north and south will be reduced to zero duties at the end of this year – even on sugar. Yet the current sugar program maintains an import control regime. All indications are that the next sugar program to be codified in the 2007 Farm Bill will do the same. If the United States limits Mexico's sugar exports, Mexico will immediately limit or stop altogether, our corn sweetener exports.

The corn industry has already experienced ten years of either restricted exports or a complete closure of the Mexican market which has cost us more than $4 billion in lost sweetener sales and more than 800 million bushels of corn. As a result, 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 directly linked to the operation of the U.S. sugar program and two-way, free trade in sweeteners between the United States and Mexico. 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 by January 1, 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 pay a very steep price. Under that scenario, Mexico will 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. If the United States does not live up to its NAFTA commitments on sugar, we can be certain that Mexico will come under intense political pressure to nullify its NAFTA free trade commitments for these high value U.S. exports.

Given the importance of this issue to our industry, the CRA would like to have a seat at the table when decisions are being rendered about the structure of the sugar program in the next Farm Bill.

As you know, the 1.532 million short ton import trigger established for marketing allotments in the 2002 Farm Bill will enable only 276,000 short tons (approximately 250,000 metric tons) of imported sugar from Mexico and other FTA countries combined 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 international obligations.

We understand that some stakeholders may be considering a market balancing mechanism to ensure that the supply and demand for sugar in the United States is not out of equilibrium. Such a mechanism cannot limit imports of sugar from Mexico or restrict end use markets for imported Mexican sugar. Some have postulated that a market balancing mechanism that diverts all excess supply of sugar, principally imported sugar, into ethanol might be a solution. Unfortunately, this approach will limit Mexico's sugar imports in a manner that is inconsistent with the NAFTA and will put the corn industry at risk. Moreover, Mexico's sugar prices are higher than those in the United States making such a solution economically impractical.

The 2007 Farm Bill must be consistent with the NAFTA. No provision in the sugar program 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 other aspect of the sugar program.

We thank you for the opportunity to testify before this Committee and urge that the next Farm Bill take into account our comments concerning the need to ensure that full implementation of the U.S. commitment for free trade in sugar with Mexico is fully incorporated in the sugar provisions and that additional acreage will be brought into the production of corn.

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

From1997 through 2006, the sweetener impasse with Mexico 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 later 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% soda tax on all beverages sold in Mexico that are sweetened with HFCS. This tax shut down the Mexican market overnight for U.S. exports of HFCS and bulk corn for production of HFCS in Mexico by U.S. owned firms. Every year that the tax was in place, losses of $944 million in HFCS sales equivalent to 168 million bushels of corn were sustained, with additional sizable losses to investments. The tax was finally lifted by Mexico in January 2007.

The Mexican market is the top HFCS export destination for the United States 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 from 1997 through 2006 ▪ $944 million lost in HFCS sales for each of those years
Lost corn sales	▪ From 1997 to 2006, the United States lost a market for 833 million bushels of corn valued at $1.7 billion ▪ Or $437 million (168 million bushels) in lost corn sales for each of those years
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 over the past decade.

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. More than 226,000 jobs in the United States 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 closure of the Mexican market for the past several 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 was 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.

Farm Bill: An Investment That's Working

FARM BUREAU'S RECOMMENDATIONS FOR THE 2007 FARM BILL

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FARM BUREAU'S RECOMMENDATIONS FOR THE 2007 FARM BILL

I. Principles

In preparing its 2007 farm bill proposal, Farm Bureau was guided by several key principles. As a general farm organization, the overriding goal of Farm Bureau's proposal is to maintain balance and benefit all of the farm sectors, while remaining within the budget constraints Congress must use to draft the new law.

Following is a summary of the key principles underlying Farm Bureau's proposal:

- **The proposal is fiscally responsible.** The Congressional Budget Office (CBO) baseline for agriculture programs in the farm bill in 2008-2013, potentially the six-year span of the next farm bill, is less than 50 percent of what Congress committed to spend in the 2002 farm bill. Yet the goals for the farm bill continue to grow. Our proposal addresses this by proposing offsets for all funding increases within a title. For example, our proposal offsets a $250 million annual increase in conservation funding for fruit and vegetable producers by capping spending on the Conservation Security Program (CSP) in 2016 and 2017.

- **The basic structure of the 2002 farm bill should not be altered.** Farm Bureau's proposal for the 2007 farm bill maintains the baseline balance between programs. For example, we support strong conservation programs, but adequate conservation funding should not come at the expense of adequate funding for commodity programs. Our proposal does not shift any funding from title to title.

- **The proposal benefits all of the sectors.** Farm Bureau is a general farm organization, with members who produce everything from apples to peanuts. It's easy for a commodity group to say Congress should allocate more funding for programs that benefit its producers, without worrying about whether that will take funds away from producers of other commodities. Farm Bureau's proposal seeks balance for all producers.

- **World trade rulings are considered.** The Farm Bureau proposal includes changes to comply with our existing agreement obligations and World Trade Organization (WTO) litigation rulings, but it does not presuppose the outcome of the Doha round of WTO negotiations, which are far from complete. Farm Bureau supported last year's reforms of export credit and food aid programs, and elimination of the "Step 2" cotton program. Our proposal includes elimination of the prohibition on planting fruits and vegetables on farm program crop acreage. However, it also maintains U.S. negotiating leverage in the ongoing Doha round by continuing strong domestic support for agriculture until a WTO agreement is reached that increases foreign market access for U.S. farmers and ranchers.

II. The Farm Bureau's Recommendations

THE FARM BILL:

It is imperative that baseline funding for the commodity title ($7 billion per year) and for the conservation title ($4.4 billion per year) currently available for 2008-2013 spending be maintained. These budget guidelines already incorporate sizable cuts in their combined support for American agriculture.

TRADE IMPLICATIONS:

U.S. farm policy should continue to help level the playing field in the global market with assistance to America's farmers.

The 2007 farm bill should not be written to comply with what someone assumes will be the "outcome" of the WTO negotiations.

We are not far enough along in the negotiations to anticipate a likely WTO outcome and to make fundamental changes to the farm bill.

Farmers and ranchers are willing to lower farm program payments via the WTO negotiations if—and only if—we can secure increased opportunities to sell their products overseas.

COMMODITIES:

Farm Bureau supports continuation of the "three-legged stool" safety net structure of the commodity title. (i.e. direct payments, counter-cyclical support and marketing loan payments).

Farm Bureau supports modifying the counter-cyclical program to have payments triggered by a shortfall in state crop revenue rather than a shortfall in the national average price.

Given the determination in the Brazil cotton case, Farm Bureau supports elimination of the fruit and vegetable planting prohibition. However, we only support eliminating the restriction on direct payments. We support continuing the restriction for counter-cyclical payments. We do not believe it is necessary, nor is there anything to gain, from removing the restrictions on counter-cyclical support.

A realistic amount of funding to compensate specialty crop growers for the elimination of the planting prohibition on program crop acres is $250 million annually.

The specialty crop industry has indicated that it does not want support in the form of direct payments to growers.

The State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the fiscal year (FY) 2006 agricultural appropriations bill, should be discontinued.

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions.

STANDING CATASTROPHIC ASSISTANCE:

Farm Bureau supports establishing a county-based catastrophic assistance program focused on the systemic risk in counties with sufficient adverse weather to be declared disaster areas.

Farm Bureau supports elimination of the catastrophic crop insurance program (CAT) and the Noninsured Assistance Program (NAP) when a standing catastrophic assistance program is enacted.

DAIRY:

Farm Bureau supports a proposal to change the structure of the dairy price support program from the current program that supports the price of milk to one that supports the price of butter, nonfat powder and cheese. Farm Bureau supports this change only if total federal government funding does not increase by moving to the new program.

Farm Bureau supports continuation of the Milk Income Loss Contract (MILC) program or another form of counter-cyclical payments and opposes reductions in the program payments.

Farm Bureau supports implementation of the dairy promotion assessment on imports.

CONSERVATION:

Adequate funding for conservation programs should not come at the expense of full funding for commodity programs.

Farm Bureau supports strong conservation programs in the farm bill with an emphasis on working lands conservation programs rather than retirement programs.

Farm Bureau supports allowing haying, but not grazing, on Conservation Reserve Program (CRP) acreage with a reduction in the rental rate to partially offset the economic gains.

Similarly, we support the use of selected CRP ground for grasses raised for cellulosic feedstock production. Again, farmers would need to utilize production practices to minimize environmental and wildlife impacts. Producers would forgo a portion of their CRP rental payment. To aid in establishing cellulosic feedstock crops, producers would be eligible for cost-share assistance for establishment and the first four years of maintenance costs associated with the grasses.

Farm Bureau supports the current 39.2 million acre level for the CRP.

We strongly support the CSP program. However, the sharp increase in funding in the baseline for 2016 and 2017 would be difficult to spend efficiently and effectively. Farm Bureau supports a CSP program capped at $1.75 billion in 2016 and 2017, with the savings invested in other near term conservation activities. This five-fold increase provides room for steady and efficient expansion in the program.

Farm Bureau proposes using some of the savings gained from capping the CSP to expand the Environmental Quality Incentives Program (EQIP) aid to fruit and vegetable producers. These funds should be used to provide a $250 million annual increase in EQIP funding and to earmark 17 percent of all mandatory EQIP funding for fruit and vegetable production.

Farm Bureau supports continuation of the conservation cost-share differential for young and beginning farmers.

Farm Bureau supports increasing the EQIP baseline funding by $125 million annually for hog and broiler operations.

Farm Bureau supports the provision for cost-sharing for GPS technology as a way to enhance the effectiveness of the EQIP and CSP programs and to boost overall farm profitability.

EXPORTS:

Funding for the Foreign Market Development (FMD) Program and the Market Access Program (MAP) should be maintained at their current levels of $34.5 million and $200 million per year.

The Emerging Markets Program, Export Credit Guarantee Program and all food aid programs (including P.L. 480 Titles I and II, Food for Progress and the McGovern-Dole International Food for Education Program) should be reauthorized.

Farm Bureau opposes requiring food aid be given as "cash only" instead of allowing nations to provide food directly as an emergency and developmental assistance program.

Farm Bureau supports expansion of the $2 million Technical Assistance for Specialty Crops (TASC) program to mandate an annual level of $10 million – a five-fold increase.

We support a pilot initiative aimed at expanding international understanding and acceptance of the U.S.'s system of sanitary and phytosanitary (SPS) practices in an effort to boost export opportunities, ensure safe imports and promote adoption of science-based SPS regimes around the world.

COMPETITION:

AFBF supports strengthening enforcement activities to ensure proposed agribusiness mergers and vertical integration arrangements do not hamper producers' access to inputs, markets and transportation. The Department of Agriculture (USDA), the Department of Justice (DOJ) and other appropriate agencies should investigate any anti-competitive implications that agribusiness mergers and/or acquisitions may cause.

More specifically, AFBF supports enhancing USDA's oversight of the Packers and Stockyards Act (PSA). Grain Inspection, Packers and Stockyards Administration (GIPSA) investigations need to include more legal expertise within USDA to enhance anti-competitive analysis on mergers. USDA, in conjunction with DOJ, should closely investigate all mergers, ownership changes or other trends in the meat packing industry for actions that limit the availability of a competitive market for livestock producers. We support establishing an Office of Special Counsel for Competition at USDA.

AFBF supports amending the PSA and strengthening producer protection and USDA's authority in enforcing the PSA to provide jurisdiction and enforcement over the marketing of poultry meat and eggs as already exists for livestock. This includes breeder hen and pullet operations so they are treated the same as broiler operations.

AFBF supports efforts to provide contract protections to ensure that a production contract clearly spells out what is required of a producer. In addition, we support prohibiting confidentiality clauses in contracts so that producers are free to share the contract with family members or an outside advisor, lawyer or lender.

Farm Bureau supports legislation to prohibit mandatory arbitration so that producers are not prevented from going to the courts to speak out against unfair actions by companies.

Farm Bureau supports allowing meat and poultry inspected under state programs, which are equal to federal inspection and approved by USDA, to move in interstate commerce.

Farm Bureau supports voluntary country-of-origin labeling.

Farm Bureau supports the establishment and implementation of a voluntary national animal identification system capable of providing support for animal disease control and eradication.

ENERGY:

The expiring Commodity Credit Corporation (CCC) Bioenergy Program should be re-authorized.

The Biodiesel Fuel Education Program should be reauthorized.

The Bio-based Products and Procurement Program should be revised and reauthorized to promote development and increased use by federal agencies of existing and new soy-based products.

We support $5 million in funding for demonstration projects to streamline the collection, transportation and storage of cellulosic crop residue feedstocks.

The Value-Added Agricultural Product Market Development Grants should be reauthorized.

The Biomass Research & Development Program should be reauthorized.

RESEARCH:

We encourage Congress to call for establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers.

Regarding specific priorities:

Congress should prioritize research initiatives to commercialize technologies to make ethanol from cellulosic biomass.

Congress should prioritize research on modifications of Dried Distillers Grains (DDGs) and other byproducts to expand their use, especially in non-ruminant animals.

Congress should prioritize research on development of renewable energy sources, such as power generation using manure.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry. Growing problems with identifying labor supplies make this type of research imperative.

Congress should provide increased funding for research on methyl bromide alternatives.

Congress should also mandate an in-depth USDA study of the air quality issue, as it relates to agriculture.

CREDIT:

Farm Bureau supports the initiative undertaken by the Farm Credit System to evaluate credit availability. We support the Farm Credit System concepts and will thoroughly review and consider the specificity of those recommendations to ensure that the credit needs of farmers, ranchers and those serving production agriculture are met.

We support the administration's proposal to increase from 35 percent to 70 percent the targeting of the Farm Service Agency (FSA) direct loan portfolio to beginning and socially disadvantaged farmers.

We support the administration's proposal to enhance the beginning farmer down-payment program to make it easier for beginning farmers to buy property by lowering the interest rate charged from 4 percent to 2 percent and eliminating the $250,000 cap on the value of the property that may be acquired.

NUTRITION:

Farm Bureau supports expansion of the School Fruit and Vegetable Snack Program to 10 schools in every state. This should only cost about $7.5 million annually but will provide significant benefits to fruit and vegetable producers now and in the long term, while promoting healthy eating habits among children.

We support the administration's proposal to provide an additional $50 million a year for the purchase of fruits and vegetables specifically for the school lunch program.

MISCELLANEOUS ACTIVITIES:

Farm Bureau supports increasing funding by $2 million annually for the U.S. Trade Representative (USTR) Office of Agriculture and Office of the Agricultural Ambassador.

III. The Farm Bill

The "farm bill" encompasses much more than just issues that affect farmers and ranchers. It covers issues in which all Americans have a stake – alleviating hunger and poor nutrition; securing our nation's energy future; conserving our natural resources; producing food, fuel and fiber; and promoting rural development.

The farm bill is a good policy that provides a measure of stability in our food production system. U.S. consumers spend less than 11 percent of their disposable incomes on a nutritious, safe, quality food supply. CBO projects that commodity program spending will average only $7 billion per year between 2008 and 2013. This translates to only $23 per American per year or about 6 cents a day.

The basic structure of the 2002 farm bill should not be altered. The current farm bill is working and working well overall, not only for farmers and ranchers, but also for the environment and consumers. The track record of success from the current farm program is overwhelming.

--Agricultural exports continue to set new records, hitting $69 billion in 2006, accounting for one-fourth of farm cash receipts.

--Government outlays are considerably lower than what Congress said it was willing to provide as a farm safety net when the 2002 bill was signed, and significantly less than outlays during the life of the 1996 farm bill. CCC outlays decreased from a record-high of $32 billion in 2000 to $20 billion in 2006, and are trending toward $13 billion in 2007. Using the March 2007 CBO baseline, the farm program components cost $16 billion less than projected over the first five years of the bill. It is anticipated to be $21 billion less over the six-year life of the bill than the projected cost when the bill became law. That is 18 percent less spent on supporting our nation's farmers and ranchers than Congress believed in 2002 was an appropriate amount of support.

	2002	2003	2004	2005	2006	2007P	TOTAL
Projected Cost in 2002	19.3B	21.3B	20.9B	20.0B	18.7B	17.8B	118.1B
Actual Cost in March 2007	15.5B	17.4B	10.6B	20.2B	20.2B	13.0B	96.9B
Difference	3.8B	3.9B	10.3B	-0.2B	-1.5B	4.8B	**21.2B**

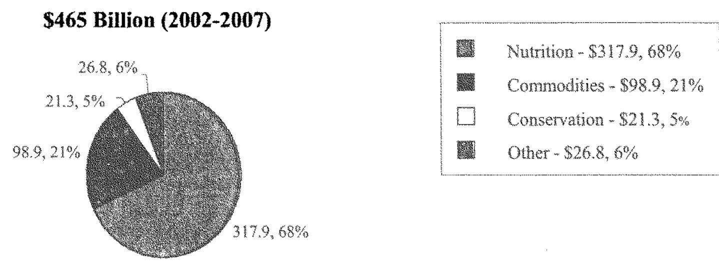
--Farmers' average debt-to-asset ratio is the lowest on record: about 11 percent in 2006

--Farmers have access to a dependable safety net.

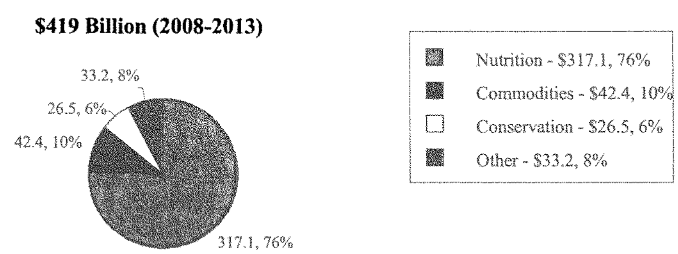
Congress must extend the current farm bill or write a new one that fits within very limited resources. In 2002, Congress committed to spend $465 billion to fund the farm bill from

2002 to 2007. Of that, $99 billion (21 percent) was designated for commodity programs. Over two-thirds of that bill's spending (68 percent) - $318 billion – was dedicated to nutrition programs. The March 2007 CBO baseline for 2008-2013, potentially the six-year life of the next farm bill, only provides $421 billion. Outlays in the commodity title are projected at only $42 billion (10 percent) of total farm bill funding.

Distribution of March 2002 CBO Agriculture Spending



Distribution of March 2007 CBO Agriculture Spending



In this setting, it is imperative that baseline funding for the commodity title ($7 billion per year) and for the conservation title ($4.4 billion per year) currently available for 2008-2013 spending be maintained. These budget guidelines already incorporate sizable cuts in their combined support for American agriculture.

This is important for four reasons. First, there is significantly less funding for the commodity safety net than provided in the 2002 bill. As already noted, the baseline for 2008-2013 is already less than 50 percent of what Congress agreed, when it passed the last farm bill, to spend over 2002-2007.

Second, funding levels for nutrition have remained constant while funding for conservation is up significantly over the last five years. Both are predicted to rise even further during the next six years. It does not make sense to further reduce commodity spending to enhance the already-growing nutrition and conservation titles.

Third, the agricultural economic setting heading into the debate is uncertain at best. U.S. farm income levels set a record in 2004 at $82 billion, followed in 2005 by an income level of $72 billion. Farm income for 2006 fell to $67 billion. The major reason for this decrease was a rise in input costs including:

--**Fuel and fertilizer costs**. As recently as 2003, production agriculture spent $6.8 billion on fuel and oil. In 2006, USDA estimates that expense reached $11 billion.

--**Manufactured inputs**. USDA estimates costs for manufactured inputs reached $57.8 billion in 2006, nearly a $10 billion rise from 2003 levels.

--**Interest costs**. Farmers' outlays on interest expenses were $12.7 billion in 2003, with USDA estimating $17.2 billion for 2006.

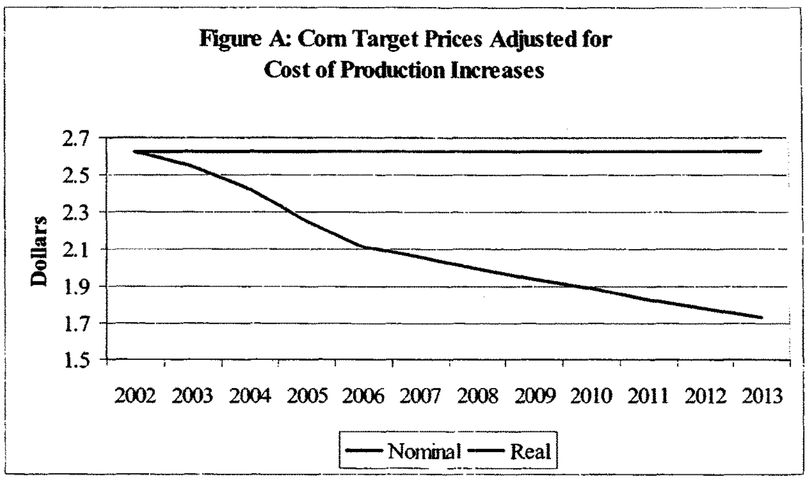
Fourth, it is important to note that keeping the 2002 farm bill structure does not mean that we are keeping a status quo safety net for farmers. Continuation of the 2002 Farm Bill continues the trend in reductions in support included in the last four farm bills and ensures that farmers will absorb more and more of the risks involved in agriculture for a growing share of their production at the same time that the sector is being called on to supply more of the country's energy needs. This is a result of both erosion in support rates (due to rising costs of production) and to freezing the volume of production eligible for direct and counter-cyclical support despite increases in output.

Looking first at support rates and production costs, the 2002 bill froze target prices and loan rates. However, costs of production continued to rise. This means that supports adjusted for cost increases will be 15 percent to 20 percent lower at the end of the 2002-2007 period covered by the legislation than they were at the start of the legislation. Continuation of the 2002 bill's frozen target price and loan rates through 2013 will reduce effective support another 10 percent to 15 percent based on USDA's projected cost increases. To put this into perspective, increasing the 2008-2013 target prices and loan rates to put them back where they were at the start of the 2002 period relative to cost increases would add $3 billion in both counter-cyclical payments and marketing loan payments to the CBO baseline. Figure A makes this point graphically by comparing the $2.63 nominal target price for corn at the start of the 2002 period with the real, cost-adjusted target price in 2013 likely if the 2002 bill is continued.

The support provided farmers has also eroded because of the 2002 bill's continued use of frozen yields and reduced base acres to determine how much of producers' output is eligible for direct and counter-cyclical payments. The 2002 bill limited direct and counter-cyclical payments to output from 85 percent of producers' base acreage and calculated production from eligible acres using frozen historical yields set at 1986-88 actual levels. Hence, output from the 15 percent of excluded base acres and increased output due to yield growth after the mid 1980s do not get direct or counter-cyclical support. Compared to output in the mid 1980s, about 72 percent of production was eligible for direct and counter-cyclical payments over the life of the 2002 bill and only 65 percent of production will be eligible over the life of a 2008-2013 bill assuming trend growth in yields. Figure B makes this point graphically using corn as an example.

It is important to note the difference between direct and counter-cyclical payments and loan payments. Loan payments have been subject to the same erosion in effectiveness due to cost increases. But all production is eligible for loan payments under the 2002 bill. Loan support has not eroded along with direct and counter-cyclical support due to yield increases. Continuing this provision is critical in maintaining at least some bounce in the farmer's safety net. But with loan payments making up less than a quarter of total commodity payments historically and less than 10 percent of the projected 2008-2013 budget, this loan benefit is overshadowed by erosion in direct and counter-cyclical payments.

Figures A and B make these two points graphically using corn as an example.



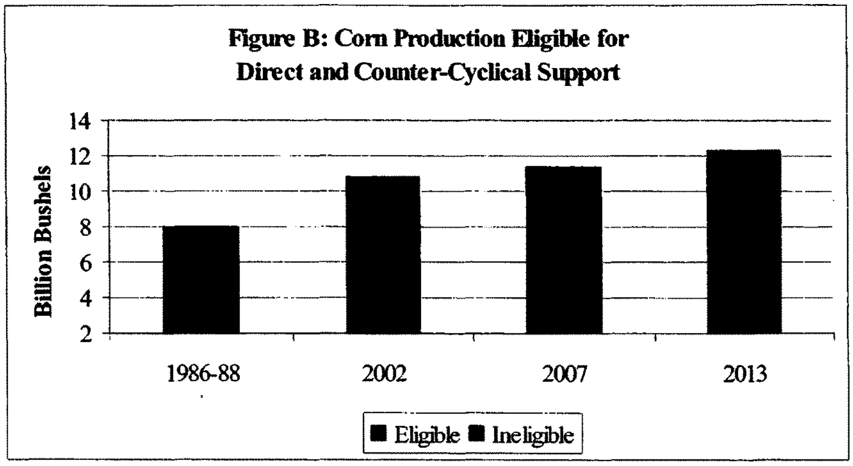


Figure B: Corn Production Eligible for
Direct and Counter-Cyclical Support
Billion Bushels
14
12
10
8
6
4
2
1986-88
2002
2007
2013
Eligible
Ineligible

IV. Trade Implications

U.S. farm policy should continue to help level the playing field in the global market with assistance to America's farmers.

A significant expansion of trade opportunities is the only acceptable outcome of the WTO negotiations. An agreement on agriculture must achieve a balanced outcome in which the benefits from new market access and the removal of trade-distorting policies provide net gains for U.S. agriculture. An agreement that is positive 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 lower spending on certain farm programs.

The 2007 farm bill should not be written to comply with what someone assumes will be the "outcome" of the WTO negotiations. 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. At the same time, we should ensure that the next farm bill complies with all of our existing obligations.

This approach provides U.S. negotiators the strongest negotiating leverage. U.S. 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 30 richest countries. The OECD defines the Producer Support Estimate (PSE) as support as a percentage 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 2006, OECD released its projection for percentage of PSE by country for 2005. The average PSE for the world's 30 richest 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	
Switzerland	68
Iceland	67
Norway	64
South Korea	63
Japan	56
European Union	32
OECD	29
Turkey	25
Canada	21
United States	16
Mexico	14
Australia	5
New Zealand	3

The primary component the U.S. has to offer in the negotiations is reductions in our farm programs. The leading component for many other countries is primarily reductions in high tariffs. If we reduce our domestic supports in the farm bill, 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 a WTO agreement is reached that benefits U.S. agriculture.

We are not far enough along in the negotiations to anticipate a likely WTO outcome and to make fundamental 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. 18 months ago. While Farm Bureau strongly supports conclusion of a successful WTO round, we should not support a unilateral cut in 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. If that is the case, we must look again at whether the market access gains we receive from those reductions outweigh the impact of losses in 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. That is what is meant by the term "unilaterally disarm." It is important to remember that a similar "stalemate" in negotiations to today's Doha Round 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 wanted. If that happens in these negotiations, we could be looking at reducing our authority for domestic supports far less than 60 percent.

Reforming the farm bill now, absent a final agreement, offers no assurance that additional reforms would not be required when an agreement is finalized. The U.S. has already 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 face a second and possibly a third round of farm bill changes.

Farmers and ranchers are willing to lower farm program payments as part of the WTO negotiations if—and only if—we can secure increased opportunities to sell their products overseas.

V. Commodities

Farm Bureau members are clear about their support for maintaining the basic structure of the 2002 farm bill. The "three-legged stool" combination of marketing loans, direct payments and a counter-cyclical program supports farm income during times of low prices for the major program commodities – that is wheat, rice, feed grains, soybeans, cotton and peanuts. Farm Bureau, like Congress, must balance the interests of all sectors of American agriculture. Farm Bureau members are cognizant of that fact and have said they think the basic structure of the current program represents the largest measure of fairness they are likely to receive in any farm program. **Farm Bureau supports continuation of the "three-legged stool" safety net structure of the commodity title (i.e. direct payments, counter-cyclical supports and marketing loan payments).**

As stated earlier, continuing the basic 2002 farm bill structure does not provide the same "effective" safety net as it did in 2002. Maintaining that structure, however, will keep agriculture policy moving in the same reform direction in place for more than a decade and a half toward gradually lower levels of support for a smaller and smaller share of production.

Please note that we have limited our comments on commodity programs to those areas of the program where the Farm Bureau proposes significant changes. Hence, while large sections of Title I are addressed, many important areas are not. We support continuation of the current programs for these areas. The sugar program is a good example of this distinction. Farm Bureau supports continuation of the current sugar production and marketing program.

Direct Payment Program:

Direct payments to farmers should be included in the 2007 farm bill. The $5.2 billion in annual direct payments provided in the CBO baseline helps farmers meet the day-to-day capital requirements on their farms and helps support net farm income. Without direct payments, farm income would be reduced.

Revenue-Based Counter-cyclical Program:

Counter-cyclical payments (CCPs) were adopted in the 2002 farm bill as a way of providing certainty and stability to ad hoc emergency market loss payments enacted after three years of low market prices. There is a continuing need for an effective system to help agricultural producers survive the vagaries of markets and weather. CCPs are made when the season average farm price of a program crop is below the effective target price. The payment is made on 85 percent of base acres without regard to what or how much of any crop is grown on the base acres.

Erosion in support is particularly sharp for CCPs. CBO projects Congress will only have $1 billion annually from 2008 – 2013 compared to a projected $4.5 billion when the 2002 bill was passed and the $2.5 billion per year actually spent on the CCP element of the farm safety net during the first five years of the program. This is the result of at least two factors.

First, the CBO baseline projects much stronger commodity prices, which reduces payments.

Second, the $1 billion CCP level is the direct result of the declining effective support described earlier. Figures A and B have already made the case for corn. Looking more broadly at an average for all the program crops (wheat, rice, feed grains, soybeans, cotton and peanuts), Figure 1 indicates that the target prices used to calculate CCPs covered an average of 83 percent of total production costs in the 1997-2001 period immediately preceding the 2002 farm bill, but only 77 percent of total production costs for the 2002-2007 period preceding the next farm bill. Using USDA's projected cost increases through 2013, target prices will only cover about 70 percent of farmers' total production expenses.

Figure 2 uses an all-program crop average to show that the 77 percent support rate in effect for 2002-2007 was applicable to only 72 percent of farmers' output and, assuming continuation of the current farm bill and yield growth, the support rate likely for CCPs during 2008-2013 will only apply to 65 percent of production.

Figure 1: Percentage of Production Costs Covered by Target Prices

	1997 - 2001	2002 - 2007	2008 - 2013
All Program Commodities	83%	77%	70%

Figure 2: Percentage of Production Eligible for Support

	1997 - 2001	2002 - 2007	2008 - 2013
All Program Commodities	79%	72%	65%

As already noted, if adjustments were made to the target prices to keep the "effective" CCP support constant, CCPs would be $1.5 billion to $2.5 billion higher per year than the CBO baseline or $9 billion to $15 billion for the 2008-2013 period and $15 billion to $25 billion for the full 10 years in the CBO budget. This $1.5 billion to $2.5 billion per year is independent of additional loan program costs.

Since this additional funding does not appear to be likely, Farm Bureau looked at a counter-cyclical revenue-based program (CCR) to see if the limited dollars available could be spent more effectively to fund a farmer safety net.

Farm Bureau supports modifying the counter-cyclical program to have payments triggered by a shortfall in state crop revenue rather than a shortfall in the national average price. This change would bring crop yields and production into the equation. There have been years when prices were high but yields were low. Farmers were in need of support but there were no CCPs made to producers. This is especially true in years of drought and other adverse weather conditions. In contrast, there have been years when the price was low, but yields were high, so payments were made even when farmers may not have needed the support. Severe weather conditions for several consecutive years in many states have led to significantly lower yields or total failure. If crops are short due to weather issues, higher prices lead to little support in the form of CCPs.

A well-designed CCR program can deliver protection against low prices or low yields. –It can, therefore, ensure better protection against volatile commodity prices and significant crop losses. Payments would be made under a CCR program when a state's realized crop revenue is less than a crop's trigger revenue. When the actual per-acre revenue falls below the per-acre trigger revenue, producers would be compensated the difference. A farm's total CCR payment would equal the per-acre payment multiplied by 85 percent of the producer's base acres.

Current Counter-Cyclical Payment Calculation

CCP Triggered When:

Season Average Farm Price < Trigger Price

Where:

Trigger Price = Target Price – Direct Payment Rate

- Target Price and Direct Payment Rate fixed in 2002 legislation

Payment Rate Per Acre:

Trigger Price – Higher of Market Price or Loan Rate * Counter-cyclical yield

- Counter-cyclical yield fixed in 2002 legislation

Payment:

Payment rate per acre * 85 percent of base acres

Proposed Counter-Cyclical Revenue (CCR) Calculation

CCR Payment Triggered When:

Actual State Revenue / Acre < State Target Revenue / Acre

Where:

State Target Revenue / Acre = (TP – DP Rate) * Fixed State Average Yield

- Target prices (TP) and direct payment rates (DP Rate) are the same as those set in the 2002 farm bill
- Fixed State Average Yield = Olympic Average of 2002-2006 state crop yield

And:

Actual State Revenue / Acre =
Actual State Average Yield * Higher of National Season Average Market Price or LR

- Loan Rates (LR) are the same as those set in 2002 farm bill
- Actual State Average Yield is the state yield for the current year

When payment is triggered, the producer payment per acre is the difference between the two Target and Actual Revenues.

Producer Payment / Acre = State Target Revenue/Acre - Actual State Revenue/Acre

Producer Payment = Producer Payment / Acre * 0.85 base acres

- Base Acres those used in 2002 farm bill CCP

Figure 3 provides the data necessary to develop an example of the costs and benefits of shifting from a counter-cyclical price payment to a counter-cyclical revenue payment. Currently, CCPs are made when market prices fall below a trigger price set by commodity in the 2002 legislation. This trigger price is the target price minus the direct payment, with the loan rate acting as a floor. The CCP payment rate is the difference between the trigger price and the market price or loan rate, whichever is higher. The payment is calculated as the CCP payment rate times a producer's base acreage eligible for support (85 percent) times the fixed counter-cyclical yield included in the 2002 legislation.

Using corn in 2005 as an example, the season average market price of $2 per bushel was $.35 below the target price ($2.63) minus the direct payment ($.28). That is, $2.00-($2.63-$.28) = $.35. The counter-cyclical payment rate was $.35 per bushel. For the sector as a whole, this translated into $2.5 billion in CCP payments—or $.35 times the national counter-cyclical corn yield set at 114.4 bushels per acre times 85 percent of the corn base acreage or 73.8 million acres. All corn producers with base acreage received the payment based on their specific base acreage and counter-cyclical yields despite their very different market situations—whether their yields were excellent and their receipts were high despite low prices or whether their yields were low and their receipts off even more sharply than for the corn sector as a whole.

The modifications proposed by Farm Bureau add a yield variable to this calculation and determine support at the state rather than the national level. This effectively converts the CCP program from a national price support to a state revenue support program. For example, instead of a national drop in prices triggering payments, payments are made when state revenue per acre (state yield times national price) fall below target revenue (average state yield times national trigger price).

For example, Oklahoma wheat producers did not receive a CCP payment in 2006 despite a significant drop in yields that reduced their revenues. This is because the national price averaged $4.30 per bushel—well above the trigger price of $3.40 ($3.92-$.52 = $3.40). Hence, the CCP payment rate was $0 and wheat producers in Oklahoma and in all other states did not receive CCP payments. Had the CCR program proposed here been in place, Oklahoma's drop in revenues would have triggered a payment despite relatively high national prices. The calculation would have been as follows. Oklahoma's target revenue per acre would have been the state's Olympic average yield times the national trigger prices from the CCP program. This amounts to an average yield of 31.7 bushels per acre times a trigger price of $3.40, or a target revenue per acre of $107.67. For 2006, Oklahoma's actual yield of 24 bushels per acre times the actual price of $4.30 per bushel put actual revenues at $103.20 per acre. The CCR for Oklahoma would have been the difference between actual and target revenue, or $107.67-$103.20 ($4.47) per acre. An Oklahoma producer with 1,000 acres of wheat base would have received this $4.47 payment on 850 acres for a total of $3,799 compared to not receiving any payments under the existing CCP.

State payments would have been over $26 million. It is important to note that since there is no additional funding for the CCP in the 2007 farm bill baseline and assistance is targeted more to farmers who need it most to sustain revenues, some farmers will not fare as well with a CCR.

For example, in 2003, Kansas wheat producers reported an unusually high 48 bushel yield compared to an Olympic average of 36.7 bushels per acre. The national price for wheat was $3.40 or right at the national trigger price. Kansas' actual revenue per acre was $163.20. This compares to a target revenue of $124.67 from the trigger price times the average yield. Under a CCR, no payment would have been made to Kansas producers, despite the fact that poor yields in neighboring Oklahoma would have triggered a payment for Oklahoma producers for the same year.

As noted in the Standing Catastrophic Assistance section, this modified CCR would play a critical role in what would be an improved farm safety net. Common to the CCR, Standing Catastrophic Assistance and crop insurance elements of this proposal is the concept of targeting critical support dollars to farmers in greatest need.

Figure 3: 2006 Oklahoma Wheat Example of CCP and CCR

	CCP (Current)	CCR (Hypothetical)
Basic Data		
Target Price	$3.92	$3.92
Direct Payment	$0.52	$0.52
Loan Rate	$2.75	$2.75
National Price (MYA)	$4.30	$4.30
Wheat Payment Acres - Oklahoma (0.85 * Base Acres)	6.05 mil	6.05 mil
CCP Details		
CCP Rate	$0.00	
CCP Yield	36.1 bu	
Total State Payment	$0.00	
CCR Details		
Average Yield		31.67 bu
Target Revenue per acre		$107.67
Actual Yield		24 bu
Actual Revenue per acre		$103.20
CCR Payment Rate per acre (Target Revenue - Actual Revenue)		$4.47
Total State Payment (CCR Payment Rate * 0.85 Base Acres)		$27.04 mil

On the other hand, the CCR program will not always trigger in the same year or for the same farm as the CCP. As can be seen in figure 4, cotton prices were low enough in 2003 to result in a CCP totaling $36.6 million for the state of Mississippi. However, the state's yield of 934 pounds per acre was higher than the Olympic average of 873 pounds per acre. Combining these factors resulted in a state revenue equal to $577.22 per acre, which was higher than Mississippi's target revenue of $573.80 per acre. Thus, no CCR payment would have been distributed.

Figure 4: 2003 Mississippi Cotton Example of CCP and CCR

	CCP (Current)	CCR (Hypothetical)
Basic Data		
Target Price	$0.724	$0.724
Direct Payment	$0.067	$0.067
Loan Rate	$0.520	$0.520
National Price (MYA)	$0.618	$0.618
Cotton Payment Acres - Mississippi (0.85 * Base Acres)	1.46 mil	1.46 mil
CCP Details		
CCP Rate	$0.0393	
CCP Yield	638	
Total State Payment	$36.6 mil	
CCR Details		
Average Yield		873 lbs
Target Revenue per acre		$573.80
Actual Yield		934 lbs
Actual Revenue per acre		$577.22
CCR Payment Rate per acre (Target Revenue - Actual Revenue)		$0.00
Total State Payment (CCR Payment Rate * 0.85 Base Acres)		$0.00

A state CCR gets more money to farmers when they need it and less when revenues are high enough to minimize their need for support. We would have preferred to implement a county-based CCR to maximize responsiveness to farmer needs. However, the cost of the program was too great given a $7 billion limit on commodity spending. We view a state-based program as far superior to the USDA proposal, which used a national yield variable.

It is not a perfect program. Obviously, a producer's yields will vary from state-based yields. When that occurs, the program will be less effective. However, a revenue counter-cyclical program should help producers better manage their risk by making the payment higher in low-income or low-yield years. The bottom line is that producers would be better off receiving "a buck in bad years" rather than "a buck in good years."

The basics of the program would include USDA announcing a projected per-acre revenue for each program commodity at the beginning of each growing season. After harvest, USDA would calculate actual revenues based on market prices received and observed state average yields. If the revenue was below the earlier estimate, all producers in the state would receive a check to make up for the difference. The average revenue would be re-estimated every year and would therefore react to market prices.

A move to a state CCR program would cost approximately the same or slightly more than the current CCP. Any added cost could be accounted for, however, by adjusting the percentage of the base eligible for support (for example, a payment could be made on 83 percent of base acreage rather than 85 percent). Ultimately, the modification would transfer about the same amount of funds to producers. However, they would be paid in a manner that increased their usefulness to farmers facing a downturn in production and/or prices.

Planting Prohibition:

The specialty crop industry has rarely entered the mainstream of farm policy debate. With the exception of programs targeted at producers of dry peas and lentils, federal farm programs that provide income support to field crop producers do not apply to the specialty crop industry.

In general, government payments do not materially contribute to the long-term financial sustainability of U.S. specialty crop producers. Although growers of strictly specialty crops (except for dry peas and lentils) are not eligible for direct payments (other than ad hoc disaster relief), many specialty crop growers also produce such crops as small grains, soybeans or cotton – crops that make growers eligible for participation in various government programs. Some also participate in conservation programs.

The industry does benefit from a number of federal programs that stabilize and enhance income, such as ad hoc disaster payments, the Noninsured Assistance program, crop insurance, marketing and promotion programs, food aid purchases, export promotion programs (like the Market Access Program or Trade Adjustment Assistance), tree replacement assistance, cost-share assistance and other assistance for implementing conservation programs.

Government investment in the agriculture sector is required to create a fair, level playing field with international competitors who do not face the regulatory burdens of U.S. producers. With the government's mandate that domestic producers must meet the very highest standards in environmental regulation, labor and other areas comes the responsibility to help those producers achieve cost-effective compliance. Without appropriate assistance, U.S. production will be displaced by production from less restrictive foreign growing areas.

Current law prohibits, except in certain limited circumstances, the planting of fruits, vegetables and wild rice on program crop base acres. Violation of this restriction results in the loss of direct and counter-cyclical payments. With the exception of these commodities, farmers have planting flexibility on base acres. This essentially means that corn base acres can be planted to any other subsidized crop and vice versa, but not to fruits and vegetables. The limitation was put in place because producers of unsubsidized, but high-value, specialty crops objected to potential competition from subsidized farmers.

Recently, the WTO determined that, because of planting restrictions, direct payments were not consistent with "green box" support (subsidies classified by the WTO as being minimally trade distorting). This means the planting prohibition will have to be eliminated or $5.2 billion in annual direct payments will have to be notified to the WTO as amber box spending. Such notification will likely cause the U.S. to exceed its amber box limits in some years and will certainly make it more difficult to reduce amber box spending in future potential WTO negotiations.

Fruit and vegetable producers are concerned that elimination of the planting prohibition will shift program crop production into specialty crop production, while producers continue to receive program crop support. In other words, producers of program crops would continue to receive direct payments and counter-cyclical payments while competing with some specialty crop producers who are entirely at risk in the marketplace

Our members firmly support a policy that calls for our farm programs to comply without WTO obligations. **Given the determination in the Brazil cotton case, Farm Bureau supports elimination of the fruit and vegetable planting prohibition. However, we only support eliminating the restriction on direct payments. We support continuing the restriction for counter-cyclical payments. We do not believe it is necessary, nor is there anything to gain, from removing the restrictions on counter-cyclical support.** This should reduce the inequity that will exist among farmers and the amount of funding provided for those producers.

Several studies, including a USDA Economic Research Service (ERS)/Michigan State University study, suggest shifts from program to specialty crops are likely to be small. With the exception of dry edible beans, there are significant barriers to entry into specialty crop production. The ERS/Michigan State study lists four main factors as limiting shifts. "These factors have been generally classified as: (a) capital investment; (b) rotational requirements; (c) access to market channels; and (d) labor and management requirements." The report concludes by stating, "In most cases, a change in the fruit and vegetable restriction would provide a small (or no) positive incentive for direct and counter-cyclical payments for crop producers to enter the production of fruit and vegetable restricted crops."

One way to consider the amount of funding that "should" be provided to fruit and vegetable producers is to look at the potential economic impact on those growers from elimination of the planting restriction. The value of government payments a program crop producer would have to give up to make the switch in production is a good indicator of the value of the protection the prohibition affords fruit and vegetable producers. Direct payments to program crop producers totaled $5.2 billion annually under the 2002 farm bill. Spread across 268 million acres enrolled in the farm program, the average government direct payment per acre is $19.42. If that amount were budgeted over the 12 million acres of specialty crops, the equivalent annual payment would amount to $233 million per year. **Hence, a realistic amount of funding to compensate specialty crop growers for the elimination of the planting prohibition and the loss of direct payments on those program crop acres is $250 million annually.**

The specialty crop industry has indicated that it does not want support in the form of direct payments to growers. Rather, its emphasis is on building the long-term competitiveness and sustainability of U.S. specialty crop production. One approach to achieving these goals would be to invest in specialty conservation programs described later in this statement.

The State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the fiscal year (FY) 2006 agricultural appropriations bill should be discontinued. It is important that assistance be provided to fruit and vegetable producers rather than allowing state governments to use the federal money to offset state budget shortfalls or to fund individual commodity programs.

Payment Limitations

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions. 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 those who are 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. To reflect that our payments are following that concept, 38 percent of our nation's farms produce 92 percent of our food and receive 87 percent of program payments. We should only move to socially-based policy if we want to allow someone in Washington to decide "winners and losers."

We oppose further reduction in the payment limit levels. We oppose any government policies that attempt to "means test" payments. To be a viable farm, we must use economies of scale to justify the large capital investment costs associated with farming.

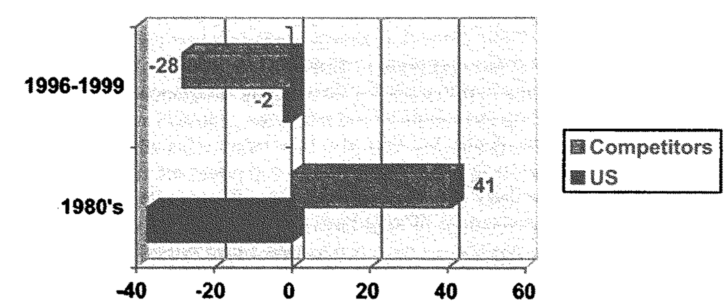
Arbitrarily limiting payments could result in farm sizes too small to be economically viable.

The administration's proposal to reduce the current law's adjusted gross income (AGI) provision from $2.5 million, excluding those individuals who earn at least 75 percent of their income from farming, to $200,000 could have many serious consequences, one of which would be for rental agreements. It would force landowners to cash-rent their land rather than share production risks with producer tenants. This will likely hurt the producers actually doing the farming. By simply moving to a cash-rent system, large landowners won't suffer from this limit on AGI .

Supply Management:

Some are discussing returning to a farm program based on 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 by just 2 million acres and our competitors reduced their production 28 million acres. We must not return to supply management programs.

Set-Asides Hurt American Farmers



We also tried storing our way to prosperity. That did not work either. We tried having the CCC 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.

Beginning Farmers:

The average age of farmers continues to climb while the number replacing them shrinks. Much thought has been given during the debate on the upcoming farm bill to how to help young and beginning farmers get started in the business.

The administration has suggested higher fixed payments for crops that the government subsidizes. This could mean $5 per acre in income per beginning farmer. While we applaud the emphasis, unfortunately that amount of money won't go very far. Most young farmers say that land availability at reasonable prices is their biggest impediment to entering farming. In the Midwest, with corn prices significantly higher due to ethanol demand, some farmers are paying $80 per acre more for rent than they did in 2006.

Another big problem that arises with the administration's approach is the definition of a beginning farmer. For example, do "start-up" farmers who have worked in agriculture with their parents for years but are now taking over the farm as part of an intergenerational transfer qualify as beginning farmers? This is a huge problem fraught with loopholes that could indeed hurt those producers we are all trying to help.

Family Forestry Farms:

The Farm Bureau supports more active consideration of family forestry farms in USDA's operation of the conservation programs, particularly the CSP. The acreages in question are larger and the potential environmental payoff on CSP funds with a broadening of program guidelines is considerable. However, this would entail an outreach effort to a currently under-served client.

VI. Standing Catastrophic Assistance

Producers around the country suffer from droughts, floods, wildfires, freezes, blizzards and hurricanes. The ad hoc disaster bills passed in previous years took too long to pass. In some years, no assistance has been provided. A catastrophic assistance program is necessary to ensure that farmers and ranchers get support in a timely manner. Tying a catastrophic assistance program with a re-rated crop insurance program that reflects the new distribution of risk would provide the basis for a more effective safety net.

The farm sector of the U.S. economy is unique in its dependence on weather and its vulnerability to weather-related crop disasters. Virtually every year, weather somewhere in the U.S. is unfavorable enough to cut production dramatically and financially devastate producers if they were forced to depend on their own resources to address the problem. Losses in the areas hardest hit are often 50 percent to 75 percent of normal production and occasionally leave farmers with no crop to harvest at all. These losses are the result of what is referred to as systemic risk rather than individual risk because they are beyond the capacity of any one operator or group of operators to control.

Congress has recognized both the potentially devastating economic effects and the systemic nature of weather problems by passing ad hoc disaster assistance bills in many years. This has helped in the short term by keeping otherwise viable farms in business. It raises several troubling questions over the longer term about equity, risk management and farm program continuity.

Looking first at equity, farmers hit with a disaster in a relatively good year for the sector as a whole could find themselves without any ad hoc government disaster assistance to fall back on despite assistance having been available for comparable problems in previous years. There are years when no ad hoc disaster assistance legislation is passed despite the incidence of localized bad weather. In addition, provisions in individual ad hoc disaster acts change. This means that the commodity coverage, geographic focus, loss thresholds and compensation vary from year to year even if there is ad hoc disaster assistance in place.

Looking at risk management, ad hoc disaster assistance can encourage questionable farm business management practices by allowing operators to choose between enrolling in risk management programs such as the crop insurance program and depending on no-cost, but unreliable, ad hoc programs. In years when disaster assistance is legislated, farmers who opted not to purchase crop insurance can often fare almost as well as farmers who bought insurance as part of a risk management package. As part of an effort to avoid double-dipping, farmers who have paid for crop insurance often find themselves at a disadvantage for disaster assistance payments. This situation does not promote good business management practices.

Lastly, with Congress' budget guidelines, ad hoc assistance has trended toward having to be offset by spending reductions in other programs under the Agriculture Committees' jurisdictions. This has derailed other programs such as the CSP and put the continuity of farm policy at risk, particularly in years when disaster program costs expand to account for as much as one-fifth of overall commodity program spending.

Farm Bureau supports establishing a county-based catastrophic assistance program focused on the systemic risk in counties with sufficient adverse weather to be declared disaster areas.

We have worked to ensure that a catastrophic assistance program does not duplicate the coverage offered by crop insurance. There are important differences. Many farmers purchase revenue insurance policies rather than yield policies. Crop insurance, therefore, provides coverage against price changes and yield losses while disaster programs typically cover only yield declines. In addition, crop insurance policies allow producers to choose their own deductible, whereas the catastrophic assistance program would have a deductible fixed at 50 percent. In addition, most producers purchase 65 percent or 70 percent coverage based on the price level, whereas this program would only cover 55 percent of price.

With the current commodity prices, the crop insurance program now costs more than any other program.

This recommendation would rule out the need for ad hoc legislation with its questions about equitable treatment of farmers across years, regions and commodities. Standing legislation would apply the same assistance criteria across years to all field crops, specialty crops and forage crops. It would also encourage improved farmer risk management by combining a consistent, well-defined-assistance-criteria disaster program with the crop insurance program. Farmers could depend on the systemic loss program and "buy-up" coverage with purchases of crop or revenue insurance to manage risk.

A standing catastrophic assistance program would focus on crop losses below 50 percent of normal production incurred by a producer faced with a natural disaster. Setting the loss threshold at 50 percent but including all crops—compared to the traditional approach of setting support at 65 percent and covering a narrower range of commodities—would cost approximately \$2 billion per year compared to the \$2.5 billion to \$3 billion spent on average over the last five disaster programs. As demonstrated, expenditures could vary widely around this projection. Ad hoc disaster assistance is not included in the CBO budget for the 2008-2017 period. Hence, this \$2 billion would have to be funded from savings from the crop insurance program or producer fees.

County-Based Standing Catastrophic Assistance Calculations

Payment triggered when:

- County declared a disaster area by President or Secretary of Agriculture
- Actual yields are less than 50 percent of five-year Olympic average of county yields

Where Payment Rate is:

County Average Yield – Actual Yield * five-year Olympic average national prices

Where Payment is:

Payment Rate * Normal Harvested Acres (planted acres minus any acreage not normally harvested)

Commodities Covered:

- Field crops, specialty crops and forage crops

Integrating a Re-Rated Crop Insurance Program:

The re-rated crop insurance program aligned with a standing catastrophic assistance program would be a critical part of farmer risk management programs and a source of funding. Farmers could purchase crop insurance policies designed to extend protection above the 50 percent level. Depending on the commodity, insurance levels have typically ranged from 65 percent to 80 percent. This would allow farmers to develop their own strategies for addressing risk related more to individual production practices and decisions than to systemic factors. However, crop insurance would have to be re-rated, with premiums adjusted to reflect the catastrophic assistance program's absorption of the risk associated with losses greater than the 50 percent level currently born by the crop insurance program.

Farm Bureau supports elimination of the catastrophic crop insurance program (CAT) and the Noninsured Assistance Program (NAP) when a catastrophic assistance program is enacted. CBO projects the crop insurance program costs $5.3 billion per year. Re-rating the program, plus savings from the elimination of CAT and NAP, could save $1 billion per year that would be available to fund half of the disaster assistance program. The remaining $1 billion shortfall would be covered by a producer fee, estimated to cost $0.80 per $100 in crop commodity receipts.

Ad hoc legislation might still be needed to address large-scale livestock losses from a Hurricane Katrina or an avian influenza outbreak. However, the permanent program would address the most common problems and make ad hoc emergency assistance the exception rather than the rule. Assistance to cattle producers in 2005-06 can serve as an example. Emergency assistance was provided to producers faced with a particularly severe situation in a large area in Texas through the Livestock Indemnity Program. Producers were paid a fixed indemnity fee per head lost. The important point to consider, however, is that this type of program would be needed possibly one year every decade, rather than virtually every year as has been the case with ad hoc disaster assistance.

Combining Counter-cyclical Revenue, Standing Catastrophic Assistance and Re-rated Crop Insurance into an Integrated Farm Safety Net:

The Farm Bureau supports the integration of the proposed CCR, standing catastrophic assistance and re-rated crop insurance programs into what would effectively be a single farm safety net.

The importance of this integration is clear looking at a sample farm for Dewey County, Oklahoma, where an exceptionally bad situation would have triggered all three programs in 2002 and one to two years out of 10 over the longer term. The table below contrasts the economic situation facing a typical county wheat farmer with 1,000 acres of base absent program support with the situation assuming that the integrated support was in place.

Using actual data for 2002, this typical Dewey County farmer would have harvested a significantly smaller crop in 2002 than in 2001 due to a weather-related drop in yields. Planted yields for the county averaged 8 bushels per acre compared with an Olympic five- year average of 19.25 bushels per acre and a 2000 planted yield of 23.1 bushels. Yields across the state were also disappointing, down to 28 bushels per planted acre compared with an Olympic 5-year average of 31.6 bushels. The season average farm price for wheat hit $3.56 per bushel in 2002. As a result, absent support programs, the Dewey County farmer's gross income would have been $28,480 (8,000 bushels times $3.56 per bushel). This compares with $87,500 the previous year and an average of $69,780 over the previous five years.

The table below replays this 2002 situation assuming that the Farm Bureau's proposed combination of safety net programs was in place. First, the modified CCR would have kicked-in based on disappointing yields for the state despite relatively high market prices. Target revenue for the state (calculated as the trigger price of $3.40 based on the target price of $3.92 minus the direct payment of $.52 times the Olympic average state yield of 31.67 bushels per acre) would have been $107.67. Actual state revenue was $99.68 based on a low yield that more than offsets a relatively high price. The CCR payment rate per acre would have been $7.99 ($107.67 - $99.68). With payments made on 85 percent of the farmer's 1,000-acre wheat base, the payment would have been $6,792. It is important to note that the current CCP would not have been triggered since there is no provision for disappointing yields in the current calculation, with the payment based solely on the difference between the trigger price and the higher of the market price or the loan rate.

Second, the standing catastrophic assistance program would also have been triggered. Looking at the county rather than the state yield, the Dewey County farmer's planted yield would have been 8 bushels per acre. The 50 percent disaster threshold built into the catastrophic program would have triggered payments when the yield fell below 50 percent of the county's Olympic average yield of 19.25 bushels per acre. This puts the yield shortfall for the catastrophic program at 1.63 bushels per acre—50 percent of the 19.25 yield minus the actual 8 bushel yield). Using the five-year Olympic average market price ($3.46) as a reference, this 1.63 bushel disaster shortfall translates into a payment of $5.64 per acre and a total payment for the Dewey County farmer of $5,640.

Third, the crop insurance program would have been in place for the farmer to add protection. It is safe to assume that the Dewey County farmer participated, particularly with the added incentive of no ad hoc assistance. Assuming the farmer chose the average insurance package for the county, the rate would have been 65 percent. This puts the farmer's insurance yield at 12.50 bushels (65 percent of the average 19.25-bushel yield). With the catastrophic program insuring yields below the 9.63 bushel level (50 percent of the 19.25 bushel average) the margin covered by the insurance program would have been 2.87 bushels per acre (12.50 bushels – 9.63 bushels). Using the same Olympic average price as a reference, this translates into a payment of $9.93 per acre (2.87 bushels times $3.46). For 1,000 acres, this translates into a payment of $9,930.

With crop insurance re-rated to reflect the risk absorbed by the catastrophic program, the same 65 percent policy would cost less than the current program. The difference, if applied to buying more crop insurance, could raise the selection to 70-75 percent. At the 70 percent level, the insurance payment would have been $13,304. That is an insurance shortfall of 3.85 bushels rather than 2.87 bushels times the $3.46 average price.

With regard to gross income, with the mix of programs proposed, the Dewey County farmer's return would have been $50,842 rather than $28,480 in 2002. Looking at the producer's five-year income average of $69,780, the initial loss due to the disaster would have been $41,300 ($69,780-$28,480). The mix of programs would have raised income to $50,842. The program would essentially indemnify the farmer for $22,362 of the loss and leave the operator with $28,480 of the loss to absorb. With the higher 70 percent selection for crop insurance, the farmer would have been indemnified $25,736 and would have to absorb $25,106. In effect this approximately 50-50 split on risk sharing is all the current CBO budget can support. Keeping in mind that farmers pay a significant amount of the safety net costs of the integrated program described, the cost of the re-rated crop insurance and catastrophic fee would have been about $3,000 per year.

It is also important to recognize that the three programs do not have to be triggered jointly. History suggests that the CCR would be triggered the most, followed by the crop insurance program and then the disaster program. This ensures that farmers get some kind of support when needed, with the amount of the support increasing directly with the severity of the need.

In addition, there is no new money for these three programs. Therefore, the increased support to operators faced with a serious, but presumably temporary, downturn comes at the expense of payments to operators with average or above-average revenue for the same year. Given the budget constraints that we face in the 2007 debate, this falls short of an optimal program that would address risk at the operator level. However, it maximizes the benefits possible with constrained budgets based on the principle that $1 of assistance in a bad year is worth more than $1 in a good year.

2002 Payments - Sample 1,000 Acre Wheat Farm in Dewey County, Oklahoma

	Without Programs	**Proposed Programs**
Base Acres Planted	1,000	1,000
Planted Yield	8.0 bu	8.0 bu
Production	8,000 bu	8,000 bu
Price - 2002 MYA	$3.56	$3.56
Market Revenue	$28,480	$28,480
CCR Details		
Trigger Price		$3.40
State Average Yield		31.67 bu
Target Revenue per acre		$107.67
Actual State Yield .		28 bu
Actual Revenue per acre		$99.68
CCR Payment Rate - Revenue Deficit		$7.99
Payment Acres (0.85*Base)		850
Payment		$6,792
Disaster Details		
Actual County Yield		8.0 bu
Average County Yield		19.25 bu
50% Average County Yield		9.63 bu
Yield Shortfall per acre		1.63 bu
Average Price		$3.46
Payment Rate		$5.64
Acreage Planted		1,000
Payment		$5,640
Crop Insurance Details (65%)		
Actual County Yield		8.0 bu
Average County Yield		19.25 bu
Insured Yield - 65%		12.50 bu
Disaster Yield - 50%		9.63 bu
Insurance Yield Shortfall		2.87 bu
Average Price		$3.46
Payment Rate		$9.93
Acreage Planted		1,000
Payment		$9,930
Total Gross Income	$28,480	$50,842

VII. Dairy

Price Support:

The National Milk Producers Federation (NMPF) has proposed replacing the current dairy price support program that supports the price of milk at $9.90/hundredweight to one that supports the price of specific dairy products such as butter, nonfat powder and cheese.

Farm Bureau supports a proposal to change the structure of the dairy price support program from the current program that supports the price of milk to one that supports the price of butter, nonfat powder and cheese. Farm Bureau supports this change only if total federal government funding does not increase by moving to the new program.

MILC:

Farm Bureau supports a national counter-cyclical income assistance component such as the MILC program. We oppose discrimination against large producers in the MILC program. The MILC program was authorized in the 2002 farm bill to provide counter-cyclical support for dairy producers. Funds are distributed based on 34 percent of the difference between $16.94 and the Class I milk price per hundredweight in Boston. The program is capped at 2.4 million pounds of milk, which supports about a 120-cow operation. USDA has proposed extending the program but reducing the 34 percent figure to 31 percent in FY 2009, 28 percent in FY 2010, 25 percent in FY 2011, 22 percent in FY 2012 and 20 percent in FY 2013-2017. **Farm Bureau supports continuation of the MILC program or another form of counter-cyclical payments and opposes reductions in the program payments.**

Dairy Promotion Assessment on Imports:

Farm Bureau supports the collection of promotion fees on imported dairy products at the same rate as collected from U.S. producers. Virtually all U.S. dairy farmers pay $0.15 per hundred pounds of milk to the dairy check-off program. This program promotes overall dairy consumption in the U.S. Currently, foreign suppliers do not pay into the program.

Dairy products from foreign suppliers have benefited from a healthy and growing $90 billion U.S. dairy market. Since importers of foreign dairy products also benefit from selling into our market, they should also be subject to an equivalent assessment to help pay for the promotion program that helps boost the sales of all dairy products. This is already an established practice in the beef, cotton and pork check-off programs.

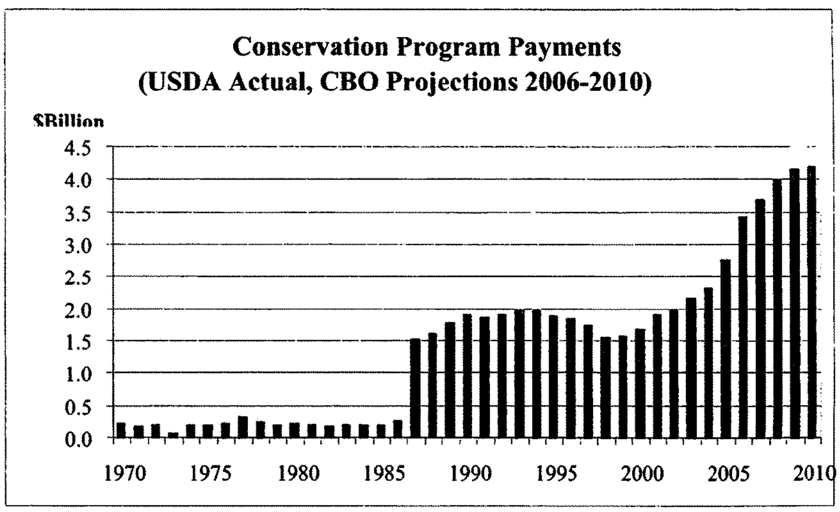
Farm Bureau supports implementation of the dairy promotion assessment on imports.

VIII. Conservation

Farmers and ranchers are excellent producers of traditional agricultural commodities. They are just as good at producing a healthy environment. Some critics haven't really looked at the benefits of what farmers are doing already under conservation programs. With each farm bill enacted since 1981, Congress has responded to the potential adverse effects of agricultural activities on the physical landscape by increasing the number, scope and funding of conservation programs.

Critics of farm programs like to say that conservation program funding continues to be cut. While budget cuts for conservation programs often have not been to conservationists'—or farmers'—liking over the last few years, cuts have also been applied to commodity, export and nutrition programs. The past few years have been challenging times in terms of competition for federal budget dollars. The reality is that, even in this competitive budget environment, conservation funding continues to increase each year.

Total conservation spending has grown from just a few hundred million dollars per year throughout the 1970s and much of the 1980s to nearly $3.5 billion in 2006. CBO projects significant additional growth in conservation spending – to $4.2 billion in the next four years.



Farmers' and ranchers' contributions to the environment continue to be on the upswing. 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. Surface water quality has also improved dramatically, largely through reductions in nutrient loading. Agriculture has contributed a large share of the 1 billion-pound reduction in discharge into the country's lakes, rivers and streams since 1972 through reduced use and better management of chemical inputs. While more difficult to measure, EPA studies indicate that ground water quality has also improved due to decreased nutrient depositing. Wetland protection has expanded sharply, in large part due to farmer initiative and enrollment of about 3 million acres in the wetland reserve. Wildlife habitat has expanded due to improved farmer management of their land resources and the set aside of particularly sensitive acres. More broadly, agriculture remains the country's number one source of carbon sequestration, helping to offset the impact of the rest of the economy's contribution to greenhouse gas build-ups.

Conservation programs are an important component of the farm bill. They are proven, viable ways to promote sound, sustainable practices through voluntary, cost-share, incentive-based programs. However, conservation programs are not an effective substitute for the safety net provided by commodity programs.

Some retirement conservation programs, such as the CRP, actually displace farm income on a dollar-for-dollar basis. Farmers lose operating revenue or rental payments roughly equal to the payments they receive in return for long-term retirement. Some working lands conservation programs, such as EQIP or 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. While conservation programs are critical, they have to work in conjunction with—rather than as a substitute for—current commodity programs.

Adequate funding for conservation programs should not come at the expense of full funding for commodity programs.

Farm Bureau supports strong conservation programs in the farm bill with an emphasis on working lands conservation programs rather than retirement programs.

CRP:

The CRP removes active cropland into conservation uses, typically for 10 years, and provides annual rental payments based on the agricultural rental value of the land and cost-share assistance. Conversion of the land must yield adequate levels of environmental improvement per the Environmental Benefits Index (EBI) to qualify.

We support the CRP; however, it should be limited to only those site-specific locations in critical need of conservation. General "whole-farm" enrollments are inefficient. Whole-farm enrollments take vital resources away from farmers and ranchers who could make good, responsible use of the land.

Some advocate for CRP acreage to be reduced, especially livestock producers who want to mitigate the impact of growing ethanol demand on corn acreage. Given the advances and acceptance of the minimum and no-till farming methods in the 20 years since much of current CRP land was first enrolled, as much as 7 million to 10 million acres of land could be farmed in an environmentally sustainable manner for renewable energy development.

Farm Bureau supports allowing haying, but not grazing, on Conservation Reserve Program (CRP) acreage with a reduction in the rental rate to partially offset the economic gains.

This would allow additional feedstock for livestock producers currently facing very high feed costs and would also allow savings in acreage not considered "highly erodible" to be used for other higher-priority conservation programs. Our hay and forage supplies are dwindling. USDA reported that U.S. hay stocks had dropped to an 18-year low of 96.4 million tons. If dry conditions continue, we will further deplete tight storage stocks. Regardless, we will see high hay demands and prices as the drought will likely persist in at least part of the country and some hay acreage will almost certainly be converted to corn acreage.

Energy is critical to our national security and economic prosperity. In 2005, biomass renewable energy production accounted for only 2.8 percent of the total energy production nationwide. Now is the perfect time to do more on that front. In 2005, USDA concluded that 1.3 billion dry tons of biomass could be harvested annually from U.S. forest and agricultural land without negatively impacting food, feed and export demands. This biomass could produce enough ethanol to replace 30 percent of current U.S. petroleum consumption.

It is important to look beyond corn for ethanol. We must develop an industry that manufactures ethanol from cellulosic feedstocks. We can do this by breaking down wood chips, switchgrass, sweet sorghum and agricultural waste into cellulosic ethanol. We can also expand starch and vegetable oil feedstocks for biofuel. However, significant trial and error must be done to ensure these potential energy sources are adequately evaluated.

Similarly, we support the use of selected CRP ground for grasses raised for cellulosic feedstock production. Again, farmers would need to utilize production practices to minimize environmental and wildlife impacts. Producers would forgo a portion of their CRP rental payment. To aid in establishing cellulosic feedstock crops, producers would be eligible for cost-share assistance for establishment and the first four years of maintenance costs associated with the grasses.

Farm Bureau supports the current 39.2 million-acre level for the CRP.

We support adjusting the EBI for the CRP to ensure that the most environmentally sensitive lands continue to be enrolled. However, contract holders should be able to produce energy crops, like switchgrass or sweet sorghum, while still protecting against soil erosion. Additionally, only land that is environmentally suitable for limited use should be allowed this "hybrid" use. A cellulosic feedstock cover crop would be required to be established and maintained following recommended farming practices.

This would allow for farmers to grow energy crops and yet not increase the costs of funding the program.

CSP:

CSP may represent an important means of supporting farm income in years to come. Unfortunately, the authorized ceiling for funding the CSP was reduced twice to pay for emergency disaster assistance, restricting the availability of the program to one watershed per state and undermining its effectiveness and acceptance as a national program. We must carefully evaluate this program to ensure it qualifies to be notified to the WTO as non-trade distorting. Adjustments must be made to the program if that is not the case.

We strongly support the CSP program. However, the sharp increases in funding in the baseline for 2016 and 2017 would be difficult to spend efficiently and effectively. Farm Bureau supports a CSP program capped at $1.75 billion in 2016 and 2017, with the savings invested in other conservation activities. This five-fold increase provides room for steady and efficient expansion in the program.

However, we also support a broadening of the CSP guidelines to include support for all farm management and input use practices. Funding decision criteria should be set up to encourage the broadest possible participation of farmers across commodity concentration.

Budget Authority for the CSP
CBO March 2007 Baseline

Fiscal Year
(in millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CBO	259	396	480	562	636	740	769	769	780	2166	3602
AFBF	259	396	480	562	636	740	769	769	780	1750	1750

EQIP Mandate for Fruit and Vegetable Production:

Farm Bureau proposes using some of the savings gained from capping the CSP to expand EQIP to aid fruit and vegetable producers. These funds should be used to provide a $250 million annual increase in EQIP funding and to earmark 17 percent of all mandatory EQIP funding for fruit and vegetable production. This would alter the current requirement that 60 percent of EQIP funding go to livestock production and 40 percent to crop production. Instead, the new requirements would be 50 percent to livestock production, 33 percent to crop production and 17 percent to fruit and vegetable production. It is important to note that this increase in fruit and vegetable funding does not come at the expense of livestock and crop producers. The earmarked fruit and vegetable funds would be a net addition to the program along with the expanded hog and broiler outlays noted later.

EQIP provides incentive payments and cost shares up to 75 percent of the costs to implement conservation practices. EQIP activities are carried out according to a plan of operations developed in conjunction with the producer that identifies the appropriate conservation practice or practices to address the resource concerns. Contracts range from one to 10 years. An individual or entity may not receive, directly or indirectly, cost-share or incentive payments that, in the aggregate, exceed $450,000 for all EQIP contracts entered into during the term of the farm bill.

In addition, it is difficult for many specialty crop producers to have access to high quality technical assistance, which can be a determining factor in whether they participate in conservation programs. Farm Bureau has entered into a cooperative agreement with USDA to determine the ability of technical service providers to adequately assist specialty crop producers and to ascertain if changes to the EQIP program are necessary to allow more specialty crop growers to qualify for assistance.

The 2002 farm bill authorized the Secretary of Agriculture to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. The bill also established a maximum cost-share rate of 90 percent for beginning farmers and ranchers and limited resource farmers in the CSP and EQIP programs. This is a 15 percent cost-share differential or bonus relative to the regular maximum cost-share rate. The intent of these provisions was two-fold: to help new farmers and ranchers get started and to encourage them from the outset to adopt strong farm conservation systems. Adoption of sustainable systems is often far easier at the beginning of an operation's history than later on once a system is in place and then needs to be changed or retrofitted. **Farm Bureau supports continuation of the conservation cost-share differential for young and beginning farmers.**

Enhancing EQIP Funding to Support Expanded Livestock Coverage:

Farm Bureau supports increasing the EQIP baseline funding by $125 million annually for hog and broiler operations. This recommendation is based on several factors. The current EQIP program has been most effective in addressing environmental issues associated with bovine agriculture, with outlays for beef and dairy operations accounting for about three-fifths of total program spending. Building on these successes will depend on continuing base funding. However, funding for other livestock activities has lagged, with only 3 percent of funding going to hog initiatives and less than 5 percent going to broiler operations. To put this in perspective, with waste management possibly the biggest livestock challenge environmentally speaking, hogs and broilers produce about half of total livestock waste. In addition, many hog and broiler operations are located closer to urban areas and more sensitive water resources.

The rationale for more funding for hog and broiler operations is also based on a question of timing. Many hog and broiler producers were early adopters of improved livestock production technologies, particularly waste management practices. Major investments were made in these areas in the late 1980s and early 1990s as the scale of operation for many operators expanded dramatically. Consequently, they often did not qualify for EQIP assistance for facilities already in place when the program began. However, with the aging of facilities put in place 15-20 years ago and with industry consolidation, more funding is necessary to build new and upgrade aging facilities.

Spending this money effectively also depends on USDA rethinking EQIP guidelines to reflect more of the typical hog and broiler producer's concerns. Existing EQIP guidelines lend themselves well to beef producers making initial investments in qualifying facilities. Many of the priorities for hog and broiler producers will be second-generation investments in innovations such as pooling waste management across groups of producers and exploring options that are only viable with a larger scale than most individual producers have. It is hoped that this package of expanded EQIP funding would be coordinated with expanded CSP activities in the hog and broiler sectors. Identifying it as a separate EQIP initiative from base funding for the EQIP program should also ensure that the targeting element of the initiative is met.

Supporting EQIP and CSP with Improved Cost Data:

Farm Bureau supports updating the farm cost information underlying the CSP payment schedule and often used as a reference in the EQIP program. This would serve two purposes. First, it would reinforce farmer interest in the programs by ensuring that payments reflected actual expenses and in the process simplify operation of both programs. Some of the cost information used in conservation program management predates the 2002 farm bill and does not reflect the cost run-up of the last two to three years. Second, updating and strengthening the link to empirical cost data would also reinforce the U.S.'s classification of the two programs—an increasingly large share of our farm program spending—as green box activity. In order to ensure green box classification, we have to maintain a viable link between program payments and the expenses incurred by producers adopting the practice in question or building new or upgrading existing facilities to meet environmental goals. The cost of such an initiative would be quite small (less than 1 percent of spending in the initial year of the new farm bill) relative to the spending proposed for the two programs, particularly if it were integrated into USDA's existing Agricultural Resource Management Survey conducted by the National Agricultural Statistics Service.

GPS Conservation Cost Sharing

Given the role GPS technology can play in increasing the effectiveness of EQIP and particularly the CSP and nutrient management programs, Farm Bureau supports including the provision for GPS cost-sharing in these conservation programs. The cost would be a fraction of the more than $2 billion being spent each year on these conservation initiatives. This cost-sharing would continue over the life of a farmer's enrollment in the programs. The impact on farm profitability would be even longer-lived as farmers integrate the technology into their day-to-day management and improve use of inputs such as fertilizer and pesticides. **Farm Bureau supports the provision for cost-sharing for GPS technology as a way to enhance the effectiveness of the EQIP and CSP programs and to boost overall farm profitability.**

IV. Exports

Continuation of an adequately funded export promotion program, including MAP and the FMD program, is vital in an export-dependent agricultural economy. Individual farmers and ranchers do not have the resources to operate effective promotion programs to expand markets. However, the public/private cost-share approach of MAP and the FMD program has proven very effective.

Funding for the FMD program and MAP should be maintained at their current levels of $34.5 million and $200 million annually. FMD is a key trade promotion program. The program is essential for growers to maintain long-term promotion of both value-added and bulk product exports to foreign countries. Similarly, MAP funds key shorter-term promotions of many commodities, including fruits and vegetables.

The Emerging Markets Program, Export Credit Guarantee Program and all food aid programs (including P.L. 480 Titles I and II, Food for Progress and the McGovern-Dole International Food for Education Program) should be reauthorized. The Emerging Markets Program funds technical assistance activities to promote exports of U.S. agricultural commodities and products to emerging foreign markets. The purpose of the program is to assist public and private organizations in enhancing U.S. exports to low- and middle-income countries that have or are developing market-oriented economies.

Under the GSM/Export Credit Guarantee programs, the U.S. government guarantees credits given to foreign buyers for repayment within 180 days.

The P.L. 480 Title I food aid program administered by USDA provides for concessional sales of food to needy countries through both governments and Private Voluntary Organizations (PVOs).

P.L. 480 Title II, administered by the U.S. Agency for International Development, is the largest U.S. food aid donation program. It delivers both emergency and non-emergency humanitarian assistance through PVOs and the United Nations World Food Program.

Food for Progress was established in the 1985 farm bill as a means for rewarding countries moving toward democracy with humanitarian assistance. In the last decade, the program has been used to deliver food aid all over the world. The 2002 farm bill established a minimum of 400,000 metric tons of food to be procured annually, and increased funding for subsidized U.S.-flag cargo preference freight rates to $45 million. Program requirements to minimize displacement of commercial sales were strengthened.

Under the McGovern-Dole Food for Education program, USDA provides school lunches to children in developing countries. The program is funded through contributions of commodities and processed foods by several donor countries.

Farm Bureau opposes requiring food aid be given as "cash only" instead of allowing nations to provide food directly as an emergency and developmental assistance program.

Fruit, vegetables and tree nuts account for 17 percent of the value of U.S. agricultural exports. In 2005, the U.S. exported $10.7 billion in these commodities and imported $14.1 billion. The U.S. has had a negative net fruit and vegetable trade balance since 1998.

Increased overseas promotion of U.S. specialty crops has helped boost foreign sales despite the hindering effects of the strong dollar during much of the past 10 years. However, export markets for U.S. specialty crops have expanded at a much more subdued pace than import markets.

Farm Bureau also believes the TASC program should be significantly enhanced. USDA is responsible for promoting U.S. agricultural exports, including advocating on behalf of U.S. agricultural interests around the world as disputes arise. Funding for the Foreign Agricultural Service (FAS) staff and expenses to accomplish this and related objectives is provided through the annual appropriations process. The 2002 farm bill authorized the TASC program to fund projects that address SPS and technical barriers related to specialty crops. TASC is a mandatory program, authorized to be funded at $2 million annually for the life of the farm bill.

Farm Bureau supports expansion of the $2 million TASC program to mandate an annual level of $10 million – a five-fold increase. TASC is specifically targeted at dealing with non-tariff barriers to specialty crop trade. Examples of successful use of the program include providing information on Japanese maximum residue levels to initiate nectarine trade with Japan and to assist with organic standards issues with Europe.

Boosting Support for SPS Trade Programs:

Realizing the export gains possible from normal growth in world trade and from bilateral and multilateral agreements depends increasingly on resolving issues related to the U.S.'s SPS system. The U.S. has invested heavily to put the world's premier, science-based system into place. Despite this effort, SPS issues persist and prevent the U.S. from gaining the most from our trade—both export and import—opportunities.

The issue has at least three facets. First, foreign buyers continue to raise concerns—presumably good-faith concerns—about the quality and safety of U.S. products. However, these questions are often based on only a limited understanding of U.S. practices or on bad or questionable science. Second, the U.S. imports an expanded volume of products—particularly specialty products—from developing countries with limited knowledge of U.S. standards and practices. With imports mixed with domestic production in most markets, lapses in production practices abroad affecting imported product can lead to questions about the safety of the entire supply, including domestic production. Third, more developing countries are embarking on efforts of their own or using links to international organizations and major country systems to develop SPS regulations. Improving the understanding of the U.S. system could help them adopt the science-based practices that are best for importers and exports alike.

We support a pilot initiative aimed at expanding international understanding and acceptance of the U.S.'s system of SPS practices in an effort to boost export opportunities, ensure safe imports, and promote adoption of science-based SPS regimes around the world. The Farm Bureau proposes using $63 million in savings from the elimination of export subsidies in the 2008-2013 budget in a two-year pilot program. The funding would be used by a consortium of existing agencies (i.e. FAS, the Food and Drug Administration and the Animal and Plant Health Inspection Service) with assistance from the university system. Their combined efforts would focus on using technical assistance, outreach, education and representation to: 1) Increase understanding of the U.S. system by existing trading partners; 2) Encourage incorporation of the U.S. SPS system in the production and handling of products destined for the U.S.; 3) Boost the U.S.'s role in international forums such as Codex Alimentarius and OIE (Office Internationale de Epizooties); 4) Work directly with developing countries to encourage wider adoption of a system of science-based SPS regulations; and 5) Provide support for SPS trade dispute resolution.

Funding after the first two years would be based on an evaluation of the programs' success in these main problem areas.

X. Competition Issues

There has been considerable discussion about including competition issues in the upcoming farm bill. Increasing producer competitiveness and access to a transparent marketplace is vital to sustaining domestic production agriculture for farmers and ranchers.

Farm Bureau is concerned that consolidation, and subsequent concentration within the agricultural sector, could have adverse economic impacts on U.S. farmers and ranchers. As contractual production and marketing arrangements between producers and processors become more prevalent, we see less connection with traditional cash markets, which could result in reduced prices for all commodities paid to producers. It is imperative that markets are open to all producers and that these markets offer fair prices for their products.

AFBF supports strengthening enforcement activities to ensure proposed agribusiness mergers and vertical integration arrangements do not hamper producers' access to inputs, markets and transportation. USDA, DOJ and other appropriate agencies should investigate any anti-competitive implications that agribusiness mergers and/or acquisitions may cause.

More specifically, **AFBF supports enhancing USDA's oversight of the PSA. GIPSA investigations need to include more legal expertise within USDA to enhance anti-competitive analysis on mergers. USDA, in conjunction with DOJ, should closely investigate all mergers, ownership changes or other trends in the meat packing industry for actions that limit the availability of a competitive market for livestock producers. We support establishing an Office of Special Counsel for Competition at USDA.**

AFBF supports amending the PSA and strengthening producer protection and USDA's authority in enforcing the PSA to provide jurisdiction and enforcement over the marketing of poultry meat and eggs as already exists for livestock. This includes breeder hen and pullet operations so they are treated the same as broiler operations.

AFBF supports efforts to provide contract protections to ensure that the production contract clearly spells out what is required of the producer. In addition, we support prohibiting confidentiality clauses in contracts so that producers are free to share the contract with family members or an outside advisor, lawyer or lender.

Farm Bureau supports legislation to prohibit mandatory arbitration so that producers are not prevented from going to the courts to speak out against unfair actions by companies.

Farm Bureau supports allowing meat and poultry inspected under state programs, which are equal to federal inspection and approved by USDA, to move in interstate commerce. There are 28 states with nearly 2,000 state inspection facilities for meat products. All other products, such as milk, dairy products, fruit, vegetables, fish, shellfish and canned products, which are inspected under state jurisdiction, are allowed to be marketed freely throughout the U.S. Movement of these products across state lines will increase marketing opportunities for farmers and ranchers.

Farm Bureau supports voluntary country-of-origin labeling. The costs associated with implementing a mandatory program, especially for meat products, would create a competitive disadvantage for our producers. USDA estimates the program will cost the industry between $500 million and $4 billion in the first year alone, with per head costs at $10.00 per cow and $1.50 per hog. Until a cost-effective program can be implemented, Farm Bureau opposes a mandatory labeling program for meat, fruits and vegetables and peanuts.

Farm Bureau supports the establishment and implementation of a voluntary national animal identification system (NAIS) capable of providing support for animal disease control and eradication. AFBF remains concerned about three major issues that will affect the success of this voluntary program and believes at least these issues must be resolved prior to the implementation of a mandatory program.

Cost: How much will animal identification cost and who will pay the price? The price tag for a national ID system could run as high as $100 million annually. The fiscal year 2007 agriculture budget provides $33 million to fund activities for system development, a level of funding insufficient to obtain satisfactory producer participation in a voluntary program. Producers cannot and should not bear an unfair share of the costs of establishing or maintaining an animal ID system. Implementation of a successful ID program depends on adequate and equitable funding.

Confidentiality: Who has access to the data used in the NAIS, and how can producers be assured protection from unintended use of the data they submit? Legislation is imperative to ensure the privacy of producers' information submitted to the NAIS, because producers must be protected from public disclosure under the Freedom of Information Act (FOIA). Otherwise, competitors or activist groups could exploit proprietary information. Furthermore, there must be clarity on which state and federal agencies will have access to the data.

Liability: Are producers appropriately protected from the consequences of the actions of others, after their animals are no longer in their control? Many producers worry they might be forced to share liability. Congress needs to pass legislation providing producers with protection – but not immunity – from litigation if their product, according to federal or state inspection processes, was wholesome, sound, unadulterated and fit for human consumption.

XI. Energy

A robust energy title of the farm bill will help establish new domestic markets for U.S. producers and help eliminate our dependence on foreign oil. While the Senate and House Agriculture Committees have limited jurisdiction over energy policy changes, enhancements and extensions, they do have the ability to further promote domestic energy uses.

We strongly support the production and use of agricultural-based energy products and promotion of bio-blended fuels. We support the "25x25" vision, which calls for 25 percent of America's energy needs to be produced from working lands by the year 2025.

We recognize that promoting more use of agriculture-based energy depends on demand initiatives as well as efforts to boost production.

The expiring CCC Bioenergy Program should be re-authorized. Under this program, the Secretary can make payments from the CCC to eligible bioenergy producers, both ethanol and biodiesel producers. The payment is based on any year-to-year increase in the bioenergy they produce.

The Biodiesel Fuel Education Program should be reauthorized. The program helps educate government, private vehicle fleet managers and the public about the benefits of biodiesel in order to increase biodiesel demand.

The Bio-based Products and Procurement Program should be revised and reauthorized to promote development and increased use by federal agencies of existing and new soy-based products. This should include a timely implementation of this market development program, allow feedstocks (intermediaries) to be designated as biobased products and implement the labeling program.

We support $5 million in funding for demonstration projects to streamline the collection, transportation and storage of cellulosic crop residue feedstocks.

The Value-Added Agricultural Product Market Development Grants should be reauthorized. This provision makes competitive grants available to assist producers with feasibility studies, business plans, marketing strategies and start-up capital.

The Biomass Research & Development Program should be reauthorized.
This provision extends an existing program—created under the Biomass R&D Act of 2000—that provides competitive funding for research and development projects on biofuels and bio-based chemicals and products.

XII. Research

Farm Bureau recognizes the key role that agricultural research plays in making and keeping the farm sector competitive, profitable and responsive to the country's changing food, feed and fiber needs. However, with research costs rising faster than funding, USDA will have to increase its efforts to prioritize research in order to continue its record of accomplishment. **We encourage Congress to call for establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers.** Organizations such as the Farm Bureau are prepared to help cast farmers' input in the most useful form for USDA and land grant universities.

Regarding specific priorities:

Congress should prioritize research initiatives to commercialize technologies to make ethanol from cellulosic biomass.

Congress should prioritize research on modifications of DDGs and other byproducts to expand their use, especially in non-ruminant animals.

Congress should prioritize research on development of renewable energy sources, such as power generation using manure.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry. Growing problems with identifying labor supplies makes this type of research imperative.

Congress should provide adequate funding for research on methyl bromide alternatives.

AFBF also proposes that Congress mandate an in-depth USDA study of the air quality issue, as it relates to agriculture.

XIII. Credit

Farm Credit System:

The Farm Credit System has recommended three legislative changes. These include: (a) increasing the credit availability for farm- and commercial fishing-related businesses by relaxing restrictions on the types of businesses that can borrow from Farm Credit System lenders (The proposed legislation would allow businesses that farmers and aquatic harvesters depend on to support their farming or aquatic operations to be eligible for Farm Credit System financing); (b) increasing the rural home mortgage financing restriction from a community whose population is 2,500 or less to a population limit of 50,000; and (c) continuation of a requirement that borrowers purchase stock in order to be eligible for loans from the system, but that the minimum level of stock purchase required be left to the discretion of the local Farm Credit lender's board of directors.

Farm Bureau supports the initiative undertaken by the Farm Credit System to evaluate credit availability. We support the Farm Credit System concepts and will thoroughly review and consider the specificity of those recommendations to ensure the credit needs of farmers, ranchers and those serving production agriculture are met.

FSA:

FSA has made great strides in increasing the amount of loan funds for beginning farmers and ranchers and socially disadvantaged farmers. The FSA direct loan beginning farmer caseload increased from 3,474 in 1995 to 16,828 in 2006. The FSA guaranteed beginning farmer caseload increased from 3,617 in 1997 to 8,236 in 2006.

We support the administration's proposal to increase from 35 percent to 70 percent the targeting of the FSA direct loan portfolio to beginning and socially disadvantaged farmers. Currently, targeted loans are reserved for beginning farmers and ranchers for the first few months of the fiscal year. After the targeting period ends, any remaining funds are pooled across states and allocated to other qualified farmers.

We support the administration's proposal to enhance the beginning farmer down-payment program to make it easier for beginning farmers to buy property by lowering the interest rate charged from 4 percent to 2 percent and eliminating the $250,000 cap on the value of the property that may be acquired.

XIV. Nutrition:

The School Fruit and Vegetable Snack Program was authorized to encourage increased consumption of fresh fruit and vegetables by children. The program offers fresh fruit and vegetables free of charge to children in 400 schools in 14 states. The program was funded at $6 million for the 2002-2003 school year and was extended through the 2003-2004 school year. **Farm Bureau supports expansion of the School Fruit and Vegetable Snack Program to 10 schools in every state. This should only cost about $7.5 million annually but will provide significant benefits to fruit and vegetable producers now and in the long term, while promoting healthy eating habits among children.**

In recent years, USDA has acquired an average of over $300 million a year in fruit and vegetables for schools. About $50 million is purchased and distributed through the Department of Defense Fresh Program, which supplies fresh fruits and vegetables to schools under contract with USDA. **We support the administration's proposal to provide an additional $50 million a year for the purchase of fruits and vegetables specifically for the school lunch program.** Some of this new spending could be through added funds for the Department of Defense Fresh Program.

XV. Miscellaneous Activities

Farm Bureau supports increasing funding for the USTR Office of Agriculture and the Office of the Agricultural Ambassador by $2 million annually.

Agriculture's recent experience with negotiating multilateral and bilateral agreements and litigating trade disputes highlights the importance of expanding USTR's staff. While USTR has effectively represented our interests in the past, the staff demands associated with negotiations continue to increase. It is also increasingly important that USTR have sufficient staff to ensure our trading partners live up to their commitments and to represent American agriculture in dispute resolution cases. An increase of $2 million per year in funding for staff would support a 25 percent increase in USTR staffing in the Agriculture Office and the Office of the Agricultural Ambassador, as well as staff working on agriculture-related issues in the SPS area.

XVI. Budget Effects

As noted in the introductory Principles section, Farm Bureau's proposals are fiscally responsible. The proposals recognize and respect the budget constraints facing Congress. The following budget summary highlighting the major Farm Bureau proposals indicates that the "package" is approximately equal in cost to the CBO baseline. In an era of tight funding, the Farm Bureau has emphasized spending the funds available as effectively as possible. The comparison focuses on the full 10-year budget Congress is working with and extends the 2008-2013 programs through 2017.

Budget Costs For Farm Bureau's 2007 Farm Bill Proposal ($ billion)
(Comparison with CBO Baseline for 2008-2017) [1]

	CBO Baseline	Farm Bureau Proposal [2]
I. Commodity Programs ($65.2 billion) plus Crop Insurance ($51.8 billion)	117.0	117.0
Direct Payments	52.0	52.0
Counter-cyclical Program (Shift to Revenue Program roughly cost-neutral, with any cost increase offset with a 1-2 percent adjustment in base acres)	10.0	10.0
Standing Catastrophic Assistance Program And Re-Rated Crop Insurance Program (Cost above crop insurance savings paid by a small fee on crop producers)	51.8	51.8
Elimination of Planting Prohibition ($2.3 billion in fruit and vegetable producer compensation and 80 million in TASC paid for from capping CSP and applying dollars to EQIP earmark for fruits and vegetables)	0	0
II. Conservation Programs	51.8	51.8
CRP (Net savings of $1.5 billion from lower rental rates on haying/biofuel cropping)	23.1	21.6

CSP (Net Savings of $2.3 billion from capping Program at $1.75 billion in 2016 and 2017)	10.9	8.6
EQIP (Maintain Base Program)	12.75	12.75
EQIP (Added earmarked activities for hog and broiler projects funded with savings from CRP and CSP)	0	1.25
EQIP (Added earmark for fruits and vegetables funded with savings from CRP and CSP)	0	2.5
III. Nutrition	317.1	317.1
IV. Other	33.2	33.2
V. Total	519.2	519.2

1. Budget Estimates shown above are for the full 10 years included in CBO baseline, not just the six years in a new 2008-2013 farm bill.

2. Budget estimates for the Farm Bureau proposal are internal Farm Bureau estimates. CBO has not been asked to cost out the Farm Bureau proposal.

National Farmers Union

Testimony of Tom Buis

Before the

U.S. House Committee on Agriculture

Proposals to Amend the Program Crop Provisions of the

Farm Security and Rural Investment Act of 2002

Thursday, April 26, 2007
Washington, D.C.

Chairman Etheridge, Ranking Member Moran and members of the subcommittee, thank you for the opportunity to testify regarding our proposal to amend the program crop provisions of the Farm Security and Rural Investment Act of 2002. My name is Tom Buis and I am the President of the National Farmers Union. I commend you for holding this important hearing and look forward to working with you to craft an efficient and effective 2007 Farm Bill.

NFU is proud to be an organization whose policy positions actually come from producers. Polices are written on local, regional, state and then on the national level. Last year, NFU held a series of farm bill listening sessions around the nation to gather input from farmers, ranchers and people who live and work in rural America. Our policies were formally adopted at our annual convention in early March of this year.

The general principles for the next Farm Bill as approved by our convention state that the independent family farmer and rancher owned and operated food, fuel, and fiber production is the most economically, socially, and environmentally beneficial way to meet the needs of our nation. We recognize that the economy of rural America continues to face the challenges of increasing input expenses, weather-related disasters and inadequate market competition. We are concerned the 2002 Farm Bill suffered disproportionate budget reductions during the 2006 budget reconciliation process and year appropriations bills, despite saving more than $23 billion as a result of the commodity title. As part of the next farm bill, NFU encourages Congress to establish programs that return profitability and economic opportunity to production agriculture and rural communities.

Without a doubt, the number one priority for the new farm bill should be profitability. Profits from the marketplace are where every farmer or rancher wants to receive their income – not from the government. Specifically, we support a new Farm Bill that includes the following provisions:

- A farm income safety net that uses counter-cyclical payments indexed to the cost of production to support family farmers during periods of low commodity prices;
- A farmer-owned Strategic Biofuels Feedstock Reserve tied to the needs of producers who utilize agricultural products, livestock feed consumers and food manufacturers, which protects against years of poor crop production, with storage payments set at levels equal to commercial storage and adequate release levels that encourage fair market prices;
- A renewable energy title that makes energy independence a national priority, one that prioritizes and facilitates farmer, rancher, and community ownership of renewable energy and value-added projects, including ethanol, biodiesel, and farmer and community-owned wind energy;
- A comprehensive competition title that addresses current anti-trust practices and ensures anti-trust laws will be enforced;
- A permanent disaster program, funded from the general treasury in the same manner as other natural disasters so that agricultural disaster assistance does not require "offsets";
- A conservation title that provides adequate funding to support the authorized programs, as intended by Congress. The title should include full funding for the Conservation Security Program, substantial increase in the funding for the Natural Resources Conservation Service (NRCS) technical services to assist farmers and ranchers in the development and implementation of conservation cost-share programs;
- A strong nutrition title to help provide basic food and nutrition needs for citizens of all ages, especially our young, elderly, and physically handicapped;
- Dairy programs that include a strong safety net and a supply management system to protect producers from a market collapse. Dairy prices should reflect cost of production shifts for producers;
- A rural development title that helps farmers, ranchers, and members of the rural communities develop new and better economic opportunities to support and build the economic base of rural America.

- New resources and other efforts to add differentiated value to family farms for the sustainability and competitiveness of specialty crops, livestock and seafood; and
- Budget scoring that is not based upon World Trade Organization (WTO) methodology.

A New Counter-Cyclical Program with Permanent Disaster Assistance Could Save Money

Most would agree that the 2002 Farm Bill has worked well. The irony is that the program worked so well, relying primarily on the counter-cyclical nature of the program, that it did not actually expend the resources contemplated. As a result, under current budget guidelines, Congress has a reduced budget baseline for which to write the 2007 Farm Bill. It is a shame that budget rules short change fiscally responsible programs such as the 2002 Farm Bill. The 2002 legislation actually saved billions of dollars while producers received their income from the place they want to -- the market. If all federal programs were as fiscally responsible, we would have a budget surplus, not a deficit.

Since this subcommittee and Congress are faced with crafting a new farm bill with significantly diminished resources, it appears that we will not have the resources to keep the current safety net. When it became apparent that the budget baseline for commodity programs would be less, NFU started looking at other alternative safety net proposals that would cost less, but still provide the same level of support as the current commodity programs. We commissioned an economic study that looked at adding a cost of production component, set at 95 percent of the cost of production, to a purely counter-cyclical safety net.

This proposal allows for increased input costs to be reflected in a counter-cyclical payment in the event that prices drop below a certain level. It would guard, for example, against sharp increases in energy prices like we witnessed in 2005 and are seeing again this year.

According to the economic analysis and modeling conducted by Dr. Daryll Ray, at the Agricultural Policy Analysis Center, University of Tennessee, the proposal would provide the same level of safety net as provided by the current farm bill, plus save $2 to $3 billion per year. This level of protection and savings is achieved because it would only provide federal assistance if commodity prices are low, and would eliminate the difficult to defend direct, de-coupled, guaranteed payments of the current program. Direct payments are difficult to defend when prices are high; when prices are low, the direct payment isn't adequate protection for producers.

The University of Tennessee study, which used the February 2007 USDA Baseline updated to include the March 30, 2007 planting intentions, documents that ***the amount of savings under this proposal could also provide the resources to fund a permanent disaster program and allow other saved resources to be used for high priority programs.***

NFU considers permanent disaster assistance a critical and inseparable part of an adequate safety net. We urge Congress to approve a permanent disaster provision so that ad-hoc disaster legislation becomes a thing of the past. Producers need some certainty. But again, under the proposal suggested, the savings from the direct payments can be used for the cost of production based counter cyclical program *and* a permanent disaster program *and* still yield savings. These savings could be used for priorities such as renewable energy, conservation, specialty crop producers, rural development and research.

I will be providing the subcommittee and full committee with additional information related to this study, but it is our hope that the proposal will be seriously considered.

Dairy

With regard to dairy, NFU believes that Congress should:

- Establish a one percent loan program for dairy producers who lose their milk checks due to a financial default by a milk marketer. The fund should extend low-interest loans to producers for the amount of money lost in the default for a term of up to three years.
- Mandate commodity promotion programs board of directors be elected by producers that are assessed to fund the program. USDA's Office of Inspector General should investigate whether the National Dairy Promotion and Research Board has violated rules by approving grants/loans to wholly-owned subsidiaries of the cooperatives to which they belong.
- Immediately cease all imports of Grade A dairy products that do not meet the same high standards as met in the U.S.
- Prohibit imports of dairy and meat products from any nation with an active outbreak of Foot and Mouth Disease (FMD); and maintain a one-year prohibition of imports from any country following an announcement of eradication of FMD.
- Amend the Capper-Volstead Act and Internal Revenue Services rules to limit antitrust exemptions for agricultural cooperatives only to the original procurement, pricing and marketing of raw agricultural products and commodities.
- Make adequate reforms to the Federal Milk Marketing Order (FMMO):
    - Enforce rules of the FMMO to ensure adequate competition exist in all Orders;
    - Include California and all areas of the U.S. into the FMMO system.
    - Require USDA to act upon the mandate found in U.S. C. 7 Chapter 26, Subchapter III, Section 608c. 18 to adjust milk prices within the FMMO system based upon regional grain prices;
    - Reject efforts to increase the manufacturer's make-allowance, which would reduce producer income at a time when producer income is declining.
- Require all foods and commodities utilized in federally-subsidized nutrition programs, including the School Lunch Program contain only domestically-produced dairy products and ingredients that have been certified as safe under FDA's Generally Recognized as Safe program (GRAS).
- Require dairy products provided to members of the Armed Services be supplied by U.S. producers and processors, as an effort to create additional marketing opportunities for U.S. producers while reducing the potential for bioterrorism and further promote domestic dairy products.
- Full reinstatement of dairy products of the Women's Infants and Children (WIC) program.
- Extend the MILC program to expire in tandem with the remainder of the 2002 Farm Bill programs and fully restore funding levels and to be considered in the 2007 Farm Bill.
- Immediately pass legislation to address the rapidly increasing imports of MPC and other protein concentrates that distort the U.S. milk market.
- Prohibit the Food and Drug Administration from changing the definition of milk for cheese, ice cream and any other dairy product, which would reduce the nutritional value of those products and have a devastating economic impact on American dairy producers.
- Immediately investigate and review reporting procedures for the values of nonfat dry milk from July 2006 to present and establish an indemnity fund to compensate producers that have lost revenues from proven and documented incidents of under-reporting nonfat dry milk values. Both USDA and the California Department of Food and Agriculture should review pricing programs to assure dairy commodity values are accurately and fairly reported.

NFU Dairy Summit

On March 23, NFU hosted a Dairy Summit for producers to have an opportunity to collaborate and unite as development of future dairy policy is considered. A past history of geographical differences had resulted in a policy divide among producers. What our dairy summit revealed, was that dairy producers face similar challenges regardless of size or geographic location, and that producers can work together in order to develop proactive solutions to the challenges we face.

More than 20 producer organizations participated in the Summit and agreed upon set of principles, which I hope resonate during consideration of the next farm bill. The principles include:

- Return on investment greater than cost of production, plus a profit from the market as a result of public policy.

  Options to achieve principle:
  - Establish efficient transmission of price signals. Today's dairy market is non-functioning with an imbalance of buyers and sellers.
  - Restore competitive price discovery mechanisms through market reform or revise the basic pricing formula to include producers' cost-of-production.
  - Continuation of a counter-cyclical safety-net.
  - Establish safety-net support price that is fair and equitable to all producers.
  - Immediately address the unlimited imports of dairy proteins flooding the U.S. market, by passing legislation such as the Milk Import Tariff Equity Act.

- Reform Federal Milk Marketing Order system.

  Options to achieve principle:
  - Incorporate California and all regions of the country into the FMMO system;
  - Correct pooling/de-pooling provisions;
  - Eliminate bloc voting;
  - Allow "no" vote on amendments, yet maintain Order;
  - Do not place financial burden of transportation onto producers;
  - Eliminate processor make-allowance. If not eliminated, the make-allowance should be variable and tied to producers' cost-of-production;
  - Establish three-part pricing formula to include: producers' cost-of-production, the Consumer Price Index and the Chicago Mercantile Exchange;
  - Resolve distribution and supply management challenges;
  - Prohibit forward contracting;

- Restore competition to a non-competitive dairy market. *A lack of competition at the retail and processor levels breeds a need for policies to support producers.*

  Options to achieve principle:
  - Support funding for academic antitrust research;
    Require the NASS survey to be audited periodically;
    Intensify review process for proposed mergers;
  - Promote smaller coops and increase oversight of coop management to ensure interests of producers are met;
  - Maintain standards of identity on dairy products and move to increase standards to be "closer to the cow" by raising the fat content in fluid milk.

Other Challenges

NFU supports the continuation of the current sugar program for our nation's sugar beet and cane producers.

I am pleased that there appears to be a majority in Congress who want to ensure that the 2007 Farm Bill will be written in Congress and not at the World Trade Organization. Agricultural trade has been a losing battle for our nation and especially for farmers and ranchers. While agriculture exports have risen, agricultural imports have risen at a far greater pace. We are just barely a net agricultural exporter and many suggest that we will soon import more agricultural goods than we exports.

The trade agreements that have been approved and are in place may have assisted international food conglomerates, but family framers have lost out. Trade policies have pitted farmer against farmer throughout the world, in a race to the bottom. It has been a race to see who can produce the cheapest food regardless of environmental, labor or health and safety standards. The race must stop.

Mr. Chairman, I again thank you for holding this hearing and for the opportunity to testify. I would be pleased to take any questions at the appropriate point and look forward to working with you and all members of the subcommittee to craft a thoughtful new farm bill for our nation.

THE UNIVERSITY OF TENNESSEE
INSTITUTE OF AGRICULTURE

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April 20, 2007

Mr. Tom Buis, President
National Farmers Union
400 North Capitol St. Ste. 790
Washington, DC 20001

Dear Tom:

The Agricultural Policy Analysis Center has conducted preliminary analysis of the National Farmer Union's proposed counter-cyclical payment program that replaces the current direct decoupled payment program, the marketing loan program and counter-cyclical payment program with a single redesigned counter-cyclical payment mechanism.

Compared to the current program, the proposed program reduces government payments in years in which farmers receive at least a targeted level of receipts from the market and provides additional payments in years in which market income is low. The protection of this program is set as a percent of the full cost of production per planted acre at the national level.

Using the February 2007 USDA Baseline updated to include the March 30, 2007 planting intentions, preliminary analysis of the program shows that under average conditions, that is baseline prices and yields, the proposed counter-cyclical program potentially saves \$2-\$3 billion a year when compared to the current program. These savings accrue primarily because no direct payments are made under any conditions including when crop prices and yields generate prosperous times for crop farmers. These savings are achieved while maintaining net farm income levels that are comparable to those provided under the current set of policy instruments.

Attached to this letter is an explanation of key formulae that we used to operationalize the proposed program.

Sincerely,

Daryll E. Ray

Daryll E. Ray, Director
Agricultural Policy Analysis Center
Blasingame Chair of Excellence

Explanation of key formulae used in the preliminary analysis of the National Farmers Union's Counter-Cyclical Payment Program proposal for the 2007 Farm Bill Debate

Agricultural Policy Analysis Center, University of Tennessee
April 20, 2007

The National Farmers Union has proposed a new commodity payment mechanism that replaces the current direct decoupled payment program, the marketing loan program and the counter-cyclical payment program with a single redesigned counter-cyclical payment mechanism. The goal of the proposed program is to reduce government payments in years in which farmers receive at least a targeted level of receipts from the market and to provide additional payments in years in which market income is low.

Our preliminary analysis of this program assumes a target protection level of 95% of the full cost of production per bushel at the national level reduced by the ratio of total use in the previous year to total supply in the previous year. Government payment levels for each program crop are calculated as follows:

1. The full cost of production (FCP) is computed from the USDA baseline for each year and then multiplied by 0.95 to establish the targeted protection level per acre (TPL).

   (1) $TPL_t = FCP_t * 0.95$

2. If the current year's season average price (P_t) times the current year's yield (Y_t) is greater than the targeted protection level for the current year (TPL_t) then no payment is made

   (2a) If $P_t * Y_t > TPL_t$, then no payment will be made

   If the current year's season average price (P_t) times the current year's yield (Y_t) is less than the full cost of production for the current year (TPL_t) then a payment will be made

   (2b) If $P_t * Y_t < TPL_t$, the a payment will be made

3. The payment rate per acre (PR_{Ac}) is calculated by subtracting the product of the current year's season average price times the current year's yield from TPL_t and then multiplying that result times the adjustment ratio (R_t).

(3a) $$PR_{Ac} = (TPL_t - P_t * Y_t) * R_t$$

Where R_t is calculated by dividing total use in the previous year (TU_{t-1}) by the total supply in the previous year (TS_{t-1}).

(3b) $$R_t = \frac{TU_{t-1}}{TS_{t-1}}$$

4. Total government payments (GP) are calculated by multiplying the payment rate, converted to dollars per bushel, times total production (Pdn_t).

(4) $$GP = \frac{PR_{Ac}}{Y_t} * Pdn_t$$

Cost-of-production forecasts for U.S. major field crops, 2006-2008F

Item	Corn 2006F	Corn 2007F	Corn 2008F	Soybeans 2006F	Soybeans 2007F	Soybeans 2008F	2006F
Operating costs:							
Seed	42.34	44.53	45.54	35.39	37.21	38.06	8.67
Fertilizer	64.71	69.41	71.88	11.80	12.66	13.11	27.90
Chemicals	28.51	30.17	31.16	14.50	15.35	15.85	9.07
Custom operations	12.50	13.20	13.47	6.93	7.31	7.46	6.79
Fuel, lube, and electricity	38.71	38.26	38.77	14.24	14.07	14.26	17.76
Repairs	16.62	17.07	17.40	11.68	12.00	12.23	12.57
Other variable expenses 1/	0.26	0.27	0.28	0.14	0.14	0.15	0.30
Hired labor	3.38	3.48	3.54	2.10	2.16	2.20	2.48
Total, variable costs	**207.03**	**216.39**	**222.04**	**96.78**	**100.90**	**103.32**	**85.54**
Allocated overhead:							
Interest on operating capital	5.11	5.80	6.42	2.38	2.70	2.98	2.09
Unpaid labor	28.22	29.00	29.50	17.36	17.83	18.14	21.54
Capital recovery	67.70	71.77	74.92	53.06	56.24	58.71	51.34
Land	99.54	105.37	108.83	90.86	96.18	99.34	39.82
Taxes and insurance	5.89	6.01	6.12	6.16	6.28	6.39	5.56
General farm overhead	13.36	13.72	13.84	12.90	13.25	13.37	8.54
Total, allocated costs	**219.82**	**231.67**	**239.63**	**182.72**	**192.48**	**198.93**	**128.89**
	1.06	1.07	1.08	1.89	1.91	1.93	1.51
Total costs listed	**426.85**	**448.06**	**461.67**	**279.50**	**293.38**	**302.25**	**214.43**

F = Forecasts are as of November 2006. Costs are based on estimates from 2005 and are projected by re
1/ Cost of purchased irrigation water plus cost of ginning for cotton and baling for wheat and barley.
Note these costs-of-production forecasts are at the national level and may differ considerably for the ind

Contact: Mir Ali, (202-694-5558) or Email: mirali@ers.usda.gov

Wheat			Cotton			Rice			Sorghum
2007F	2008F	2006F	2007F	2008F	2006F	2007F	2008F	2006F	2007F
				Dollars per planted acre					
9.12	9.32	57.92	60.91	62.29	29.90	31.44	32.16	6.98	7.34
29.93	31.00	42.80	45.91	47.55	76.67	82.25	85.18	28.86	30.96
9.60	9.91	65.22	69.03	71.28	60.78	64.33	66.43	21.31	22.56
7.17	7.32	27.14	28.66	29.24	73.43	77.55	79.12	11.31	11.94
17.55	17.78	39.73	39.26	39.79	115.18	113.83	115.36	38.21	37.76
12.91	13.16	22.60	23.21	23.66	23.72	24.37	24.84	19.73	20.27
0.32	0.32	100.48	106.38	109.24	10.90	11.52	11.75	0.14	0.15
2.55	2.60	16.13	16.58	16.87	30.85	31.70	32.25	5.41	5.56
89.15	**91.41**	**372.02**	**389.94**	**399.92**	**421.43**	**436.99**	**447.09**	**131.95**	**136.54**
2.37	2.62	6.29	7.16	7.92	9.80	11.03	12.17	3.20	3.59
22.13	22.51	35.53	36.51	37.14	49.76	51.13	52.01	30.74	31.58
54.43	56.81	73.32	77.72	81.13	100.22	106.24	110.90	73.47	77.88
42.15	43.54	52.84	55.94	57.77	118.84	125.80	129.92	43.65	46.20
5.67	5.77	8.22	8.38	8.54	17.10	17.43	17.76	5.14	5.24
8.77	8.85	17.83	18.30	18.47	26.55	27.27	27.52	9.91	10.18
135.52	**140.10**	**194.03**	**204.01**	**210.97**	**322.27**	**338.90**	**350.28**	**166.11**	**174.67**
1.52	1.53	0.52	0.52	0.53	0.76	0.78	0.78	1.26	1.28
224.67	**231.51**	**566.05**	**593.95**	**610.89**	**743.70**	**775.89**	**797.37**	**298.06**	**311.21**

:flecting changes in farm input price indexes from 2005 to 2006, 2007 and 2008.

lividual farmer and by size of operation.

	Oats			Barley		
2008F	2006F	2007F	2008F	2006F	2007F	2008F
7.50	9.23	9.71	9.93	10.06	10.58	10.82
32.07	24.93	26.74	27.69	26.67	28.61	29.62
23.29	2.08	2.20	2.27	13.26	14.03	14.49
12.19	4.76	5.02	5.12	8.06	8.51	8.68
38.27	10.27	10.15	10.28	19.22	18.99	19.25
20.66	11.46	11.77	12.00	16.68	17.13	17.46
0.15	1.41	1.49	1.52	2.28	2.41	2.46
5.66	3.00	3.08	3.14	3.48	3.57	3.63
139.79	**67.14**	**70.16**	**71.95**	**99.71**	**103.83**	**106.41**
3.97	1.68	1.91	2.11	2.43	2.75	3.04
32.13	23.88	24.53	24.96	23.50	24.15	24.57
81.29	27.54	29.19	30.47	75.93	80.49	84.02
47.72	30.39	32.17	33.22	51.63	54.65	56.44
5.34	17.68	18.03	18.36	6.86	6.99	7.12
10.27	7.32	7.51	7.58	9.55	9.81	9.90
180.72	**108.49**	**113.34**	**116.70**	**169.90**	**178.84**	**185.09**
1.29	1.62	1.62	1.62	1.70	1.72	1.74
320.51	**175.63**	**183.50**	**188.65**	**269.61**	**282.67**	**291.50**

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STATEMENT SUBMITTED BY
NATIONAL FAMILY FARM COALITION
FOR CONSIDERATION BY THE HOUSE AGRICULTURE COMMITTEE, SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT
April 26, 2007

We are pleased to submit this statement for consideration by the Subcommittee as you write the 2007 Farm Bill. The National Family Farm Coalition (NFFC) represents family farmer and rural advocacy organizations in thirty states. Our goal is to strengthen the voice and involvement of family farmers in the debate over a new farm, food, and trade policy that is fair to farmers and those who work in the fields and in the food production and distribution system.

The goal of food, farm, and trade policy should be a globally sustainable and adequate supply of wholesome food at affordable prices. A family farm system is the most effective means to provide safe and quality food, diversity of production, equitable social and economic opportunity, and preservation of land, water, and bio-diversity. The National Family Farm Coalition's food and farm policy proposal, called the Food from Family Farms Act (FFFA), is the foundation for a new sustainable family farm system. It has been endorsed by over 60 organizations who are working together to forge a comprehensive agenda for this farm bill as part of the "Building Sustainable Futures Globally" campaign (www.globalfarmer.org)..

Years of farm and trade policy which have allowed commodity prices to plunge to historically low levels have devastated the fabric of family farm agriculture and rural communities in the U.S. and around the world. The resulting global food system, while abundant, fails to feed the hungry, fails to promote healthful diets, and fails to eliminate food safety risks like disease pathogens and chemical contamination. Despite new optimism from higher prices for some commodities and projection of new markets for bio-fuel production, the public cannot rebuild a sustainable family farm agriculture system or a healthful, safe food supply without appropriate public policy in the 2007 Farm Bill.

This farm bill must address the economic position of family farmers with increasing debt, growing agribusiness vertical integration, valuing farmland for development and recreational uses, and global destruction of ecosystems for new production. Without new policy, the uncertainty of international agricultural and energy markets combined with the lack of public policy to deal with this uncertainty or the economic power of multinational agribusiness corporations portends continued replacement of family farms with industrial "factory farms."

It's time for a new farm bill that acts as a consumer-farmer economic bill of rights. We believe the 2007 Farm Bill must reverse the replacement of diversified sustainable family farms with huge corporate crop plantations and giant industrialized livestock confinements and feedlots that depend on exploited labor, vast amounts of fossil fuel energy, destructive technology, and taxpayer-funded subsidy-type farm bills.

Family farmers, farmworkers, and food processing workers produce a necessity of life; they deserve dignity, justice, and equity rather than exploitation for corporate profit. The current free trade subsidy system, with no price supports for crops and meaningless 1970's-level price supports for milk, benefits multinational corporations including giant exporters, processors, and retailers. They profit by buying the cheapest commodities from all over the world, processing them and marketing them in monopolistic markets devoid of honest competition.

Corporate livestock and dairy production gain competitive advantage using cheap grain and oilseeds to the detriment of diversified family farmers who maintain crop rotations and recycle animal waste as crop nutrients. Attached is a recent study prepared by Tufts University's Global Development and Environment Institute entitled, "Industrial Livestock Companies' Gains from Low Feed Prices, 1997-2005." This report states, "In the nine years that followed the passage of the 1996 Farm Bill, 1997-2005, corn was priced 23% below average production costs, while soybean prices were 15% below farmers' costs. As a result, feed prices were an estimated 21% below production costs for poultry and 26% below costs for the hog industry. We estimate cumulative savings to the broiler chicken industry from below-cost feed in these years to be $11.25 billion, while industrial hog operations saved an estimated $8.5 billion."

Labor intensive fruit and vegetable production shifts to countries where workers have few rights and are paid $4 per day, causing unemployment and low wages for U.S. farm workers. Worldwide migration out of rural communities to overcrowded cities and across national borders creates undue hardship and social tensions.

The National Family Farm Coalition has developed a new farm policy proposal to create a sustainable farm and food system. The Food from Family Farms Act would ensure a just food system, improve the environment, help foster local food markets and economic opportunities in rural America, and support similar aspirations in every nation. Free trade agreements like the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) that hamstring domestic U.S. farm policy must be revised to respect the United States and every country's Food Sovereignty. Unlike the current farm policy, provisions in the Food from Family Farms Act are predicated on the principle of food sovereignty, the right to democratic policies based on a country's needs and traditions for food security, conservation of natural resources and the geographical distribution of economic opportunity.

Restoring farm income from the sale of farm commodities at a fair price, rather than making farmers and ranchers dependent on government subsidies, must be the primary focus of any new farm program. The Food from Family Farms Act assures a fair price through a cost of production price support system, food and energy security reserves, and conservation programs with full planting flexibility to avoid wasteful overproduction. Current projections indicate that 2007-08 corn carryover, none of which will be in government stocks, could be as low as a 20 day supply, pointing to the obvious need for food and energy security reserves to remove some of the uncertainty and volatility for food security and prudent bio-energy investments. On the other hand, bountiful crop yields or a plunge in oil prices could send crop prices plummeting requiring massive infusions of government support, pointing to the obvious need for real price supports for basic commodities. The Food from Family Farms Act provides food and energy security absolutely needed for a world threatened by uncertain foreign policy threats and climate change. These policies are important for our national security.

Our family farm policy encourages a transition to sustainable diversified family farming through full implementation of the Conservation Security Program (CSP), offering rewards for existing practices and new incentives on working lands for more conserving crops and methods which fit well with diversified family farming, sustainable bio-energy and local food production. A balanced family farm system will require less fossil fuel and give opportunities for farmers to become producers of clean renewable energy.

In conjunction with the Food from Family Farms Act, the National Family Farm Coalition urges the U.S. government to enforce anti-trust laws against increasing corporate concentration and vertical integration in the food industry from production and processing to marketing and retailing. The ownership of livestock by packing companies and their control of captive supplies must be banned because this gives them the power to encourage overproduction and manipulate markets to the detriment of family farmers and ranchers. Likewise, because these same multinational companies threaten to move livestock production overseas to avoid health and environmental regulation, consumers need mandatory country of origin labeling (COOL) of their food in all cases.

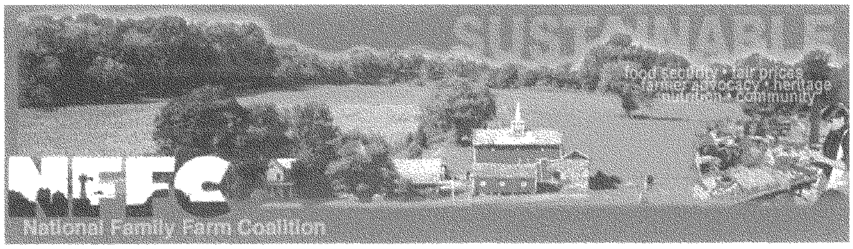
The USDA must respond to historical and ongoing civil rights complaints and implement laws that enable equitable access to farm and housing programs for farmers, farmworkers, and rural people. Farmers who produce under contract should have the right to fair arbitration clauses, contract transparency, and other rights currently denied. The USDA can promote new regional and local markets for farm products and purchases of food by federal agencies from independent family farms through enactment of policies developed as the Healthy Food and Communities Initiative.

The 2007 Farm Bill and revisions in trade policy through passage of the Food from Family Farms Act will build peaceful international relations and build good will among our trading partners, giving every country a chance for balanced sustainable economic development. International trade cooperation can assure fair prices for all farmers through shared responsibility of international commodity price floors, international food and energy security reserves, and conservation programs that encourage local food and sustainable bio-energy production.

sustainable bio-energy production.

NFFC urges this Subcommittee to fully explore the policy options outlined in this proposal. We know there are tight budgets and the Congressional Budget Office (CBO) projections for years of higher commodity prices translates into lower budget allocations for the entire farm bill. The Food from Family Farms Act requires farmers to be paid from the market and not the government which circumvents the budget crisis. Our proposal restores the correct role for government policy as it ensures that farmers receive a fair price from the buyers of their commodities through a minimum floor price set at a level that more closely meets a farmer's cost of production.

This 2007 Farm Bill debate is an opportunity for Congress to respond to the popular demand for economic, environmental and social sustainability of the food system by enacting the Food from Family Farms Act. We thank you for considering our proposal.



Food from Family Farms Act

A Proposal for the 2007 U.S. Farm Bill

Crafted by family farmers to ensure fair prices for family farmers, safe and healthy food, and vibrant, environmentally sound rural communities here and around the world.

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The National Family Farm Coalition (founded in 1986) represents family farm and rural groups in 30 states whose members' face the challenge of the deepening economic recession in rural communities caused primarily by low farm prices and the increasing corporate control of agriculture.

OUTLINE OF THE COMMODITY TITLE

Food Sovereignty
Trade and farm policy should respect every country's right to establish policies based on needs and traditions for food security, conservation of natural resources, and distribution of economic opportunity.

Prosperity for U.S. farmers must not come at the expense of farmers and peasants in other nations. The United States must take the lead in promoting international commodity agreements aimed at setting floor prices and equitable sharing of responsibility for international reserves and supply management, thus eliminating the destructive practice of dumping.

The ability to develop farm programs that respond to the needs of our nation's farmers and consumers must be reinstated through adoption of provisions such as Section 22 of the Agricultural Adjustment Act. Section 22 allows for a limitation on imports of a specific commodity if that level disrupts the fair domestic market price for our nation's farmers.

Market Price Support
Farmers who comply with provisions of the Food from Family Farms Act (FFFA) will be eligible for market price supports established through a Commodity Credit Corporation (CCC) nonrecourse loan for wheat, feed-grains, soybeans, oilseeds, cotton and rice. Loan rates will be set at an appropriate level that reflects the cost of production for each individual crop based on USDA's Economic Research Service (ERS) calculations and average transportation and storage costs. A similar formula will apply for establishing the price for milk at the farm-gate.

The nonrecourse loan creates an actual price floor requiring purchasers to pay at least the loan rate for commodities. If purchasers won't pay the loan rate, the crop can be forfeited to a government reserve. This replaces the marketing loan of the 1996 Freedom to Farm bill and the 2002 Farm Bill that allow prices to drop below loan rates because of Loan Deficiency Payments (LDP) and Marketing Loan Gains.

Loans can be paid back with interest at anytime when market conditions warrant. At the end of the nine month loan period, producers will have the option of redeeming the loan, forfeiture to the CCC Food Security Reserve, or entry into the Farmer Owned Reserve (FOR), if open. Farmers will be allowed to rotate the commodities in the FOR to maintain quality.

A maximum quantity of crops up to a loan value of $450,000 per farm will be eligible for the loan program. A low interest loan program for construction of on-farm storage facilities will be established.

LDP's or marketing gains will no longer apply. Storage costs on the FOR will be paid at the commercial rate with an annual payment in advance.

Reserves: Food Security, Humanitarian, Energy, and Farmer-Owned

Without a price support and reserves, a bountiful crop becomes an economic curse to farmers as overproduction can result in only one outcome, lower prices and economic hardship. The FFFA creates various reserves to enhance food, energy, and national security.

A Strategic Reserve stocked to a level of 7.5% of the average annual use will have first priority with commodities forfeited from non-recourse loans. Half of the reserve can be used for emergency humanitarian relief and half can be used to supply the growing renewable fuels industry (Under unusual circumstances, the Secretary may be allowed to buy stocks from the market for the Strategic Reserve.) Further forfeitures will fill a Food Security Reserve (FSR) set at a minimum 10% of annual usage.

No stocks from the FSR may enter the market until the Secretary determines that the national average price exceeds 150% of the loan rate for 30 consecutive days. When the supplies in the FSR reach the 10% of annual use, the secretary will announce the opening of a Farmer Owned Reserve (FOR) that allows farmers to extend the original nonrecourse loan past 9 months, stop accrual of interest, and receive storage payments from CCC at commercial rates. Any stocks in the FSR above the minimum 10% can be used by the Secretary to immediately replenish the strategic reserve.

If free stocks become tight and drive national average market prices above 130% of the loan rate for 30 consecutive days, storage payments cease on extended loans in the FOR. If national average market prices exceed 140% of the loan rate for 30 consecutive days, then the extended loans will be called for repayment.

Inventory Management and Conservation Compliance

For farmers to be eligible for the price support loan program, along with other benefits of the FFFA, including cost share and disaster relief, they will be required to abide by the current Conservation Compliance. Because the nation's food security is assured by the existence of the FSR and FOR, the Secretary shall establish a short-term conservation set-aside program for program crops to avoid wasteful over production and balance production with demand.

The Secretary shall target specific crops for reduced planting with the goal that production will satisfy projected demand. This includes supplies that will be needed to refill Strategic and Food Security reserves. Participating farmers will be required to idle a percentage of a target crop grown (Conservation Percentage (CP)) and enter into a soil-conservation program approved by the local Soil Conservation Service on those idled acres. After meeting that requirement, the producer/operator shall have flexibility to determine the crop mix to plant within the acreage base under this section.

Full Planting Flexibility within Acreage Base
Beyond idling the CP for each program crop, the farmer retains full planting flexibility on the Whole Farm Acreage Base which will be defined as Tillable Crop Acres: land that was planted or considered planted to program crops in at least 3 of the 5 preceding crops.

Disaster Program
The nation must recognize the importance of preserving the family farm system and therefore must provide an effective response when natural disasters strike family farms. Increased farm income from price supports at cost of production will be the first line of defense against economic catastrophe. The FFFA Disaster Program eliminates the current subsidized crop insurance system that is not only inadequate when disaster strikes but fosters production on marginal land and underwrites farm consolidation. In its place, a disaster relief program will be offered to all eligible farmers.

When a natural disaster generates a loss so that production is above 75% of established yield, no payment will be made. When production is between 50% and 75% of established yield, payments (or grain from the Strategic Reserve above its 10% minimum level) will be provided to replace income up to the 75% level at 60% loan rate value, not to exceed $67,500.

Further production loss down to 30% yield will be reimbursed at 75% loan rate value, not to exceed $67,500. Production loss below 30% yield will be replaced at 100% loan rate value, not to exceed $90,000.

A loss of 90% shall be considered a total loss and the producers shall have the right to salvage any remaining crop for whatever purpose they choose with no loss of disaster benefits.

Insurance coverage from the private sector beyond established disaster relief would be at the producers' cost, but will not be required in order to qualify for the Disaster Program.

Receiving crop insurance benefits will not disqualify a producer from receiving full disaster benefits under the disaster program.

Conservation Security Program
Sustainability must be the bedrock principle of agricultural reform, recognizing the benefits of diversified production versus the concentrated, intensive production in today's industrialized agricultural system. When livestock factories have to pay the full cost of production for their manufactured livestock feed, livestock production on family farms with more ecological crop rotations and use of animal manure for crop nutrients will become more economically viable. To reach our goal of sustainability and family farm diversity, the FFFA encourages such a transition through full implementation of the Conservation Security Program (CSP), offering incentives on working lands for more conserving crops and practices which fit well with diversified family farming and local food production.

Targeting
The FFFA is intended to reverse the current consolidation and industrialization of the nation's farms. Establishing fair prices through price supports and inventory management, thus internalizing costs experienced by farm families, the environment and rural society, is an essential step. Further, some benefits of the Food from Family Farms Act will be capped or targeted. The amount of commodities eligible for nonrecourse loans will be based on a loan cap of $450,000 for all production under loan per crop year. Limits on payments in the disaster relief program will prevent the subsidized underwriting of farm expansion. Likewise, benefits of conservation programs like Environmental Quality Incentives Program (EQIP) and the CSP will target family farms rather than large industrial operations.

Direct Farm Ownership and Operating Loans
Ownership of farms by family farmers helps ensure that they can meet their responsibility to conserve productive capacity and biodiversity for future generations. Federal and state programs to encourage entry into farming through access to affordable credit by beginning and minority farmers is critical. Historic discrimination against minority farmers by USDA must be reversed.

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Industrial Livestock Companies' Gains from Low Feed Prices, 1997-2005

February 26, 2007

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With rising demand for corn-based ethanol, representatives of many of the nation's leading meat companies have expressed concern over the rising price of animal feed, which has increased significantly with the price increases for its two principal components, corn and soybeans. Feed prices have indeed increased significantly. As feed costs generally account for more than half of operating costs for industrial operations, higher prices can have an important impact on the bottom line for these companies. So too can low prices. Any discussion of today's high prices should take into account the extent to which these same firms have benefited from many years of feed that was priced well below what it cost to produce. In the nine years that followed the passage of the 1996 Farm Bill, 1997-2005, corn was priced 23% below average production costs, while soybean prices were 15% below farmers' costs. As a result, feed prices were an estimated 21% below production costs for poultry and 26% below costs for the hog industry. We estimate cumulative savings to the broiler chicken industry from below-cost feed in those years to be $11.25 billion, while industrial hog operations saved an estimated $8.5 billion. As we show below, the leading firms gained a great deal during those years from U.S. agricultural policies that helped lower the prices for many agricultural commodities.

Broiler Chicken Production

According to research from Tufts University, the broiler industry saved a substantial amount of money between 1997 and 2005 because it was able to purchase feed at market prices that were often significantly lower than feed's cost of production. During this 9-year period, the price of broiler feed on the open market was on average 21% lower than its cost of production. The portion of farmers' production costs that was not covered by the market was paid by taxpayers or by farm families themselves.

Over the period, the broiler chicken industry as a whole saved an average of $1.25 billion per year—a total of $11.25 billion—over what it would have paid for feed if market prices had equaled production costs. The discount reduced total operating costs for the industry by an average of 13%.

According to *Poultry USA* Magazine and researchers at North Carolina State University, Tyson Foods held 23% of the market share for U.S. broiler production in 2002. Gold Kist ranked second, with 10% of the market, and Pilgrim's Pride third, with 9% of the market. (Pilgrim's Pride made an offer to acquire Gold Kist in 2006.) Preliminary estimates, based on constant 2002 market share, suggest that over the 9-year period of 1997-2005, Tyson's broiler division alone saved a total of $2.6 billion from low feed prices, or roughly $288 million per year. Gold Kist saved $1.13 billion over nine years, and Pilgrim's Pride saved $1.01 billion.

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Total Savings from Low Feed Prices, 1997-2005
Top Four Broiler-Producing Companies

Company	Market Share*	Total Savings '97-'05**	Annual Savings '97-'05[1]
Tyson	23%	$2.59 billion	$288 million
Gold Kist	10%	$1.13 billion	$125 million
Pilgrim's Pride	9%	$1.01 billion	$113 million
ConAgra Poultry	8%	$900 million	$100 million

*Constant 2002 market share
**Savings is equal to the difference between the market price of broiler feed and feed priced at the full cost of production. Production costs based on USDA/ERS estimates of total economic costs of production for corn and soybean meal, the main components of broiler feed. Between 1997 and 2005, broiler feed was sold on the open market at an average of 21% below cost of production.
[1]Average annual savings over the 9-year period. Actual savings varied from year to year.

Source: Starmer and Wise (2006), based on data from USDA/ERS 1996-2005.

Between 1997 and 2005, the market price of corn—which makes up 60% of the broiler feed mixture—averaged $2.00 per bushel. Meanwhile, the average cost of producing corn in the Midwest was $2.62/bu over the nine-year period. The cost of production for corn has risen closer to $3.00/bu in recent years due to rising input costs, and is projected to continue increasing. We can project, therefore, that the market price of corn will have to be at least $3.00/bu in order for farmers to break even on corn production without relying on taxpayer subsidies to cover production costs. Anything below this level constitutes an implicit subsidy for broiler companies and other bulk commodity purchasers, since the difference between lower market prices and higher production costs will be shouldered either by taxpayers or by farmers themselves.

Pork Production

Preliminary estimates from a forthcoming study by researchers at Tufts University suggest that the pork industry also received a substantial discount on feed due to policy shifts that led to lower market feed prices. Between 1997 and 2005, the price of hog feed on the market averaged 26% below the cost of production. The portion of farmers' production costs that was not covered by the market was paid by taxpayers or by farm families themselves.

Total Savings from Low Feed Prices, 1997-2005
Top Four Hog-Producing Companies

Company	Market Share*	Total Savings '97-'05**	Annual Savings '97-'05[1]
Smithfield	30%	$2.54 billion	$283.6 million
Premium Standard	8%	$680.4 million	$75.6 million
Seaboard Corp.	7.5%	$638.1 million	$70.9 million
Prestage	5%	$425.7 million	$47.3 million

*Constant 2003 market share
** Savings is equal to the difference between the market price of hog feed and feed priced at the full cost of production. Production costs based on USDA/ERS estimates of total economic costs of production for corn and soybean meal, the main components of hog feed. Between 1997 and 2005, hog feed was sold on the open market at an average of 22% below cost of production.
[1]Average annual savings over the 9-year period. Actual savings varied from year to year.

Source: Starmer and Wise (2006), based on data from USDA/ERS 1996-2005.

During this period, industrialized hog operations with inventories of over 5,000 head saved an average of $652.1 million per year on feed, compared to what they would pay if the market price of feed were equal to production costs—a total of $5.9 billion in nine years. Including all hog operations with over 2,000 head, the industry received a discount averaging $945.3 million per year, for a total over the 9-year period of $8.5 billion. The discount reduced total operating costs for industrialized hog companies by 15%.

Using data from *Successful Farming*'s annual Pork Powerhouses report, University of Missouri researchers Mary Hendrickson and Bill Heffernan estimated that Smithfield held 30% of the market for pork production in 2003. Premium Standard Farms was second, with a much lower 8%. (In 2006, Smithfield initiated the process to acquire PSF.) Preliminary estimates, assuming a constant 2003 market share, suggest that Smithfield's hog production division saved a total of $283.6 million per year between 1997 and 2005, or a total of $2.6 billion over the 9-year period, from below-cost feed. PSF saved a smaller but still significant $75.6 million per year, or $680.6 million over nine years.

For Further Information:

Starmer, Elanor, Aimee Witteman, and Timothy A. Wise, "Feeding the Factory Farm: Implicit Subsidies to the Broiler Chicken Industry," *GDAE Working Paper No. 06-03*, June 2006. Available at:
http://www.ase.tufts.edu/gdae/Pubs/wp/06-03BroilerGains.pdf

Wise, Timothy A. "Identifying the Real Winners from U.S. Agricultural Policies," *GDAE Working Paper No. 05-07*, December 2005. Available at:
http://www.ase.tufts.edu/gdae/Pubs/wp/05-07RealWinnersUSAg.pdf

Sources for Broiler Market Shares:
Thornton, G. (2003). "WATT Poultry USA's Rankings- Broilers: Turbulent 2002 Leads to Rationalizations." *Poultry USA*, January.
Vukina, T., and P. Leegomonchai (2006). *Amer. J. Agr. Econ.* 88 (Number 5): 1258–1265.

Source for Hog Production Market Shares:
Hendrickson, M., and W. Heffernan (2005). Concentration in Agricultural Markets. Columbia, MO: National Farmers Union.

INTERNATIONAL SUGAR TRADE COALITION, INC.

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May 4, 2007

The Honorable Bob Etheridge, Chairman
Subcommittee on General Farm Commodities and Risk Management
1533 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Etheridge:

We are writing on behalf of the members of the International Sugar Trade Coalition (ISTC), representing private-sector sugar companies and trade associations in 16 developing countries that export sugar to the United States, to submit the following statement for the record of the April 26, 2007 hearing by the Subcommittee on General Farm Commodities and Risk Management. The members of ISTC express our support for renewal of the U.S. sugar program in the 2007 Farm Bill. A list of ISTC members is attached.

The U.S. program provides for importation into the United States, at zero or very low duty, of raw cane sugar, under a tariff rate quota (TRQ) determined by the Department of Agriculture, but not less than the minimum amount fixed by an international agreement reached in the World Trade Organization. The Office of the U.S. Trade Representative allocates the TRQ among 40 traditional sugar-exporting countries, including 38 developing countries, according to their historic shares of U.S. sugar imports.

The value of access to the U.S. sugar market is the price received. Because many countries protect their sugar industries with trade barriers and/or subsidies, most sugar is sold within the country where it is produced. In most years, less than 20% of world sugar production is traded internationally, and that production is offered for sale so long as prices are high enough to cover marginal costs, *i.e.*, basically the cost of bringing the sugar to market. World market sugar prices over the past 30 years have rarely risen as high as the average cost of production, and they have never stayed above production cost for any length of time. Because of the U.S. sugar program, however, exports to the United States receive the U.S. market price and, therefore, are remunerative.

For the members of ISTC, exports to the U.S. sugar market support local sugar industries, farm income, agricultural employment, and rural development. Export earnings from the U.S. market are an important source of hard currency and help fund the general economic development of these developing countries. Changes in the sugar program might theoretically increase export opportunities, but as a practical matter would undermine prices, and therefore would be seriously detrimental to most developing country quota holders.

In short, changes to the U.S. sugar program that would lower the price received for imported sugar would primarily benefit only Brazil and would seriously harm most developing country quota holders. For these reasons, the members of ISTC urge Congress to renew the U.S. sugar program in its current form.

Thank you for the opportunity to express our views. Please let me know if you have questions or would like additional information.

Respectfully submitted,

Paul Ryberg
President

cc: Hon. Jerry Moran

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Membership List

Barbados:	Barbados Sugar industry, Inc.
Belize:	Belize Sugar Association
Dominican Republic:	International Sugar Policy Coordinating Commission of the Dominican Republic
Ecuador:	FENAZUCAR
Fiji:	Fiji Sugar Marketing Co. Ltd.
Guyana:	GUYSUCO
Haiti:	Haiti sugar industry
Jamaica:	Sugar Industry Authority of Jamaica
Malawi:	Malawi sugar industry
Mauritius:	Mauritius Sugar Syndicate
Mozambique:	APAMO
Philippines:	Sugar Alliance of the Philippines
Saint Kitts and Nevis:	Saint Kitts and Nevis sugar industry
Swaziland:	Swaziland Sugar Association
Trinidad and Tobago:	The Sugar Manufacturing Company
Zimbabwe:	Zimbabwe Sugar Sales (Pvt) Ltd.

Supplemental Questions for the Hearing Record
General Farm Commodities and Risk Management Hearing
Review of proposals to amend program crop provisions of the Farm Security and Rural Investment Act of 2002

Page 1
April 26, 2007

Contact: Clark Ogilvie, 5-0720

Questions Submitted by Chairman Etheridge

QUESTION 1: The Administration's farm bill proposal calls for new rules that strengthen requirements for the active management contribution to an operation that allows individuals to qualify for commodity payments without contributing labor to the operation. Assuming farm programs remain generally the same, does your organization have any concerns about tinkering with these provisions or is some tightening of rules necessary?

ANSWER: Payment limits are a divisive and controversial issue; often times getting in the way of policy makers, by focusing on the symptom and forgetting the cause. Payment limits are a symptomatic issue to low market prices. The top priority for National Farmers Union (NFU) is to create policies within the next farm bill that allow producers to get a profitable price from the marketplace. If that goal is achieved, the divisive payment limits issue disappears.

NFU supports directing farm program benefits to the production levels of family farm operators to reduce government costs while furthering the sustainability of our family farmers, rural communities and natural resources. Our policy states:

> *"Payment limits, as currently formulated, undermine public support. We believe realistic and meaningful payment limits need to be implemented. This means:*
>
> > *a) The definition of a person who is actively engaged in production agriculture need to be strengthened to require active personal management and active personal labor in the actual farming operation;*
> >
> > *b.)Payments be transparent and directly attributable to a person who meets the criteria of actively engaged; and*
> >
> > *c.) Gains on generic certificates and the marketing of them be subject to the payment limits.*

QUESTION 2: The President's farm bill proposal increases direct payments across the board and provides higher direct payments to beginning farmers and farmers who are willing to adopt certain conservation practices and give up marketing loan and counter-cyclical program benefits. However direct payments have fallen under criticism as income transfers to landowners, and consequently, a major cause of these inflated rents and land values. What do your farmers think of these proposals?

ANSWER: NFU does not support increasing direct payments. Direct payments are difficult to defend when prices are high; when prices are low, the direct payment is not adequate protection for producers. Originally designed to respond to a Kansas wheat disaster in 1993, NFU supports establishing a permanent disaster program, paid for by reducing the decoupled payments.

QUESTION 3: How would your proposed cost-of-production counter-cyclical program fair under WTO rules? Would it be classified blue, amber or green box and could it potentially violate our WTO commitments?

ANSWER: NFU strongly supports writing a domestic farm policy based upon the priorities of American agricultural producers, not based upon what may or may not happen at the WTO. It is our belief that the cost-of-production (COP) counter cyclical safety net fits within existing WTO rules and would be classified as a blue box program if written correctly.

QUESTION 4: Assuming we keep the basic structure of the current commodity title, does NFU have any position regarding the treatment of fruits and vegetables planted on base acres?

ANSWER: NFU does not have policy regarding the treatment of fruits and vegetables planted on base acres.

QUESTION 5: Assuming we keep the basic structure of the current commodity title, does NFU have any position regarding payment limits? Under your proposal, would there be any payment limits?

ANSWER:
As outlined in the response to Question 1, NFU supports directing farm program benefits to the production levels of family farm operators to reduce government costs while furthering the sustainability of our family farmers, rural communities and natural resources. Our policy states:

> *"Payment limits, as currently formulated, undermine public support. We believe realistic and meaningful payment limits need to be implemented. This means:*
>
> > *a) The definition of a person who is actively engaged in production agriculture need to be strengthened to require active personal management and active personal labor in the actual farming operation;*
> > *b.)Payments be transparent and directly attributable to a person who meets the criteria of actively engaged; and*
> > *c.) Gains on generic certificates and the marketing of them be subject to the payment limits.*

The counter-cyclical safety net concept NFU proposed does not address payment limitations, instead we support a policy that places greater emphasis on producers receiving a profit from the marketplace.

QUESTION 6:
Given that your cost of production counter-cyclical program is set at the national level, what do farmers in a state or region do when a localized disaster occurs yet the disaster fails to bring down the national season average price or the national yield for a crop below its targeted protection level?

ANSWER: NFU's COP safety net concept is tied to inclusion of a permanent disaster program, which is a critical and inseparable part of an adequate safety net. Such a program would cover a producers' reduced yield losses as a result of a localized disaster, while existing crop insurance and the COP program would cover price reductions.

QUESTION 7: Does your plan completely eliminate the marketing loan program, or do you simply turn it into a recourse loan program? (If completely eliminated) How does your plan provide for farmers' needs for short-term operating funds?

ANSWER: Our proposal is a concept that could be written in several ways. What we were trying to show was that the benefit from a cost-of-production-based safety net could be the same and cost the same as our current farm bill, but do so in a more efficient and effective manner. Direct payments are not enough for a producer when they have a natural disaster and have no crop. On the other hand, when prices are high, producers do not need the payments.

QUESTION 8: Your testimony does not describe in much detail what kind of permanent disaster program NFU wants. Since you know that your proposal would provide funds for your counter-cyclical program and a permanent disaster program with funds left over for other priorities, you must have an idea of how much your permanent disaster program would cost, which means you have an idea of what you want. Can you elaborate on the type of permanent disaster program you envision?

ANSWER: NFU is supportive of a permanent disaster program that addresses the holes of the current safety net and existing risk management programs. Covering shallow losses sustained as a result of a natural disaster is what the majority of producers say is necessary. While our concept has not received an official CBO score, it is estimated that a permanent disaster program would cost approximately $1.5 billion per year. It was not our intent to offer specific programmatic guidelines and therefore look forward to working with the committee to further define how the precise program would function. The preliminary analysis conducted by the University of Tennessee's Agricultural Policy Analysis Center has shown a savings of $2-3 billion per year when compared to the current program, which would provide more than enough to cover the cost of a permanent disaster program.

QUESTION 9: What role does crop insurance play in your proposal?

ANSWER: Our proposal compliments crop insurance by including a permanent disaster provision that would encourage producers to buy up and fill gaps in shallow losses.

Questions Submitted by Ranking Member Goodlatte

QUESTION 1: During the hearings that the Committee held last year, there was overwhelming support for the current commodity title. "Don't amend it, just extend it" was heard more than once. The NFU is suggesting changes to the Counter-Cyclical portion of the safety net. Please elaborate on the attitude of your members who are willing to change this program when the overwhelming comment we have heard from producers is to stay with what we have.

ANSWER: Like the committee, NFU held a series of Farm Bill listening sessions around the nation to gather input from farmers, ranchers and citizens of rural America. Our policies were formally adopted by our producer-members at our annual convention in March of this year. The general principles for the next Farm Bill, as approved at our convention, state that independent family farmer and rancher owned and operated food, fuel, and fiber production is the most economically, socially, and environmentally beneficial way to meet the needs of our nation. We recognize that the economy of rural America continues to face the challenges of increasing input expenses, weather-related disasters and inadequate market competition. We are concerned that the 2002 Farm Bill suffered disproportionate budget reductions during the 2006 budget reconciliation process and appropriations bills, despite saving more than $23 billion as a result of the commodity title. As part of the next farm bill, NFU encourages Congress to establish programs that return profitability and economic opportunity to production agriculture and rural communities.

Despite the successes of the 2002 Farm Bill, producers agree that two glaring holes exist in today's safety net that need to be addressed. First, the rising cost of production, primarily fueled by skyrocketing energy costs that farmers, as price-takers, cannot pass on to others like most other businesses can and do. Risking input costs are one of the biggest economic variables farmers cannot control or pass on through the system. That is the basis for the COP counter-cyclical safety net concept. The second glaring hole in today's safety net is when producers have less than a normal crop as a result of weather-related disasters. While risk management programs are important, they do not protect enough of the risk farmer's face. The practice of emergency ad-hoc disaster assistance is becoming more and more difficult to enact, which serves as the basis for establishing a permanent disaster program, as outlined in our concept. Permanent disaster assistance is a critical and inseparable part of an adequate safety-net. Using part of the direct payments to pay for a permanent disaster program seems like a common sense solution to a major challenge currently confronting our nation's farmers. A counter-cyclical safety net, based upon COP and tied to permanent disaster, addresses the problem we have faced the past few years with skyrocketing input costs and a lack of timely and adequate disaster assistance.

QUESTION 2: Please compare and contrast your proposal with the National Corn Grower's Association and with the Administration's counter-cyclical proposal? Please include the cost of the new program and the specific changes proposed in other programs to fund the change.

ANSWER: First, NFU's proposal is based upon cost of production, while the NCGA and Administration's proposals are based upon revenue. The NFU concept would replace today's direct decoupled payment program, the marketing loan program and CCP with a single redesigned counter-cyclical payment mechanism. The NCGA proposal continues direct payments, eliminates the marketing loan program and CCP; the Administration's proposal increases direct payments and eliminates the CCP. The NFU concept analysis calculated payment levels for each program crop by determining the full cost of production, computed from USDA's baseline for each year and then multiplied by 0.95 to establish the targeted protection level per acre. The NCGA proposal is estimated to cost $500 million above baseline; the Administration's estimates show a 33 percent decrease from baseline and the NFU proposal results in a savings of $2-3 billion per year.

QUESTION 3: Under our nation's existing Uruguay Round Agreements, our current commodity programs are generally considered to rank as follows in terms of less trade distorting to more trade distorting: Least distorting is the Direct Payment which is widely regarded as green box; our current Counter-Cyclical program, and our Marketing Loan Program which is clearly Amber. In this current trade environment, is it wise to abolish Less Trade Distorting programs like the Direct Payment, and shift money to More Trade Distorting programs like a Counter-Cyclical program or perhaps even the Marketing Loan? Would such a shift provide your members with a solid legal framework to protect our programs?

ANSWER: NFU strongly supports writing a domestic farm policy based upon the priorities of American agricultural producers, not based upon what may or may not happen at the WTO. It is our belief that the COP counter-cyclical safety net fits within existing WTO rules and would be classified as a blue box program if written correctly.

QUESTION 4: The National Association of Wheat Growers is overwhelmingly supportive of the Direct Payment program. How has your proposal to abandon the Direct Payment in support of a cost of production counter-cyclical program been received by the wheat growers in your organization?

ANSWER: NFU represents thousands of wheat producers across the country who have supported the concept of a COP counter-cyclical program tied to a permanent disaster program. Direct payments are difficult to defend when prices are high; when prices are low, the direct payment is not adequate protection for producers. NFU supports establishing a permanent disaster program, paid for by reducing the decoupled payments.

QUESTION 5: Congress is often involved in discussions about cost of production differences between commodities, between regions, between counties in a state, between irrigated and non-irrigated crops, and between high-cost and low-cost operations. How would the cost of production be determined under your proposal?

ANSWER: The University of Tennessee analysis utilized USDA's Economic Research Service data.

QUESTION 6: The savings that you suggest that would occur under your proposal accrue because you eliminate the Direct Payment program. The $2 to $3 billion dollars in savings could be construed as $2 to $3 billion in lost income to producers. How widely will producers embrace a proposal that is guaranteed to reduce benefits in favor of a program that may or may not provide a benefit?

ANSWER: According to the preliminary analysis of the University of Tennessee, the $2 - $3 billion is savings are achieved while maintaining net farm income levels that are comparable to those provided under the current set of policy instruments (direct payments, marketing loan program, CCP). In order for producers to fully embrace any proposal, they must run the numbers for their operation to determine its impact. It is NFU's belief that producers will find true, what was determined by the University of Tennessee.

Questions Submitted by Congressman Graves

Contact: Clark Ogilvie, 5-0720

QUESTION 1: In your testimony you state that NFU supports limiting exemptions under the Capper-Volstead Act for agricultural cooperatives to only raw products and commodities. Without Capper-Volstead exemptions, two farmers can't sit down and talk about price or sale terms. In regard to excluding farmer cooperatives from participating in value-added activities, those areas are typically the ones where producers see larger margins of profit than in raw commodity sales. Wouldn't excluding farmer-owned cooperatives from such ventures necessarily result in less income for producers? How are farmers supposed to make up for the income they receive from participation in cooperatives if these exemptions are eliminated?

ANSWER: Abuses of some dairy processor cooperatives have led to concerns that the original intent of Capper-Volstead is not always being met. That specific testimony point was included under NFU's dairy policies, after a majority of our dairy producers expressed concerns specific to some dairy-processing cooperatives. Let it be clear, NFU strongly supports Capper-Volstead and its original intent to add value and increase profits for farmers.

According to a document published by USDA's Rural Development, the Act establishes certain conditions associations of producers must meet to qualify for antitrust exemptions. Those conditions include operating for the mutual benefit of its members insofar as they are producers of agricultural products and that it must not deal in the products of nonmembers in an amount greater in value than such products that it handles for its members. It was the concern of NFU's dairy producers that those conditions are not being met today by some of the cooperatives charged with representing the best interests of the producers.

QUESTION 2: In regard to the creation of a government watchdog agency to oversee farmer cooperative boards, by law those boards are currently elected by the farmers that own those cooperatives. Why is it good public policy to disenfranchise farmers from selecting the people who run their organizations and instead empower government bureaucrats to override the decisions made by private businesses?

ANSWER: NFU fully supports allowing farmer-owned cooperatives having the right to elect its board of directors. It is vital to the interests of the cooperative that those board members be held responsible for upholding the intent and goal of the cooperative, which is to add value and increase profits for its members. If those goals are not met, the producers/owners of the cooperative should vote to make changes to the board.

QUESTION 3: In regard to bloc voting, why should this activity be expressly eliminated? Currently, the House and Senate exercise bloc voting on behalf of their constituents.

ANSWER: It is the belief of a majority of our dairy producing members that bloc voting by some of the boards of dairy cooperatives has led to negative economic consequences to producers. While the logical response to such a negative outcome would be to make changes to the representation of the board, that is like suggesting closing the gate after the cows get out.

Producers have to live with the consequences of bloc voting, despite making changes to its board of directors. Allowing one-producer-one-vote ensures the interests of each producer is met.